

**Copper Reef Mining Corporation**  
*(A DEVELOPMENT STAGE COMPANY)*

**CONDENSED, UNAUDITED INTERIM FINANCIAL STATEMENTS**

**AUGUST 31, 2012**

**(Expressed in Canadian Dollars)**

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

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

The accompanying unaudited interim financial statements of the Company have been prepared by, and are the responsibility of the Company's management.

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

**Copper Reef Mining Corporation**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)**

	Notes	August 31, 2012	November 30, 2011 (Note 15)	December 1, 2010 (Note 15)
<b>Assets</b>				
Current Assets				
Cash and cash equivalents		<b>681,486</b>	957,327	1,303,617
Marketable securities	4	<b>2,520,000</b>	2,400,000	3,600,000
Amounts receivable	5	<b>11,025</b>	34,849	26,065
		<b>3,212,510</b>	3,392,176	4,929,682
Non-current Assets				
Property, plant and equipment	6	<b>6,618</b>	8,525	-
Evaluation and exploration assets	7	<b>8,802,458</b>	8,310,228	5,441,890
Total, non-current assets		<b>8,809,076</b>	8,318,753	5,441,890
<b>Total Assets</b>		<b>12,021,586</b>	11,710,929	10,371,572
<b>Liabilities</b>				
Current liabilities				
Accounts payable and accruals	8	<b>245,197</b>	235,595	384,089
		<b>245,197</b>	235,595	384,089
Future Income Tax :Liabilities		<b>845,000</b>	845,000	928,500
<b>Total Liabilities</b>		<b>1,090,197</b>	1,080,595	1,312,589
<b>Equity</b>				
Share Capital	9(a)	<b>13,330,559</b>	12,947,909	10,164,592
Stock options reserve	9(d)	<b>353,800</b>	353,800	220,600
Warrants reserve	9(c)	<b>454,777</b>	245,562	48,686
Deficit		<b>(3,207,747)</b>	(2,916,937)	(1,374,895)
<b>Total Equity</b>		<b>10,931,389</b>	10,630,334	9,058,983
<b>Total Equity and Liabilities</b>		<b>12,021,586</b>	11,710,929	10,371,572

Subsequent events (Note 14)

**Approved on behalf of the Board of Directors**

*"Stephen L. Masson"*

*"Dave Kendall"*

**Director**

**Chief Financial Officer**

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

**Copper Reef Mining Corporation**
**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)**
**(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)**
**AUGUST 31, 2012**

	No tes	Three Months Ended		Nine Months Ended	
		August31, 2012	August31, 2011 (Note 15)	August31, 2012	August31, 2011 (Note 15)
<b>Expenses</b>					
Amortisation	6	636	–	1,908	–
Bank charges and interest		187	189	736	932
Filing fees		10,113	10,811	36,556	39,767
Management fees and salaries		63,370	43,647	212,215	119,722
Office and general		11,849	28,238	43,778	107,670
Professional fees		34,604	28,031	93,478	107,670
Rent and utilities		6,526	9,582	21,878	40,229
Travel and promotion		2,514	22,193	7,261	48,126
Share based payment		–	185,700	–	202,700
		<b>129,799</b>	<b>328,391</b>	<b>420,810</b>	<b>735,839</b>
<b>Other Income/(expenses)</b>					
Interest		–	–	–	14
Option payments		–	–	10,000	–
Unrealized gain on marketable securities		(280,000)	(720,000)	120,000	(720,000)
Total, Other Income		<b>(280,000)</b>	<b>(720,000)</b>	<b>130,000</b>	<b>(719,986)</b>
Total income for period		<b>(409,799)</b>	<b>(1,048,391)</b>	<b>(290,810)</b>	<b>(1,455,825)</b>
<b>Income/(Loss) per share, non-diluted</b>					
		<b>(0.03)</b>	<b>(0.12)</b>	<b>(0.04)</b>	<b>(0.16)</b>
<b>Weighted average shares outstanding</b>					
		<b>105,262,604</b>	<b>97,754,634</b>	<b>104,535,239</b>	<b>97,754,634</b>

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

**Copper Reef Mining Corporation**

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

AUGUST 31, 2012

	Share Capital					Reserves			Total Equity
	Note	Number of Shares	Amount	Shares Subscribed	Other Reserve	Stock Option Reserve	Warrants Reserve	Deficit	
<b>Balance at December 1, 2010</b>	<b>15</b>	<b>79,453,590</b>	<b>10,164,592</b>	-	-	<b>220,600</b>	<b>48,686</b>	<b>(1,374,895)</b>	<b>9,058,983</b>
Shares issued for cash, private placement		18,301,044	3,364,081	-	-	-	-	-	3,364,081
Share issue costs		-	(216,913)	-	-	-	-	-	(216,913)
Tax effect of share issue costs		-	58,567	-	-	-	-	-	58,427
Warrants reserve		-	(29,447)	-	-	-	29,447	-	-
Warrants issued		-	(199,985)	-	-	-	199,985	-	-
Net change in flow through renunciation		-	123,868	-	-	-	-	(123,868)	-
Net change in warrants share premium		-	(266,241)	-	-	-	-	266,241	-
Fair value of options issued		-	-	-	-	17,000	-	-	17,000
Fair value of options exercised		-	12,500	-	-	(12,500)	-	-	-
Warrants issued		-	(216,115)	-	-	-	216,115	-	-
Extension of warrants		-	-	-	-	-	53,000	-	53,000
Income/(deficit)		-	-	-	-	-	-	(407,435)	(407,435)
<b>Balance August 31, 2011</b>		<b>97,754,634</b>	<b>12,794,907</b>	-	-	<b>225,100</b>	<b>494,233</b>	<b>(1,639,955)</b>	<b>11,874,283</b>
Issued for cash		1,700,000	255,000	-	-	-	-	-	255,000
Share issue costs		-	(39,570)	-	-	-	-	39,570	-
Fair value of options issued		-	-	-	-	128,700	-	-	128,700
Fair value of warrants exercised		-	61,439	-	-	-	(61,439)	-	-
Fair value of extension of warrants		-	-	-	-	-	53,000	-	53,000
Fair value of expired warrants		-	-	-	-	-	(240,232)	-	(240,232)
Tax effect of flow through renunciation		-	(123,868)	-	-	-	-	123,868	-
Income/(deficit)		-	-	-	-	-	-	(1,440,418)	(1,440,418)
<b>Balance as at November 30, 2011</b>	<b>15</b>	<b>99,454,634</b>	<b>12,947,909</b>	-	-	<b>353,800</b>	<b>245,562</b>	<b>(2,916,937)</b>	<b>10,630,334</b>
Shares issued for cash, private placement		5,166,666	620,000	-	-	-	-	-	620,000
Share issue costs		-	(63,135)	-	-	-	-	-	(63,135)
Shares issued for purchase of NSR		1,000,000	35,000	-	-	-	-	-	-
Fair value of warrants expired		-	29,446	-	-	-	(29,446)	-	-
Fair value of warrants issued		-	(238,661)	-	-	-	238,661	-	-
Net and comprehensive loss for the period		-	-	-	-	-	-	(290,810)	118,989
<b>Balance as at August 31, 2012</b>		<b>104,621,300</b>	<b>13,330,559</b>	-	-	<b>353,800</b>	<b>454,777</b>	<b>(3,207,747)</b>	<b>10,931,389</b>

The accompanying notes are an integral part of these financial statements

**Copper Reef Mining Corporation**

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS OF CASH FLOWS**

**(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)**

**AUGUST 31, 2012**

	3 Months ended August31		9 Months ended August31	
	2012	2011	2012	2011
Cash Flows from Operating Activities				
Operating profit/(loss)	<b>(129,799)</b>	(328,390)	<b>(420,810)</b>	(592,452)
Amortisation	<b>636</b>	-	<b>1,908</b>	-
Funds received from MEAP	<b>138,202</b>	-	<b>155,959</b>	-
Share based payments	-	185,700	-	190,200
Increase/(decrease) in market value of securities	<b>(280,000)</b>	(720,000)	<b>130,000</b>	(720,000)
Decrease/(increase) in amounts receivable	<b>4,376</b>	(52,298)	<b>23,825</b>	(99,921)
Increase/(decrease) in amounts payable	<b>93,279</b>	177,394	<b>26,825</b>	84,142
Increase/(decrease) in FITL	-	-	-	(58,568)
Cash provided by operating activities	<b>(173,306)</b>	(737,594)	<b>(99,517)</b>	1,197,599
Cash flow from Financing activities				
Net proceeds from Capital stock issuances	-	-	<b>556,864</b>	2,772,689
Net proceeds from sale of warrants	-	-	-	142,373
Effect of IFRS transition on common share values	-	-	-	445,547
Cash provided from financing activities	-	-	<b>556,864</b>	3,360,609
Cash flows from investing activities				
Purchase of capital assets	-	-	-	(10,031)
Deferred exploration and other expenditures	<b>(356,794)</b>	(903,910)	<b>(613,189)</b>	(2,378,837)
Cash used in investing activities	<b>(356,794)</b>	(903,910)	<b>(613,189)</b>	2,388,868
Increase/(Decrease) in cash and cash equivalents	<b>(530,099)</b>	(1,641,504)	<b>(155,841)</b>	(510,605)
Cash and cash equivalents beginning of period	<b>3,731,595</b>	6,034,518	<b>3,357,327</b>	4,903,617
Cash and cash equivalents end of period	<b>3,201,486</b>	4,393,013	<b>3,201,486</b>	4,393,013
Cash and cash equivalents comprised of:				
Cash			<b>681,486</b>	1,513,013
Marketable securities			<b>2,520,000</b>	2,800,000
			<b>3,201,486</b>	4,393,013
Shares issued for purchase of NSR			<b>35,000</b>	-

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

## **1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS**

Copper Reef Mining Corporation, (the “Company” or “Copper Reef”) is a publicly listed company incorporated in Ontario. The Company’s shares are listed on the Canadian National Stock Exchange (“CNSX”) under the symbol “CZC”. The Company is in the business of acquisition and exploration of mineral properties.

The Company’s head office is located at 12 Mitchell Road, Flin Flon, Manitoba, R8A 1N1. It’s registered and records office is located at the law offices of Taylor McCaffrey LLP, Suite 900-400 St. Mary Avenue, Winnipeg, MB R3C 4K5.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. The Company’s exploration assets are located inside Canada and are not subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts and currency exchange fluctuations.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title August be subject to unregistered prior agreements, unregistered claims, other land claims and non-compliance with regulatory and environmental requirements.

These unaudited condensed interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at August 31, 2012, the Company had an accumulated deficit of \$(3,207,747) and working capital of \$2,967,313. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

As at August 31, 2012 the Company had not advanced any of its properties to commercial production and is not able to finance day to day activities through operations. The Company’s continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. Management intends to finance operating costs over the next twelve months with funds currently on hand and / or through raising equity.

The unaudited condensed interim financial statements of Copper Reef for the three and six months ended August 31, 2012 were reviewed and approved by the Audit Committee on October 25<sup>th</sup>, 2012.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

### **a. STATEMENT OF COMPLIANCE AND CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

These condensed interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These financial statements comply with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”).

This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended November 30, 2011. However, this interim financial report, being the third IFRS financial report, provides selected significant disclosures that are required in the annual financial statements under IFRS. The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) to IFRS are provided in Note 15.

### **b. BASIS OF PREPARATION**

These condensed interim financial statements have been prepared on a historical cost basis. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed interim financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective or available for adoption on November 30, 2012, the Company’s first annual reporting date.

The preparation of these condensed interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at December 1, 2010 for the purposes of the transition to IFRS, as required by IFRS.

**First Time Adoption of International Financial Reporting Standards (“IFRS 1”).** The impact of the transition from Canadian GAAP to IFRS is explained in Note 15.

### **c. SIGNIFICANT MANAGEMENT JUDGMENT AND ESTIMATES IN APPLYING ACCOUNTING POLICIES**

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the condensed interim financial statements.



**2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (CONTINUED)**  
**SIGNIFICANT MANAGEMENT JUDGMENT AND ESTIMATES IN APPLYING ACCOUNTING**  
**POLICIES (CONTINUED)**

**MANAGEMENT ESTIMATES**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Information about significant judgments, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

**Deferred tax assets**

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimates of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

**IMPAIRMENT**

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future gross profits. These assumptions relate to future events and circumstances. The actual results August vary, and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

**USEFUL LIVES OF DEPRECIABLE ASSETS**

Management reviews the useful lives of depreciable assets at each reporting date.

**FAIR VALUE OF SHARE-BASED PAYMENTS**

Determining the fair value of certain share-based payments involves estimates of interest rates, expected life of options, share price volatility and the application of the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions that can materially affect the fair value estimate.

## **2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (CONTINUED)**

### **PROVISIONS FOR DECOMMISSIONING AND SITE RESTORATION COSTS**

Provision is made for environmental remediation costs when the related environmental disturbance occurs, based on the net present value of estimated future costs.

The ultimate cost of environmental disturbance is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites.

The expected timing of expenditure can also change, for example, in response to changes in ore reserves or production rates or economic conditions. As a result there could be significant adjustments to the provision for decommissioning and site restoration, which would affect future financial results.

The Company assesses its provisions for decommissioning and site restoration costs using the information available as at the year-end date, unless significant differences are identified in the interim period.

Significant estimates and assumptions are made in determining the provisions for decommissioning and site restoration costs, as there are numerous factors that will affect the ultimate liability amount. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the statement of financial position date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to expense.

### **d. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. Cash and cash equivalents normally have a term to maturity of three months or less from the date of acquisition.

### **e. FINANCIAL INSTRUMENTS**

#### **FINANCIAL ASSETS**

Financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as loans and receivables are measured at amortized cost less impairment. The Company has classified its amounts receivable as loans and receivables.

**2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (CONTINUED)**  
**FINANCIAL ASSETS (CONTINUED)**

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company has classified its cash and cash equivalents as FVTPL.

Financial assets classified as held-to-maturity are measured at amortized cost. The Company has no financial assets classified as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company has no financial assets classified as available-for-sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

**FINANCIAL LIABILITIES**

Financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or classified as other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective

interest method. The Company has classified its accounts payable and accrued liabilities and lease obligations as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of loss. The Company has no financial liabilities classified as FVTPL.

**DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange

## **2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (CONTINUED)**

### **DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the condensed interim statement of loss.

#### **IMPAIRMENT OF FINANCIAL ASSETS**

The Company assesses at each statement of financial position date whether a financial asset is impaired.

#### **FINANCIAL ASSETS CARRIED AT AMORTIZED COST**

If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the effective interest rate computed at initial recognition. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. Objective evidence of impairment of loans and receivables exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counter-party that would not normally be granted, or it is probable that the counter-party will enter into bankruptcy or a financial reorganization.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

### **f. TAXATION**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or 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 provided using the balance sheet 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 profit; 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 financial position reporting date.

## **2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (CONTINUED)**

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.

### **g. INCOME/(LOSS) PER SHARE**

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year. 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 earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

### **h. SHARE-BASED PAYMENTS**

#### **SHARE-BASED PAYMENT TRANSACTIONS**

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

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 fair value of the share-based payment. Otherwise, share-based payments issued to non-employees are measured at the fair value of goods or services received.

#### **EQUITY-SETTLED TRANSACTIONS**

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date effects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in stock option reserve. No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share unless it is considered to be anti-dilutive.

## **2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (CONTINUED)**

### **i. EVALUATION AND EXPLORATION**

#### **EVALUATION AND EXPLORATION ASSETS**

Evaluation and exploration assets include acquired mineral rights for mineral properties held by the Company. The amount of consideration paid (in cash or share value) for mineral rights is capitalized. The amounts shown for evaluation and exploration assets represent costs of acquisition, other than transaction costs, incurred to date (excluding transaction costs), less recoveries, and do not necessarily reflect present or future values. These costs will be amortized against revenue from future production or written off if the evaluation and exploration assets are abandoned or sold. Included in the cost of evaluation and exploration assets is the cost of the estimated decommissioning liability. The Company has classified evaluation and exploration assets as intangible in nature. Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimated proven and probable reserves.

Ownership in evaluation and exploration assets involves certain inherent risks, including geological, metal prices, operating costs, and permitting risks. Many of these risks are outside the Company's control. The ultimate recoverability of the amounts capitalized for the evaluation and exploration assets is dependent upon the delineation of economically recoverable ore reserves, obtaining the necessary financing to complete their development, obtaining the necessary permits to operate a mine, and realizing profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in its evaluation and exploration assets have been based on current and expected conditions. However, it is possible that changes could occur which could adversely affect management's estimates and may result in future write downs of evaluation and exploration assets carrying values.

#### **EVALUATION AND EXPLORATION EXPENDITURES**

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors 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.

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.

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

## **2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (CONTINUED)**

### **EVALUATION AND EXPLORATION EXPENDITURES**

as 'mines under construction'. Exploration and evaluation assets are also 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.

### **j. IMPAIRMENT OF NON-FINANCIAL ASSETS**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable

#### **IMPAIRMENT OF NON-FINANCIAL ASSETS**

amount. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations, including impairment of inventories, are recognized in net loss in those expense categories consistent with the function of the impaired asset.

### **k. CURRENCY TRANSLATION**

The presentation currency and the functional currency of the Company is the Canadian dollar.

### **l. EQUIPMENT**

Equipment and vehicles are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items.

The corresponding liability is recognized within provisions. All items of equipment and vehicles are subsequently carried at depreciated cost less impairment losses, if any.

Depreciation is provided on all items of equipment and vehicles to write off the carrying value of items over their expected useful economic lives. Depreciation is provided on a the declining balance method over the estimated useful lives of the equipment at the following annual rates:

- Vehicles 30%

**2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (CONTINUED)**  
**EQUIPMENT (CONTINUED)**

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate, only when it's probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognized. All other repairs and maintenance are charged to the condensed interim statements of loss and comprehensive loss during the financial period in which they are incurred.

**m. EMPLOYEE BENEFITS**

**WAGES, SALARIES AND ANNUAL VACATION LEAVE**

Liabilities arising in respect of wages and salaries, vacation leave and any other employee benefits expected to be settled within twelve months of the financial position reporting date are measured at undiscounted amounts based on remuneration rates which are expected to be paid when the liabilities are settled. In respect of employees' services up to the financial position reporting date, wages and salaries are recognized in trade and other payables and other employee benefits including annual vacation leave are recognized in current provisions.

**EMPLOYEE AND MANAGEMENT BONUS PLANS**

A liability is recognized for the amount expected to be paid under the Company's bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Where the effect is material, the liabilities for bonus payments not expected to be settled within twelve months are discounted using a pretax risk-free rate, which most closely match the terms of maturity of the related liabilities.

Bonus liabilities expected to be settled within twelve months of the statement of financial position date are recognized in current provisions, and those that are not expected to settle within twelve months are recognized in non-current provisions.

**n. REHABILITATION PROVISION**

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development / construction of the mine. Over



**2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (CONTINUED)**  
**REHABILITATION PROVISION (CONTINUED)**

time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognized in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognized immediately in profit or loss.

**o. LEASES**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in profit or loss on a straight-line basis over the lease term.

**p. CONTINGENCIES**

**Contingent assets**

Contingent assets are not recognized in the financial statements but they are disclosed by way of note if they are deemed probable.

**Contingent liabilities**

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. Contingent liabilities are recognized in the financial statements unless the possibility of an outflow of economic resources is considered remote, in which case they are disclosed in the notes to the financial statements.

### **3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company has not completed its evaluation of the effects of adopting these standards on its financial statements.

IFRS 9 Financial Instruments  
 IFRS 7 (Amendment) Financial Instruments: Disclosure  
 IAS 12 (Amendment) Income Taxes  
 IFRS 10 Financial Statements  
 IFRS 11 Joint Arrangements  
 IFRS 12 Disclosure of Interests in Other Entities  
 IFRS 13 Fair Value Measurement  
 IAS 27 (Amendment) Separate Financial Statements  
 IAS 28 (Amendment) Investments in Associates and Joint Ventures

### **4. CASH AND CASH EQUIVALENTS**

The Company's cash and cash equivalents are broken down as follows:

	August 31, 2012	November 30, 2011	December 1, 2010
Cash	681,486	957,327	1,303,617
Marketable securities	2,520,000	2,400,000	3,600,000
	3,201,486	3,357,327	4,603,617

### **5. AMOUNTS RECEIVABLE**

The Company's amounts receivable are broken down as follows:

	August 31, 2012	November 30, 2011	December 1, 2010
GST Tax receivable	11,025	34,849	26,065
	11,025	34,849	26,065

### **6. CAPITAL ASSETS**

	August 31, 2012			November 30, 2011
	Cost	Accumulated Amortisation	Net Book Value	Net Book Value
Vehicles	10,031	3,413	6,618	8,525

**Copper Reef Mining Corporation**

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)

**AUGUST 31, 2012**

**7. EVALUATION AND EXPLORATION ASSETS**

	Mink Narrows	Jewel Box	Gold Rock	Lucille	Kiss	Hanson Lake	Smelter	Alberts	Kiss- issing	Otter/ Twin Lakes	Other	Total
Balance – November 30, 2011	2,477,578	17,952	1,433,350	114,500	35,358	1,598,901	1,622,998	468,187	33,147	–	497,257	<b>8,310,228</b>
Acquisition/Holding costs	64,605	61	70,874	2,520	5,980	70,123	70,483	19,879	33,147	–	18,727	<b>325,070</b>
Exploration costs												
Assays - Lab, shipping	–	–	–	–	–	–	2,841	–	9,839	861	–	<b>13,541</b>
Line cutting/chaining	–	–	–	–	–	–	–	76	–	–	–	<b>76</b>
M'Ore Employees	–	2,138	3,200	–	–	24,057	18,087	14,846	40,547	55,575	9,450	<b>167,899</b>
Field supplies & maintenance	–	–	–	–	–	–	–	140	1,170	571	–	<b>1,881</b>
Field groceries & meals	–	–	–	–	–	–	–	–	16	–	–	<b>16</b>
Fuel	674	131	–	–	–	1,163	269	963	3,007	2,167	–	<b>8,375</b>
Storage	674	578	–	–	–	–	–	–	–	–	–	<b>1,252</b>
Vehicle	–	–	–	–	–	1,700	3,898	8,800	15,383	8,400	–	<b>38,181</b>
Equipment rental	–	–	–	–	–	–	–	–	2,000	–	–	<b>2,000</b>
Field office	–	–	–	–	–	–	–	–	195	1,793	4,330	<b>6,418</b>
Drilling	–	–	–	–	–	144	–	10,140	73,195	–	–	<b>83,479</b>
Exploration expenses – year to												<b>648,189</b>
Manitoba Innovation, Energy & Mines	–	(6,250)	–	–	–	–	(104,909)	–	(44,800)	–	–	<b>(155,959)</b>
Balance – August 31, 2012	<b>2,543,531</b>	<b>14,610</b>	<b>1,518,424</b>	<b>117,020</b>	<b>41,338</b>	<b>1,696,089</b>	<b>1,613,667</b>	<b>523,031</b>	<b>135,519</b>	<b>69,367</b>	<b>529,864</b>	<b>8,802,458</b>

## 7 EVALUATION AND EXPLORATION ASSETS (CONTINUED)

### Royalties

During the quarter ended August 31, 2012, the Company negotiated the purchase of three royalties, two of which were against sixteen properties and one against, eleven. Two of the royalties were Net Smelter Returns (“NSR”) and one a Net Profits Interest (“NPI”)The purchases are summarized as follows:

<b>Royalty Holder</b>	<b>No. Of Properties</b>	<b>Type of Royalty</b>	<b>Per-cent</b>	<b>Cash Paid</b>	<b>Shares issued</b>	<b>Share hold period</b>
Vista Gold Corp.	16	NSR	2%	\$ 100,000	1,000,000	3 years to June 26, 2015
A.L. Parres Ltd.	11	NSR	1%	50,000	250,000	4 months to January 7, 2013
A.L. Parres Ltd. Other properties	4	NSR	1%			
Thundermin Resources Inc.	16	NPI	6%	35,000	750,000	3 years to August 15, 2015
<b>Totals</b>	<b>Twenty Properties affected</b>			<b>185,000</b>	<b>2,000,000</b>	

### Mcllvenna, Saskatchewan

The Mcllvenna Bay Deposit occurs within the Hanson Lake Property and comprises 26 claims. During the year ended November 30, 2010, the Company sold its 25% interest in the Mcllvenna Property, its interest in the North Hanson Lake Property, and issued 3,000,000 common shares of the Company to Foran Mining Corporation (“Foran”) in exchange for \$1,000,000 in cash, 4,000,000 common shares of Foran valued at \$3,400,000, and five other properties owned by Foran with a value of \$31,091, based on expenditures incurred by Foran on these properties, resulting in a gain on disposition of \$1,995,498. The November 30, 2011 Fair Value of the Foran shares was \$2,400,000 (2011 \$3,600,000). The August 31, 2012 fair value of the 2,520,000 Foran shares was \$2,520,000 resulting in an unrealized gain of \$120,000 for the period ended August 31, 2012 (2011 – (\$720,000)).

### Mink Narrows, Manitoba

The Mink Narrows property is comprised of a total of 35 unpatented, contiguous, mining claim units in the aggregate (the "Mink Narrows Property"). The claims are 100% owned by the Company and, except for 6 unit claims which are subject to a 1% Net Smelter Return (“NSR”) interest, the claim units are not subjected to any royalties, back-in rights or payments. The Company has no surface rights on the Mink Narrows Property.

**Gold Rock, Manitoba**

Copper Reef holds a 100% interest in the North Star Group Property, which is comprised of a total of 19 mining claim units and 2 mining leases located near Snow Lake, Manitoba. The North Star Mining Lease is subject to a 1% NSR.

**Hanson Lake, Saskatchewan**

The Hanson Lake Property consists of a single claim located in the Hanson Lake area of Saskatchewan.

**Other Properties**

The Company holds 100% title to other property interests in Manitoba and Saskatchewan.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The Company's amounts receivable are broken down as follows:

	August 31, 2012	November 30, 2011	December 1, 2010
Amounts payable and accrued liabilities	\$ 170,197	\$ 235,595	\$ 334,986
Accrual for shares to be issued relative to purchase of NSR's	75,000	-	-
Due to related parties	-	-	49,103
	<b>\$ 245,197</b>	<b>\$ 235,595</b>	<b>\$ 384,089</b>

**9. SHARE CAPITAL**

**a. AUTHORISED SHARE CAPITAL**

Unlimited number of common shares without par value

**b. ISSUED SHARE CAPITAL**

As at August 31, 2012, the Company had 105,621,300 issued and fully paid common shares (November 30, 2011 – 99,454,634 and December 1, 2010 – 79,453,590).

In August, 2012, pursuant to a Net Smelter Returns royalty agreement, the Company issued 1,000,000 shares at a deemed price of \$0.035 per share to Vista Gold Corp.

In December 2011, the Company issued 5,166,666 flow-through units to Manitoba residents at \$0.12 per unit for gross proceeds of \$620,000. Each of these flow-through units consisted of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of \$0.15 per share until December, 2013. The Company is committed to incur prior to December 31, 2012, on a best efforts basis, \$620,000 in qualifying Canadian exploration expenditures pursuant to this private placement. An officer of the Company purchased 50,000 units for \$6,000. A family member of another officer of the Company purchased 100,000 units for gross proceeds of \$12,000, and a

**9 SHARE CAPITAL (CONTINUED)**

**B – ISSUED SHARE CAPITAL**

corporation controlled by the same officer purchased 350,000 units for gross proceeds of \$42,000 pursuant to this financing.

Subsequent to the end of the quarter and pursuant to Agreements for the purchases of a Net Smelter Returns Royalty and a Net Profits Interest Royalty in favour of Thundermin Resources Inc. and A.L. Parres Ltd., 750,000 common shares and 250,000 common shares respectively, each valued at \$0.075 per share were issued. The share issuances each have three year hold periods expiring August 8, 2015 and August 15, 2015 respectively.

**C. WARRANTS**

Changes to warrants during the three months ended August 31, 2012 and the year ended November 30, 2011 were as follows:

	Number outstanding	Weighted Average Exercise price
<b>Outstanding, November 30, 2010</b>	<b>2,945,000</b>	<b>0.20</b>
Issued	14,940,626	0.30
Exercised	(1,700,000)	0.15
Expired	(8,245,000)	0.17
<b>Outstanding November 30, 2011</b>	<b>7,940,626</b>	<b>0.16</b>
Issued	5,166,666	0.15
Exercised	–	–
Expired	(1,750,000)	0.20
<b>Outstanding August 31, 2012</b>	<b>11,357,292</b>	<b>0.24</b>

Subsequent to the end of the quarter, 5,536,044 warrants with an exercise price of \$0.33 and an ascribed value of \$171,062 and 654,570 warrants with an exercise price of \$0.18 and ascribed value of \$45,053 expired.

**9 SHARE CAPITAL (CONTINUED)**

**C - WARRANTS**

Outstanding warrants as at August 31, 2012 were:

	<b>Expiry date</b>	<b>Issued</b>	<b>Exercise Price</b>	<b>Grant Date Fair Value</b>
<b>Nov 30 2010</b>		<b>2,945,000</b>	<b>0.20</b>	<b>48,686</b>
Issued	December 2, 2011	1,750,000	0.20	29,447
Issued	November 1, 2011	7,000,000	0.15	199,985
Extension				53,000
Issued	September 1, 2012	5,536,044	0.33	171,062
Issued	September 1, 2012	654,570	0.18	45,053
Exercised		(1,700,000)	0.15	(61,439)
Expired		(8,245,000)	0.17	(240,232)
<b>Balance, November 30, 2011</b>		<b>7,940,614</b>	<b>0.29</b>	<b>245,562</b>
Issued	December 11, 2012	5,166,666	0.15	238,662
Expired		(1,750,000)	0.20	(29,447)
<b>Balance, August 31, 2012</b>		<b>11,357,292</b>	<b>0.24</b>	<b>454,777</b>

**d. STOCK OPTIONS**

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may, from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 20% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to a maximum of 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

Options granted typically vest immediately at the grant date.

**9 SHARE CAPITAL (CONTINUED)**

**D - OPTIONS**

Outstanding Options as at November 30, 2011 and August 31, 2012 were:

<b>Expiry Date</b>	<b>Number of issued and exercisable options</b>	<b>Weighted average remaining life (in years)</b>	<b>Weighted average exercised price</b>	<b>Grant Date Fair Value</b>
August 25, 2015	3,320,000	3.0	0.10	208,100
April 27, 2016	200,000	3.6	0.11	17,000
June 15, 2016	1,575,000	3.7	0.10	128,700
<b>Total</b>	<b>5,095,000</b>	<b>3.2</b>	<b>0.10</b>	<b>353,800</b>

**e. RESERVES**

**Warrants reserve**

The warrants reserve records fair value of the warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount recorded is transferred to other reserve.

**Stock options reserve**

The stock options reserve records items recognized as share-based payments expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to other reserve.



## **10. RELATED PARTY TRANSACTIONS AND BALANCES**

### **a. RELATED PARTY BALANCES**

During the three months ended August 31, 2012, the Company paid management fees and related expenses of \$10,500 (2011 - \$10,500) to a corporation controlled by a director of the Company. Included in accounts payable and accrued liabilities is \$nil (2011 - \$nil) owing to this corporation.

During the three months ended August 31, 2012, the Company paid filing fees of \$7,500 (2011 - \$7,500) to a corporation controlled by an officer of the Company of which \$nil was included in accounts payable and accrued liabilities as at August 31, 2012 (2011 - \$Nil). The Company also paid professional fees of \$7,500 (2011 - \$3,750) to a corporation controlled by an officer of the Company of which \$nil was included in accounts payable and accrued liabilities as at August 31, 2012 (2011 - \$1,250). The Company paid \$5,636 (2011 - \$10,676) of professional fees to an accounting firm of which an officer of the Company is a partner, of which \$9,000 (2011 - \$21,925) was included in accounts payable and accrued liabilities as at August 31, 2012. These balances are unsecured and non interest bearing with no repayment terms.

During the three months ended August 31, 2012, the Company was charged \$154,982 (2011 - \$244,735) by M'Ore Exploration Services Ltd. ("M'Ore") for services and expense reimbursements. M'Ore is a corporation controlled by a director who is also an officer and significant shareholder of the Company. M'Ore is also a shareholder of the Company. Of these charges, \$134,140 (2011 - \$159,956) was capitalized as deferred exploration expenditures, \$2,741 (2011 - \$36,000) was for management fees and salaries, \$6,433 (2011 - \$8,453) was paid for rent and utilities, and the balance of \$11,669 (2011 - \$40,326) was paid for office and general expenses. Included in accounts payable and accrued liabilities as at August 31, 2012 was \$54,238 (2011 - \$81,942) owing to M'Ore. This amount is unsecured and non interest bearing with no terms of repayment.

All of these transactions are in the normal course of business and are measured at the exchange amounts established and agreed to by the related parties.

See also Notes 8 and 11.

## **11. COMMITMENTS AND CONTINGENCIES**

### **COMMITMENTS - CONSULTING AGREEMENT**

The Company entered into an exploration management services agreement dated December 31, 2010 with M'Ore and the President of M'Ore. Pursuant to the agreement, M'Ore provides consulting and management services to the Company and incurs various administrative expenses, including administrative salaries and office and vehicle rentals on behalf of the Company. The term of the agreement is for a period of two years and can be renewed thereafter at the end of every 12 months. Pursuant to this agreement, management fees and salaries incurred by M'Ore are capped at \$200,000 per annum. Additionally the company entered into a lease with M'Ore whereby they will pay \$30,000, plus operating expenses, per

## **11 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

annum for rental of office and storage space. The lease also specifies rates to be charged for the use of various equipment if utilized by the company. In the event the exploration management services agreement is terminated by the Company, the Company is required to pay an amount equal to \$72,000.

### **CONTINGENCIES**

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

## **12. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral exploration properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of share capital as well as cash and cash equivalents.

There were no changes to the Company policy for capital management during the three months ended August 31, 2012.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents and short-term investments. In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company is not subject to any externally imposed capital requirements.

The Company's investment policy is to invest its excess cash in highly liquid investments that are readily convertible into cash with maturities of three months or less from the original date of acquisition or when it is needed, selected with regards to the expected timing of expenditures from continuing operations. The Company expects that its current capital resources will be sufficient to carry out its full exploration plans and operations through the coming twelve months.

## **13. FINANCIAL INSTRUMENTS**

### **a. FAIR VALUE**

The carrying values of cash and cash equivalents, and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of those financial instruments.

Financial instruments recorded at fair value on the condensed interim statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs that are not based on observable market data.

As at August 31, 2012, December 31, 2010 and January 1, 2010, the financial instruments recorded at fair value on the statement of financial position are cash equivalents which are measured using Level 2 of the fair value hierarchy.

### **b. FINANCIAL RISK MANAGEMENT**

#### **CREDIT RISK**

The Company is exposed to credit risk with respect to its cash and cash equivalents. Cash and cash equivalents have been placed on deposit with major Canadian financial institutions.

The risk arises from the non-performance of counterparties of contractual financial obligations. The Company manages credit risk, in respect of cash and cash equivalents, by purchasing term deposits held at a major Canadian financial institution.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as the majority of the amounts are held at a single Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

August 31, 2012 – Held at major Canadian financial institution: Cash \$681,486.

The credit risk associated with cash and cash equivalents is minimized by ensuring the majority of these financial assets are held with major Canadian financial institutions with strong investment-grade ratings by a primary rating agency.

## **13 FINANCIAL INSTRUMENTS (CONTINUED)**

### **LIQUIDITY RISK**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

The Company's expected source of cash flow in the upcoming year will be through equity financings. The Company maintained sufficient cash and cash equivalents at August 31, 2012 in the amount of \$3,201,486, in order to meet short-term business requirements. At August 31, 2012, the Company had accounts payable and accrued liabilities of \$245,197. All accounts payable and accrued liabilities are current.

### **MARKET RISK**

The significant market risks to which the Company is exposed are interest rate risk, currency risk and commodity price risk.

### **INTEREST RATE RISK**

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash and cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. The Company also holds a portion of cash and cash equivalents in bank accounts that earn variable interest rates. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of August 31, 2012.

The Company's interest rate risk principally arises from the interest rate impact of interest earned on cash and cash equivalents. A 10% change in interest rates on cash and cash equivalents outstanding at August 31, 2012 would result in a \$450 change to the Company's net loss for the three months ended August 31, 2012.

### **CURRENCY RISK**

The Company is not exposed to currency risk to the extent that monetary assets and liabilities held by the Company are all denominated in Canadian dollars.

### **OTHER PRICE RISK**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk, financial market risk, or currency risk. The Company is not exposed to significant other price risk.

### **FLOW-THROUGH EXPENDITURES**

In the period ended August 31, 2012, the Company renounced Canadian exploration expenditures related to proceeds from the issuance of flow-through shares pursuant to the financings described in Note 8(a)(xiii) and must incur, on a best-efforts basis, the \$620,000 in qualifying Canadian exploration expenditures by December 31, 2012.

## **14. SUBSEQUENT EVENTS**

Subsequent to the end of the Quarter, the two, outstanding Royalty purchase agreements were finalized per Note 9(b).

Subsequent to the end of the Quarter, 5,536,044 warrants exercisable at \$0.33/share and 654,570 exercisable at \$0.18/share expired.

## **15. TRANSITION TO IFRS**

As result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Company has adopted IFRS in these financial statements, making them the first condensed interim financial statements of the Company under IFRS. The Company previously applied the available standards under previous Canadian GAAP that were issued by the Accounting Standards Board of Canada.

As required by IFRS 1 "First-time Adoption of International Financial Reporting Standards", January 1, 2010 has been considered to be the date of transition to IFRS by the Company. Therefore, the comparative figures that were previously reported under previous Canadian GAAP have been restated in accordance with IFRS.

Exemptions applied

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

- IFRS 2 "Share-based Payment" has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP.
- IFRS 3 "Business Combinations" has not been applied to the business combinations that occurred before the date of transitions to IFRSs.
- IAS 21 "The Effects of Changes in Foreign Exchange Rates" is not applicable.
- In accordance with IFRS 1, if a company elects to apply IFRS 3 "Business Combinations" retrospectively, IAS 27 " and Separate Financial Statements" must be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

### **a. FUNCTIONAL AND PRESENTATION CURRENCY**

IFRS requires that the functional currency of each entity in the Group be determined separately in accordance with the indicators as per IAS 21 "The Effects of Changes in Foreign Exchange Rates" and

should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company functional currency and presentation currency remains the Canadian dollar.

Under Canadian GAAP, the direct property acquisition costs, holding costs, field exploration and field supervisory costs relating to specific properties are deferred until the properties to which

**15 TRANSITION TO IFRS (CONTINUED)**  
**FUNCTIONAL AND PRESENTATION CURRENCY (CONT'D)**

they relate are brought into production, at which time they will be amortized on a unit of production basis, or until the properties are sold, abandoned or allowed to lapse, at which time they will be written off.

Under IFRS, all direct costs including option payments related to the acquisition of mineral interests (excluding related transaction costs) are capitalized into intangible assets on a property by property basis.

Evaluation and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable resources, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into

“Mineral Interests”. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

As a result of this change in accounting policy, the future income tax liability previously reflected under Canadian GAAP has been derecognized and the transaction costs of \$158,989 has been expensed.

**b. SHARE-BASED PAYMENTS**

The Company grants stock options that have a graded vesting schedule. Under Canadian GAAP, the Company accounted for grants of options with graded vesting as a single award and determined the fair value using the average life of the options granted. Stock-based compensation was recognized on a straight-line basis over the total vesting period. Under IFRS, the Company treats each installment as its own award. Therefore, each installment is measured and recognized separately.

On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised stock options are transferred to other reserves. Previously, the Company’s Canadian GAAP policy was to leave such amounts in contributed surplus.

**c. RESERVES**

Under Canadian GAAP, amounts recorded in relation to the fair value of stock options granted and warrants issued were recorded to contributed surplus. Under IFRS, these amounts have been reclassified as reserves.

The fair value of the expired warrants has been reclassified as other reserve.

Amounts totaling \$177,866 previously ascribed to contributed surplus had been accumulated for services (\$37,500), accreted interest (\$14,490) and as a bonus payable for a promissory note (\$125,876) were all reclassified to deficit.

**Copper Reef Exploration Corp.**

**NOTE 15 – TRANSITION TO IFRS**

**(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)**

<i>Reconciliation of Assets</i>		<u>As at November 30, 2011</u>			<u>As at August31, 2011</u>			<u>As at December 1, 2010</u>		
		Canadian GAAP	Effect of Transition	IFRS	Canadian GAAP	Effect of Transition	IFRS	Canadian GAAP	Effect of Transition	IFRS
Assets	Notes									
Current Assets										
Cash and cash equivalents		957,327	–	957,327	1,513,014	–	1,513,014	1,303,617	–	1,307,617
Marketable securities		2,400,000	–	2,400,000	2,880,000	–	2,880,000	3,600,000	–	3,600,000
GST & other receivable	15(b)	34,850	–	34,850	125,986	–	125,986	26,065	–	26,065
		3,392,177		3,392,177	4,519,000	–	4,519,000			
Non-current assets										
Equipment		8,525	–	8,525	10,031	–	10,031	–	–	–
Evaluation and Exploration assets		8,310,228	–	8,310,228	7,820,727	–	7,820,727	5,441,890	–	5,441,890
		8,318,753	–	8,318,753	7,830,758	–	7,830,758	5,441,890	–	5,441,890
<b>Total Assets</b>		<b>11,710,930</b>	<b>–</b>	<b>11,710,930</b>	<b>12,349,758</b>	<b>–</b>	<b>12,349,758</b>	<b>10,371,572</b>	<b>–</b>	<b>10,371,572</b>

**Copper Reef Exploration Corp.**

**NOTE 15 – TRANSITION TO IFRS**

**(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)**

<i>Reconciliation of liabilities and equity</i>		<u>As at November 30, 2011</u>			<u>As at August 31, 2011</u>			<u>As at December 1, 2010</u>		
		Canadian GAAP	Effect of Transition	IFRS	Canadian GAAP	Effect of Transition	IFRS	Canadian GAAP	Effect of Transition	IFRS
<b>Liabilities</b>	<b>Notes</b>									
Current liabilities										
Accounts payable and accruals		235,595	–	235,595	468,232	–	468,232	384,089	–	384,089
					468,232	–	468,232			
Future Income tax liability		845,000	–	845,000	869,932	–	869,932	928,500	–	928,500
<b>Total Liabilities</b>		<b>1,080,595</b>	<b>–</b>	<b>1,080,595</b>	<b>1,338,164</b>	<b>–</b>	<b>1,338,164</b>	<b>1,312,589</b>	<b>–</b>	<b>1,312,589</b>
Equity										
Share Capital	15©	12,383,892	564,016	12,947,909	12,191,321	603,586	12,794,907	9,418,632	745,959	10,164,592
Contributed Surplus	15(e)	1,129,259	(1,129,259)	–	946,027	(946,027)	–	755,827	755,827	–
Stock options reserve	15(e)	–	353,800	353,800	–	410,800	410,800	–	220,600	220,600
Warrants reserve	15(e)	245,562	–	245,562	494,233	–	464,233	48,686	–	48,686
Deficit	15(a),(b)&(c)	(3,128,378)	91,240	(2,916,936)	(2,619,988)	(68,359)	(2,688,347)	(1,164,172)	(210,732)	(1,374,895)
<b>Total Equity</b>		<b>10,630,335</b>	<b>–</b>	<b>10,630,335</b>	<b>11,011,594</b>	<b>–</b>	<b>11,011,594</b>	<b>9,058,982</b>	<b>–</b>	<b>9,058,982</b>
<b>Total Equity and Liabilities</b>		<b>11,710,930</b>	<b>–</b>	<b>11,710,930</b>	<b>12,349,758</b>	<b>–</b>	<b>12,349,758</b>	<b>10,371,572</b>	<b>–</b>	<b>10,371,572</b>



**Copper Reef Exploration Corp.****NOTE 15 – TRANSITION TO IFRS****(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)*****Reconciliation of loss and comprehensive loss for the year ended November 30, 2011  
and the three month period ended August31, 2011***

Expenses	Notes	Year ended November 30, 2011			Nine months ended August31, 2011		
		Canadian GAAP	Effect of Transition	IFRS	Canadian GAAP	Effect of Transition	IFRS
Depreciation	15(b)	1,505	–	1,505	–	–	–
General and Administrative		765,966	–	765,966	735,839	–	735,839
Share based payment	15(b)	145,700	–	145,700	–	–	–
		913,171	–	913,171	735,839	–	735,839
Other income/(expense)							
Interest		155	–	155	14	–	14
Unrealised gain on marketable securities		(1,200,000)	–	(1,200,000)	(720,000)	–	(720,000)
Future income tax liability		148,800	–	148,800	–	–	–
Total other income		(1,051,045)	–	(1,051,045)	(719,986)	–	(719,986)
Total Loss and comprehensive loss for period		(1,964,216)	–	(1,964,216)	(1,455,825)	–	(1,455,825)
Basic and diluted loss per share for the year attributable to common shareholders (warrants and options not included as the impact would be antidilutive)		(0.021)		(0.021)	(0.016)		(0.016)
Weighted average number of common shares outstanding		93,872,724		93,872,724	81,486,400		81,486,400

**Copper Reef Exploration Corp.**  
**NOTE 15 – TRANSITION TO IFRS**  
**(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)**

*Reconciliation of cash flows for the year ended November 30, 2011*

	Notes	Canadian GAAP	Effect of Transition	IFRS
Cash Flows from Operating Activities	15(b)&(c)			
Net profit		(764,216)	(422,175)	(342,041)
Amortisation		1,505	–	1,505
Share based compensation		373,432	240,232	133,200
Increase/(decrease) in market value of securities		(1,200,000)	–	(1,200,000)
Decrease/(increase) in GST receivable		(8,785)	–	(8,785)
Increase/(decrease) in FITL		(83,500)	–	(83,500)
Increase/(decrease) in AP		(148,493)	–	(148,493)
Cash from/(used in) operating activities		(1,830,057)	(181,943)	(1,648,114)
Cash flow from Financing activities				
Proceeds from share issuance		2,965,260	–	2,965,260
Effect of IFRS transition on common share values		–	181,943	(181,943)
Proceeds from sale of warrants		196,876	–	196,876
Cash provided from financing activities		3,162,136	181,943	3,344,079
Cash flows from investing activities				
Purchase of capital assets		(10,031)	–	(10,031)
Deferred exploration expenditures	15(b)	(2,868,338)	–	(2,868,338)
Cash used in investing activities		(2,878,369)	–	(2,878,369)
Increase/(Decrease) in Cash		(1,546,290)	–	(1,546,290)
Cash beginning of period		4,903,617		4,903,617
Cash end of period		3,357,327		3,357,327

**Copper Reef Exploration Corp.**

**NOTE 15 – TRANSITION TO IFRS**

**(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)**

***Reconciliation of cash flows for the three and six month period ended August31, 2011***

	Notes	Three months ended August31, 2011			Nine months ended August31, 2011		
		Canadian GAAP	Effect of Transition	IFRS	Canadian GAAP	Effect of Transition	IFRS
Cash Flows from Operating Activities	15(b)&(c)						
Net profit		(328,391)		(328,391)	(735,825)	(142,373)	(593,452)
Amortisation		-		-	-		-
Share based compensation		185,700		185,700	190,200		190,200
Increase/(decrease) in market value of securities		(720,000)		(720,000)	(720,000)		(720,000)
Decrease/(increase) in GST receivable		(52,298)		(52,298)	(99,921)		(99,921)
Increase/(decrease) in FITL		-		-	(58,568)		(58,568)
Increase/(decrease) in AP		177,394		177,394	84,142		84,142
Cash from/(used in) operating activities		(737,595)		(737,595)	(1,339,972)	(142,373)	(1,197,599)
Cash flow from Financing activities							
Proceeds from share issuance		-		-	2,772,689		2,772,689
Effect of IFRS transition on common share values		-		-	-	142,373	142,373
Proceeds from sale of warrants		-		-	445,547		445,547
Cash provided from financing activities		-		-	3,218,236	142,373	3,218,236
Cash flows from investing activities							
Purchase of capital assets		-		-	(10,031)		(10,031)
Deferred exploration expenditures	15(b)	(903,910)		(903,910)	(2,378,837)		(2,378,837)
Cash used in investing activities		(903,910)		(903,910)	(2,388,868)		(2,388,868)
Increase/(Decrease) in Cash		(1,641,505)		(1,641,505)	(510,604)		(510,604)
Cash beginning of period		6,034,518		6,034,518	4,903,617		4,903,617
Cash end of period		4,393,013		4,393,013	4,393,013		4,393,013

**Copper Reef Exploration Corp.****NOTE 15 – TRANSITION TO IFRS****(EXPRESSED IN CANADIAN DOLLARS – UNAUDITED)**

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<i>Reconciliation of Equity</i>	Notes	<u>As at November 30, 2011</u>			<u>As at August31, 2011</u>			<u>As at December 1, 2010</u>		
		Canadian GAAP	Effect of Transition	IFRS	Canadian GAAP	Effect of Transition	IFRS	Canadian GAAP	Effect of Transition	IFRS
Equity	15(b)	10,630,335	–	10,630,335	11,011,594	–	11,011,594	9,058,982	–	9,058,982

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