

NEWPORT EXPLORATION LTD.

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

JULY 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Newport Exploration Ltd.

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Newport Exploration Ltd. as at July 31, 2012, July 31, 2011 and August 1, 2010 and its financial performance and its cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

November 6, 2012



NEWPORT EXPLORATION LTD.
STATEMENTS OF FINANCIAL POSITION
AS AT
(Expressed in Canadian Dollars)

| | July 31, 2012 | July 31, 2011 (Note 16) | August 1, 2010 (Note 16) |
|--|---------------------|-------------------------------|--------------------------------|
| ASSETS | | | |
| Current | | | |
| Cash | \$ 2,556,163 | \$ 5,490,870 | \$ 6,962,715 |
| Receivables (Note 4) | 40,902 | 36,794 | 13,696 |
| Prepaid expenses | 2,527 | 1,171 | 1,008 |
| Short-term investments | <u>3,445,275</u> | <u>1,025,216</u> | <u>-</u> |
| | 6,044,867 | 6,554,051 | 6,977,419 |
| Equipment (Note 5) | 2,364 | 3,228 | 4,410 |
| Exploration and evaluation asset (Note 6) | <u>102,162</u> | <u>37,642</u> | <u>-</u> |
| | <u>\$ 6,149,393</u> | <u>\$ 6,594,921</u> | <u>\$ 6,981,829</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | | |
|---|---------------------|---------------------|---------------------|
| Current | | | |
| Accounts payable and accrued liabilities (Note 8) | <u>\$ 34,611</u> | <u>\$ 45,758</u> | <u>\$ 46,147</u> |
| Shareholders' equity | | | |
| Capital stock (Note 9) | 42,343,096 | 42,343,096 | 42,343,096 |
| Reserves (Note 9) | 1,173,038 | 1,173,038 | 1,173,038 |
| Deficit | <u>(37,401,352)</u> | <u>(36,966,971)</u> | <u>(36,580,452)</u> |
| | <u>6,114,782</u> | <u>6,549,163</u> | <u>6,935,682</u> |
| | <u>\$ 6,149,393</u> | <u>\$ 6,594,921</u> | <u>\$ 6,981,829</u> |

Nature of operations and going concern (Note 1)
Commitments (Note 11)

| | | | |
|-------------------------------------|----------|---|----------|
| _____ "Ian Rozier" Ian Rozier | Director | _____ "Barbara Dunfield" Barbara Dunfield | Director |
|-------------------------------------|----------|---|----------|

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

NEWPORT EXPLORATION LTD.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED JULY 31
(Expressed in Canadian Dollars)

| | 2012 | 2011 |
|---|---------------------|---------------------|
| | | (Note 16) |
| EXPENSES | | |
| Administration fees | \$ 15,000 | \$ 15,000 |
| Amortization (Note 5) | 864 | 1,182 |
| Consulting fees | 206,500 | 206,500 |
| Directors' fees | 20,000 | 20,000 |
| Foreign exchange gain | (201) | (1,433) |
| Management fees | 120,000 | 120,000 |
| Office and miscellaneous | 24,273 | 10,263 |
| Professional fees | 68,645 | 42,185 |
| Property investigation costs | - | 14,890 |
| Rent | 72,600 | 68,200 |
| Shareholder communications | 3,579 | 3,789 |
| Transfer agent and filing fees | 14,975 | 17,578 |
| Travel and related costs | <u>6,809</u> | <u>5,045</u> |
| Loss from operations before other items | <u>(553,044)</u> | <u>(523,199)</u> |
| OTHER ITEMS | | |
| Interest income | 88,510 | 81,770 |
| Petroleum royalty (Note 7) | <u>30,153</u> | <u>54,910</u> |
| | <u>118,663</u> | <u>136,680</u> |
| Loss and comprehensive loss for the year | <u>\$ (434,381)</u> | <u>\$ (386,519)</u> |
| Basic and diluted loss per common share | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> |
| Weighted average number of common shares outstanding | <u>54,922,874</u> | <u>54,922,874</u> |

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

NEWPORT EXPLORATION LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31
(Expressed in Canadian Dollars)

| | 2012 | 2011 |
|--|---------------------|---------------------|
| | | (Note 16) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the year | \$ (434,381) | \$ (386,519) |
| Item not affecting cash: | | |
| Amortization | 864 | 1,182 |
| Change in non-cash working capital items: | | |
| Increase in receivables | (4,108) | (23,098) |
| Increase in prepaid expenses | (1,356) | (163) |
| Decrease in accounts payable and accrued liabilities | <u>(2,306)</u> | <u>(18,031)</u> |
| Net cash used in operating activities | <u>(441,287)</u> | <u>(426,629)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Exploration and evaluation asset | (84,653) | (20,000) |
| Mining tax credit recovery | 11,292 | - |
| Short-term investments | <u>(2,420,059)</u> | <u>(1,025,216)</u> |
| Net cash used in investing activities | <u>(2,493,420)</u> | <u>(1,045,216)</u> |
| Decrease in cash during the year | (2,934,707) | (1,471,845) |
| Cash, beginning of year | <u>5,490,870</u> | <u>6,962,715</u> |
| Cash, end of year | <u>\$ 2,556,163</u> | <u>\$ 5,490,870</u> |

Supplemental disclosure with respect to cash flows (Note 12)

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

NEWPORT EXPLORATION LTD.
STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

| | <u>Capital Stock</u> | | Reserves | Deficit | Total |
|--|----------------------|---------------|--------------|-----------------|--------------|
| | Number | Amount | | | |
| Balance at August 1, 2010 (Note 16) | 54,922,874 | \$ 42,343,096 | \$ 1,173,038 | \$ (36,580,452) | \$ 6,935,682 |
| Loss for the year | - | - | - | (386,519) | (386,519) |
| Balance at July 31, 2011 (Note 16) | 54,922,874 | 42,343,096 | 1,173,038 | (36,966,971) | 6,549,163 |
| Loss for the year | - | - | - | (434,381) | (434,381) |
| Balance at July 31, 2012 | 54,922,874 | \$ 42,343,096 | \$ 1,173,038 | \$ (37,401,352) | \$ 6,114,782 |

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Newport Exploration Ltd. (the “Company”) was incorporated on September 19, 1979 under the Business Corporations Act, British Columbia and is considered to be in the exploration stage with respect to its evaluation and exploration assets. Based on the information available to date, the Company has not yet determined whether its exploration and evaluation assets contain ore reserves.

The Company’s head office, principal address and registered and records office is 408 – 837 West Hastings Street, Vancouver, British Columbia, Canada, V6C 3N6.

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

These financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses and has not earned operating revenue. A number of alternatives including, but not limited to selling an interest in one or more of its exploration and evaluation assets or completing a financing, are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

The Company estimates it has sufficient working capital to continue operations through fiscal 2013.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These financial statements were authorized for issue on November 6, 2012 by the directors of the Company.

Basis of preparation

These financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. These financial statements are presented in Canadian dollars unless otherwise noted.

The preparation of these financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles (“GAAP”). The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They also have been applied in preparing an opening IFRS statement of financial position at August 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 16.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)

Critical accounting estimates, judgments and assumption

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position. The cost model is utilized and the value of the exploration and evaluation assets is based on the expenditures incurred. At every reporting period, management assesses the potential impairment which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount.
- ii) The inputs used in calculating the fair value for share-based payments expense included in profit or loss and stock-based share issuance costs included in shareholders' equity. The share-based payments expense is estimated using the Black-Scholes options-pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate.
- iii) The valuation of shares issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When this cannot be determined, it is based on the fair value of the non-cash consideration. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.
- iv) The recognition of deferred tax assets. The Company considers whether the realization of deferred tax assets is probable in determining whether or not to recognize these deferred tax assets.

Royalty income

Royalty income is recognized upon sale by the licensee of royalty-bearing products, when realization is considered probable, and collection is reasonably assured.

Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined to be the Canadian dollar for the Company. Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in a currency other than the Canadian dollar are translated at the exchange rate at the reporting date, while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of loss and comprehensive loss in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)

Short-term investments

Short-term investments include Canadian guaranteed investment certificates with a major Canadian Banking Institution. These investments are stated at fair value.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of loss and comprehensive loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Equipment

Equipment is carried at cost. Amortization is recorded at the following annual rates:

| | |
|------------------------|-----------------------|
| Computer equipment | 30% declining balance |
| Furniture and fixtures | 20% declining balance |

Share-based payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. When the options are exercised, the applicable amounts of option reserves are transferred to capital stock.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the year. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. In calculating the diluted loss per share, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Financial instruments

Financial assets

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

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

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

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of loss and comprehensive loss.

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

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

Financial liabilities

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)

Financial instruments (cont'd...)

Financial liabilities (cont'd...)

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

The Company has classified its cash and short-term investments as fair value through profit or loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

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

See Note 14 for relevant disclosures.

Impairment of assets

The carrying amount of the Company's assets (which include exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of loss and comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. A reversal of an impairment loss is recognized immediately in the statement of loss and comprehensive loss.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)

Income taxes

Current income tax:

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax:

Deferred tax is provided using the statement of financial position liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the income taxes relate to the same taxable entity and the same taxation authority.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets, when those obligations result from the acquisition, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the statement of loss and comprehensive loss.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)

Restoration and environmental obligations (cont'd...)

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

3. ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Company is currently assessing the impact of the following standards:

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

IFRS 10, "Consolidated Financial Statements"

IFRS 10, "Consolidated Financial Statements", requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, "Consolidation - Special Purpose Entities", and parts of IAS 27, "Consolidated and Separate Financial Statements". The standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities", IAS 27 (2011), "Separate Financial Statements" and IAS 28 (2011), "Investments in Associates and Joint Ventures".

IFRS 11, "Joint Arrangements"

IFRS 11, "Joint Arrangements", requires a venturer to classify its interest in a joint arrangement as a joint venture or a joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, "Interests in Joint Ventures", and SIC-13, "Jointly Controlled Entities - Non-monetary Contributions by Venturers". The standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10, "Consolidated Financial Statements", IFRS 12, "Disclosure of Interests in Other Entities", IAS 27 (2011), "Separate Financial Statements" and IAS 28 (2011), "Investments in Associates and Joint Ventures".

3. ACCOUNTING STANDARDS NOT YET EFFECTIVE (cont'd...)

IFRS 12, “Disclosure of Interests in Other Entities”

IFRS 12, “Disclosure of Interests in Other Entities”, establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10, “Consolidated Financial Statements”, IFRS 11, “Joint Arrangements”, IAS 27 (2011), “Separate Financial Statements” and IAS 28 (2011), “Investments in Associates and Joint Ventures”.

IFRS 13, “Fair Value Measurement”

IFRS 13, “Fair Value Measurement”, is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The new converged fair value framework is effective for annual periods beginning on or after January 1, 2013.

4. RECEIVABLES

Trade and other receivables are comprised of the following:

| | July 31, 2012 | July 31, 2011 | August 1, 2010 |
|-------------------|------------------|------------------|-------------------|
| HST receivable | \$ 15,506 | \$ 17,666 | \$ 13,581 |
| Petroleum royalty | 25,247 | 16,442 | - |
| Other receivables | 149 | 2,686 | 115 |
| Total | \$ 40,902 | \$ 36,794 | \$ 13,696 |

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
JULY 31, 2012

5. EQUIPMENT

| | Furniture and fixtures | Computer equipment | Total |
|--|---------------------------|-----------------------|------------------|
| Cost | | | |
| Balance, August 1, 2010, July 31, 2011 and July 31, 2012 | \$ 21,758 | \$ 41,079 | \$ 62,837 |
| Accumulated amortization | | | |
| Balance, August 1, 2010 | \$ 20,484 | \$ 37,943 | \$ 58,427 |
| Amortization | <u>342</u> | <u>840</u> | <u>1,182</u> |
| Balance, July 31, 2011 | 20,826 | 38,783 | 59,609 |
| Amortization | <u>249</u> | <u>615</u> | <u>864</u> |
| Balance, July 31, 2012 | \$ 21,075 | \$ 39,398 | \$ 60,473 |
| Carrying amounts | | | |
| As at August 1, 2010 | \$ 1,274 | \$ 3,136 | \$ 4,410 |
| As at July 31, 2011 | \$ 932 | \$ 2,296 | \$ 3,228 |
| As at July 31, 2012 | <u>\$ 683</u> | <u>\$ 1,681</u> | <u>\$ 2,364</u> |

6. EXPLORATION AND EVALUATION ASSET

During the year ended July 31, 2011, the Company entered into an agreement with Reva Resources Corp. (“Reva”), whereby the Company can earn a 50% interest in Reva’s Chu Chua massive sulphide deposit (“Chu Chua”) located north of Kamloops, British Columbia. In order to earn the 50% interest, the Company, on or before December 31, 2012, will need to carry out, and fund the estimated \$1,070,000 costs of the recommended work program on Chu Chua. Additionally, there are two separate 1% net smelter returns to underlying parties. Two significant shareholders of Reva are directors of the Company. During the year ended July 31, 2011, the Company incurred \$37,642 in geological consulting expenditures. During the year ended July 31, 2012, the Company incurred \$70,811 in geological consulting expenditures and paid \$5,000 as a security deposit. Additionally during the year ended July 31, 2012, the Company received a mining exploration tax credit of \$11,292. In July 2012, Reva agreed to extend the expiry date on the required work program to December 31, 2013.

7. PETROLEUM ROYALTY

Under the terms of an agreement over the sale of CVL Resources (Barbados) Ltd. (formerly a wholly-owned subsidiary of the Company) in 2002, the Company retained a 2.5% royalty for any hydrocarbons discovered on certain petroleum exploration permits in Australia. During the year ended July 31, 2012, the Company earned \$30,153 (2011 - \$54,910) of petroleum royalty and as at July 31, 2012, the Company had \$25,247 (July 31, 2011 - \$16,442 and August 1, 2010 - \$Nil) included in receivables.

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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | July 31, 2012 | July 31, 2011 | August 1, 2010 |
|--|------------------|------------------|------------------|
| Trade payables | \$ 11,278 | \$ 22,425 | \$ 25,314 |
| Amounts due to related parties (Note 10) | 3,333 | 3,333 | 3,333 |
| Accrued liabilities | 20,000 | 20,000 | 17,500 |
| Total | \$ 34,611 | \$ 45,758 | \$ 46,147 |

The average credit period of purchases is one month. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

9. CAPITAL STOCK AND RESERVES

a) Authorized share capital and reserves

As at July 31, 2012, the authorized share capital of the Company is an unlimited number of common shares without par value and an unlimited number of preferred shares without par value, all issued shares, consisting only of common shares are fully paid.

Reserves relate to stock options and compensatory warrants that have been previously issued by the Company.

b) Stock options

The Company has an incentive stock options plan in place under which it is authorized to grant options to directors and employees to acquire up to 5,492,287 of the Company's issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 10 years and vesting periods are determined by the Board of Directors.

As at July 31, 2012, the Company had outstanding stock options, enabling the holders to acquire further common shares as follows:

| Number of Shares | Exercise Price | Expiry Date |
|------------------|----------------|-------------------|
| 5,450,000 | \$0.10 | December 18, 2013 |

There were no stock options granted in fiscal 2011 or fiscal 2012.

c) Warrants

As at and during the year ended July 31, 2012 and July 31, 2011, there were no share purchase warrants issued or outstanding.

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10. RELATED PARTY TRANSACTIONS

During the year ended July 31, 2012, the Company entered into the following transactions with related parties:

- a) Paid or accrued consulting fees of \$180,000 (2011 - \$180,000) to a company controlled by a director of the Company.
- b) Paid or accrued management fees of \$120,000 (2011 - \$120,000) to a company controlled by a director of the Company.
- c) Paid or accrued rent of \$72,600 (2011 - \$68,200) to a company controlled by a director of the Company.
- d) Paid or accrued directors' fees of \$20,000 (2011 - \$20,000) to a director of the Company.
- e) Paid or accrued professional fees of \$26,564 (2010 - \$6,620) to a legal firm of which an officer of the Company is a partner.
- f) Paid or accrued consulting fees of \$14,000 (2011 - \$24,000) to a company controlled by the spouse of a director.
- g) Paid or accrued consulting fees of \$10,000 (2011 - \$Nil) to a company controlled by a director.

As at July 31, 2012, receivables included \$Nil (July 31, 2011 - \$2,686; August 1, 2010 - \$Nil) owing by a company with common directors and accounts payable and accrued liabilities included \$3,333 (July 31, 2011 - \$3,333; August 1, 2010 - \$3,333) owing to a director of the Company.

Key management personnel compensation disclosed above (including senior officers and directors of the Company):

| | July 31, 2012 | July 31, 2011 |
|---------------------|---------------|---------------|
| Short-term benefits | \$ 300,000 | \$ 300,000 |

11. COMMITMENTS

- a) The Company leases office premises under an operating lease with a company controlled by a director. The lease provides for basic lease payments of \$6,050 per month to March 2012. During the year ended July 31, 2012, the Company extended the term of the operating lease for another three year term. The lease provides for basic lease payments as follows:

| | |
|------|-------------------|
| 2013 | \$ 72,600 |
| 2014 | 72,600 |
| 2015 | 48,400 |
| | <u>\$ 193,600</u> |

- b) The Company entered into management and consulting contracts with companies having a director and an officer in common. The Company has agreed to pay the companies a combined total of \$25,000 per month. These contracts remain in force on a continuous basis. The contracts can be terminated by the Company by providing 90 days written notice. If termination of services is without cause, the Company will be obligated to pay 36 months of service fees to the director's company and 24 months of service fees to the officer's company.

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12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

| | 2012 | 2011 |
|----------------------------|------|------|
| Cash paid for income taxes | \$ - | \$ - |
| Cash paid for interest | \$ - | \$ - |

During the year ended July 31, 2012, the significant non-cash transaction consisted of accruing exploration and evaluation expenditures totalling \$8,801 in accounts payable and accrued liabilities.

During the year ended July 31, 2011, the significant non-cash transaction consisted of accruing exploration and evaluation expenditures totalling \$17,642 in accounts payable and accrued liabilities.

13. SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition of exploration and evaluation assets. The Company's mineral property is held in Canada.

14. FINANCIAL AND CAPITAL RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

The following is an analysis of the Company's financial instruments measured using the fair value hierarchy as at July 31, 2012, July 31, 2011 and August 1, 2010:

| | As at July 31, 2012 | | |
|------------------------|---------------------|---------|---------|
| | Level 1 | Level 2 | Level 3 |
| Cash | \$ 2,556,163 | \$ - | \$ - |
| Short-term investments | \$ 3,445,275 | \$ - | \$ - |

| | As at July 31, 2011 | | |
|------------------------|---------------------|---------|---------|
| | Level 1 | Level 2 | Level 3 |
| Cash | \$ 5,490,870 | \$ - | \$ - |
| Short-term investments | \$ 1,025,216 | \$ - | \$ - |

| | As at August 1, 2010 | | |
|------|----------------------|---------|---------|
| | Level 1 | Level 2 | Level 3 |
| Cash | \$ 6,962,715 | \$ - | \$ - |

14. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)

Financial risk factors

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, short-term investments and receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote because instruments are due primarily from government agencies and cash and short-term investments are held with reputable Canadian financial institutions.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at July 31, 2012, the Company had a cash balance of \$2,556,163 (July 31, 2011 – \$5,490,870) and short-term investments of \$3,445,275 (July 31, 2011 - \$1,025,216) to settle current liabilities of \$34,611 (July 31, 2011 - \$45,758). To maintain liquidity, the Company is continually investigating financing opportunities. As disclosed in Note 1, there can be no assurance these efforts will be successful in the future. All of the Company's financial liabilities are subject to normal trade terms.

Market risk

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

a) Interest rate risk

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term deposits certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The effect of a 1% change in interest rates is approximately \$60,000.

b) Foreign currency risk

The Company is not currently exposed to significant foreign currency risk as most transactions are denominated in Canadian dollars.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

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14. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its mineral properties, acquire additional mineral property interests 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 equity.

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 the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

15. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the accompanying statements of comprehensive loss is provided below:

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

| | 2012 | 2011 |
|---|--------------|--------------|
| Loss before income taxes | \$ (434,381) | \$ (386,519) |
| Expected tax recovery | \$ (111,000) | \$ (106,000) |
| Change in statutory rate and other | (127,000) | 159,000 |
| Change in unrecognized deductible temporary differences | 238,000 | (53,000) |
| Total income taxes | \$ - | \$ - |

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

| | 2012 | 2011 | Expiry date range |
|----------------------------------|---------------|---------------|-------------------|
| Temporary differences: | | | |
| Exploration and evaluation asset | \$ 2,625,000 | \$ 2,707,000 | No expiry |
| Equipment | \$ 255,000 | \$ 254,000 | No expiry |
| Allowable capital losses | \$ 12,286,000 | \$ 12,286,000 | No expiry |
| Non-capital losses | \$ 3,441,000 | \$ 2,414,000 | 2014-2032 |

16. TRANSITION TO IFRS

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

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

The Company has elected to take the following exemptions under IFRS 1:

Share-based payment transactions

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and vested before the Transition Date. As a result of applying this exemption, the Company will apply the provision of IFRS 2 only to all outstanding instruments that are unvested as at the Transition Date to IFRS. The Company did not have any unvested equity instruments as of the Transition Date.

Estimates

The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

Management has determined that adoption of IFRS has not resulted in changes to the Company's statement of financial position as at August 1, 2010 and July 31, 2011, or the statement of loss and comprehensive loss, statement of changes in equity, or statements of cash flows for the year ended July 31, 2011. Therefore, reconciliation adjustment schedules to transition GAAP to IFRS have not been presented.