

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2006 AND 2005



PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2006 AND 2005

I N D E X

	PAGE
AUDITORS' REPORT	1
CONSOLIDATED BALANCE SHEETS	2
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT	3
CONSOLIDATED STATEMENTS OF CASH FLOWS	4
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	5 - 16



## AUDITORS' REPORT

To the Shareholders of  
Pacific Comox Resources Ltd.  
(A Development Stage Enterprise):

We have audited the consolidated balance sheet of Pacific Comox Resources Ltd. (A Development Stage Enterprise) as at October 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2006 and 2005 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, February 27, 2007

(Signed) "Edmund Cachia & Co."  
CHARTERED ACCOUNTANTS

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

CONSOLIDATED BALANCE SHEETS

OCTOBER 31

ASSETS

	2006	2005
CURRENT		
Cash and cash equivalents	\$ 2,023,417	\$ 1,233
Accounts receivable	30,265	9,322
Advances and prepaid expenses	<u>106,365</u>	<u>2,357</u>
	2,160,047	12,912
INVESTMENT IN RELATED PARTY (note 3)	222,571	169,738
MINERAL PROPERTIES AND INTANGIBLE ASSETS (note 5)	2,148,941	1,076,686
CAPITAL ASSETS (note 4)	<u>1,989</u>	<u>2,842</u>
	<u>\$ 4,533,548</u>	<u>\$ 1,262,178</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities (note 5 i) and 5 iii)	\$ 270,888	\$ 332,538
Due to a shareholder and officer (note 3)	<u>20,952</u>	<u>70,133</u>
	291,840	402,671
FUTURE TAX LIABILITIES (note 6)	114,000	-

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 8 b))	17,055,057	13,800,077
WARRANTS (note 8)	535,658	101,287
STOCK OPTIONS (note 8)	14,000	-
DEFICIT	<u>( 13,477,007)</u>	<u>(13,041,857)</u>
	<u>4,127,708</u>	<u>859,507</u>
COMMITMENTS (note 5)		
SUBSEQUENT EVENTS (note 9)		
	<u>\$ 4,533,548</u>	<u>\$ 1,262,178</u>

Approved by the Board:

\_\_\_\_\_  
"Marvin Wolff", Director

\_\_\_\_\_  
"Donald Empey", Director

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

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

FOR THE YEARS ENDED OCTOBER 31

	2006	2005
EXPENSES		
General, office and administration	\$ 257,586	\$ 180,880
Interest	857	1,017
Write-down of mineral properties (note 5)	<u>281,707</u>	<u>906,194</u>
Loss before income taxes	( 540,150)	(1,088,091)
Future income tax recovery (note 6)	<u>( 105,000)</u>	<u>-</u>
NET LOSS FOR THE YEAR	( 435,150)	(1,088,091)
DEFICIT AT BEGINNING OF THE YEAR	<u>(13,041,857)</u>	<u>(11,953,766)</u>
DEFICIT AT END OF THE YEAR	<u>(\$13,477,007)</u>	<u>(\$13,041,857)</u>
Basic and diluted loss per share (note 2)	<u>\$ 0.005</u>	<u>\$ 0.02</u>

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

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31

	2006	2005
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Net loss for the year	(\$ 435,150)	(\$1,088,091)
Add items not affecting cash:		
Stock-based compensation	14,000	-
Amortization	853	1,217
Write-down of mineral properties	281,707	906,194
Future income tax recovery	( 105,000)	-
Net changes in non-cash operating working capital	<u>( 284,101)</u>	<u>186,764</u>
Cash provided by (used in) operations	<u>( 527,691)</u>	<u>6,084</u>
<b>CASH USED IN INVESTING ACTIVITIES:</b>		
Deferred exploration expenditures	( 1,021,462)	( 486,629)
Due from related party	<u>( 52,833)</u>	<u>( 31,371)</u>
Cash used in investing	<u>( 1,074,295)</u>	<u>( 518,000)</u>
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>		
Shares issued in private placements	3,673,351	498,314
Due to a shareholder and officer	<u>( 49,181)</u>	<u>( 48,080)</u>
Cash provided by financing	<u>3,624,170</u>	<u>450,234</u>
INCREASE (DECREASE) IN CASH POSITION	2,022,184	( 61,682)
CASH POSITION AT BEGINNING OF THE YEAR	<u>1,233</u>	<u>62,915</u>
CASH POSITION AT END OF THE YEAR	<u>\$ 2,023,417</u>	<u>\$ 1,233</u>
<b>Supplemental disclosure of non-cash transactions:</b>		
Shares issued or issuable for non-cash consideration:		
Mineral claims	\$ 235,000	\$ 60,000
Issue costs	\$ 4,000	\$ 61,434

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

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

1 - NATURE OF OPERATIONS:

Pacific Comox Resources Ltd. (the "Company") was incorporated to seek mineral exploration and development opportunities. To date, the Company has not earned significant revenue from any of its activities and is considered to be in the development stage. The ability of the Company to pursue future exploration and development is dependant on its ability to raise equity or other sources of financing.

2 - SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company's wholly owned subsidiary in Mexico, Pacific Comox S.A. de C.V. All intercompany balances and transactions have been eliminated.

MINERAL PROPERTIES AND INTANGIBLE ASSETS

Mineral properties represent the cost of acquired mineral claims and deferred exploration and development activity. Where the Company has not yet acquired the mineral rights these are recorded as intangible assets. Expenditures are capitalized on an area-of-interest basis and included direct costs of obtaining, maintaining and exploring properties, the costs of structures and equipment which are employed directly in the exploration process and other direct costs related to specific properties. All other costs, including administrative overhead, are expensed as incurred.

Management periodically reviews the carrying value of its investments in mineral leases and properties. A decision to abandon, reduce or expand a specific project is based upon a number of factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, the anticipated future cost of exploring, developing and operating a producing mine, the expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration.

If the area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or decline in value.

CAPITAL ASSETS

Computer equipment is depreciated using the straight-line method at the rate of 30% per annum.

INCOME TAXES

The Company uses the asset and liability method in accounting for income taxes. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and there respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

STOCK-BASED COMPENSATION PLAN

The Company has a stock-based compensation plan, which is described in note 8. The Company adopted the recommendations of the CICA handbook, regarding accounting for stock-based compensation plans. Applying this method, the Company recognizes compensation expense for all options awarded to employees and directors based on the fair value of the options on the date of grant which is determined using the Black Scholes option pricing model.

LOSS PER SHARE

Loss per share has been calculated based on the weighted average number of shares outstanding during the year.

No stock options or warrants were included in the computation of diluted loss per share because exercise prices exceeded the average market price of the Company's common shares during the year.

MEASUREMENT UNCERTAINTY

The preparation of financial statements 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 revenue and expenses during the year. Actual results could differ from those estimates.

FLOW-THROUGH SHARES

The Company finances a portion of its exploration program with flow-through common shares issues. Income tax deductions relating to these expenditures are claimable only by the investors. Proceeds from common share issues pursuant to flow-through financings are credited to capital stock.

ASSET RETIREMENT OBLIGATION

Effective November 1, 2004 the Company adopted the CICA Handbook Section 3110, "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred or can be reasonable estimated, and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at October 31, 2006, the Company has not incurred or committed any asset retirement obligations related to the development of its exploration properties

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

FOREIGN CURRENCY TRANSLATION

The accounts of the Company's foreign operations are considered to be integrated and are translated into Canadian dollars using the temporal method. Foreign currency transactions of the Company and its integrated subsidiary are translated into Canadian dollars at the rates prevailing on the dates of the transactions. Realized and unrealized exchange gains and losses resulting from foreign currency transactions are included in current earnings. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the end of the accounting period and any gains or losses are included in current earnings. Non-monetary assets are translated at the rates of exchange prevailing when the assets were acquired.

3 - RELATED PARTY TRANSACTIONS:

Amounts due to/from related parties as at October 31 are as follows:

	2006	2005
Due to a shareholder and officer	\$ 20,952	\$ 70,133
Investment in a corporation under common management	\$ 222,571	\$ 169,738

The amount due to a shareholder and officer represents amounts advanced which are non-interest bearing and due on demand.

The investment in a corporation under common management represents amounts advanced that are repayable on demand.

	2006	2005
Rent paid to a corporation under common management	\$ 11,102	\$ 10,793
Consulting fees to an officer of the Company	\$ 90,000	\$ 60,000

During the year, the Company reimbursed certain directors of the Company for corporate costs paid directly by the directors. These credits were at cost and aggregated approximately \$138,485 (2005 - \$24,025).

Accounts payable at October 31, 2006 includes \$5,087 (2005-\$5,642) owing to officers and directors.

Transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

4 - CAPITAL ASSETS:

	2006			2005
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Computer equipment	<u>\$ 6,823</u>	<u>\$ 4,834</u>	<u>\$ 1,989</u>	<u>\$ 2,842</u>

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS:

Mineral property expenditures are summarized as follows:

	2006	2005
Balance, Beginning of the year	\$1,076,686	\$ 1,496,251
Acquisition costs	839,810	316,593
Deferred exploration costs	514,152	170,036
Write-down of mineral properties	<u>( 281,707)</u>	<u>( 906,194)</u>
Balance, End of the year	<u>\$2,148,941</u>	<u>\$ 1,076,686</u>

The accumulated costs are represented by the expenditures relating to the companies Mabel, Ryan Lake, Log Lake and Pepa De Oro properties.

MABEL

- i) On July 1, 2002, the Company entered into an agreement with respect of certain exploration properties in Mexico, whereby the Company will acquire a 100% interest in the properties over a five-year period, for an aggregate price payable as follows:
- (a) A total cash payment of U.S. \$386,000 payable: year one – U.S. \$20,000, which has been paid; year two – U.S. \$60,000, which has been paid; and years three, four and five – U.S. \$102,000 per year, payable either in monthly payments of U.S. \$8,500 or quarterly payments of U.S. \$25,500. As at October 31, 2006, the Company has satisfied these cash payment obligations.
  - (b) Subject to regulatory approval and conditions, issue a total of 3,500,000 shares of the Company to the vendors, in a five-year period; respectively, 250,000 shares in each of years one and two, 500,000 shares in year three, 1,000,000 shares in year four and 1,500,000 shares in year five. In June 2004, a total of 500,000 shares were issued valued at \$0.08 per share in respect of year three. In June 2006, the Company issued 1,000,000 common shares valued at \$0.06 per share in respect of year four. The Company was in arrears at October 31, 2006, regarding the issuance of 1,500,000 common shares, which under the terms of the agreement, were due for issuance on July 1, 2006. Provision has been made for the issuance of these shares, at a deemed price of \$0.065 per share. This provision, totalling \$97,500, is included in accounts payable at October 31, 2006.
  - (c) A total work commitment of U.S. \$2,300,000, to be spent on the properties in the five-year period; respectively, U.S. \$75,000 in year one, U.S. \$200,000 in year two, U.S. \$500,000 in each of the years three and four and U.S. \$1,000,000 in year five. As of October 31, 2006, the Company met the requirements for the first three years ended June 30, 2005, but was in default in meeting its work commitments for June 30, 2006 in the amount of U.S. \$201,000.

PACIFC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS (continued):

MABEL (continued)

As indicated above, the Company is currently in arrears in meeting certain property commitments. However, in order for the property vendor to exercise default mechanisms, the vendor must issue a default notice in writing, the date from which the Company has six months to satisfy the commitments that are in arrears. To date, the property vendor has not issued a default notice.

The properties are also subject to a net smelter royalty of 3% rising to 3.5% for periods in which the gold price exceeds U.S. \$350 per ounce and to 4% for periods in which the gold price exceeds U.S. \$400 per ounce. The Company has the right to purchase (during the term of the agreement and for two years after the commencement of the commercial production) 50% of the net smelter royalty for U.S. \$4,500,000.

Expenditures relating to the Mexican properties are as follows:

Balance, October 31, 2003	\$830,208
Acquisition costs	157,873
Deferred exploration costs	<u>508,170</u>
Balance, October 31, 2004	1,496,251
Acquisition costs	185,945
Deferred exploration costs	27,448
Write-down of mineral properties (d)	<u>( 854,822)</u>
Balance, October 31, 2005	854,822
Acquisition costs	216,810
Deferred exploration costs	66,603
Write-down of mineral properties (d)	<u>( 141,706)</u>
Balance, October 31, 2006	<u>\$ 996,529</u>

(d) Write-down of mineral properties

At October 31, 2006 and 2005, management reviewed the carrying values of these properties and determined that, as a result of the uncertainty of raising financing to move the project towards an economically viable resource, the values should be written down by 50% or \$141,706 (2005 \$ 854,822).

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS (continued):

RYAN LAKE

- ii) On March 8, 2005, the Company entered into an agreement to acquire a 100% interest in the Ryan Lake copper-molybdenum property which consists of 10 claims totalling 513 acres, located near Matachewan, Ontario. The aggregate price payable, over a two year period, is as follows:
- (a) A total cash payment of \$600,000 payable: year one – \$225,000 and year two – \$375,000. Total Cash payments amounted to \$438,000 as at October 31, 2006. A further payment of \$162,000 was made in November 2006 to satisfy the \$600,000 cash obligation under the agreement. In addition, \$100,000 was paid in November 2006 to acquire the mill on the property (see note 9).
  - (b) Subject to regulatory approval and conditions, issue a total of 2,000,000 common shares of the Company to the vendors, in a two year period; respectively, 500,000 shares in year one and 1,500,000 shares in year two (see note 9). The 500,000 shares in respect of year one have been issued to the vendor to satisfy obligations under the agreement;
  - (c) A total work commitment of \$300,000, to be spent on the property in the two-year period; respectively, \$100,000 in year one and \$200,000 in year two. The Company has satisfied these work commitment obligations as at October 31, 2006; and
  - (d) The Property is also subject to a net smelter royalty of 1%. The Company will have the right to purchase 50% of the net smelter royalty (0.5%) for \$1,000,000 during the two-year term of the agreement and for two years after the commencement of commercial production.

LOG LAKE

- iii) On September 25, 2005, the Company entered into a preliminary option agreement to acquire claims totalling approximately 3,400 acres contiguous to the northern and western boundaries of the Ryan Lake claims in Matachewan, Ontario. To exercise the three year option the Company has assumed the following commitments:
- (a) A total cash payment of \$180,000 payable: year one – \$80,000; year two – \$50,000 and \$50,000 for year three;
  - (b) Subject to regulatory approval and conditions, issue a total of 850,000 common shares of the Company to the vendors, in a three year period; respectively, 400,000 shares in year one, 200,000 shares in year two and 250,000 in year three; The Company was in arrears at October 31, 2006 regarding the issuance of 400,000 common shares. Provision has been made for the issuance of these shares at a deemed price of \$0.07 per share. The provision, totalling \$28,000, is included in the accounts payable at October 31, 2006.
  - (c) A total work commitment of \$235,000, to be spent on the property in the three-year period; respectively, \$60,000 in year one, \$75,000 in year two and \$100,000 in year three. The Company was in default in meeting its work commitments, as of the first anniversary date of the agreement, in the amount of \$53,000.

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS (continued):

LOG LAKE (continued)

- (d) The Property is also subject to a net smelter royalty of 2%. The Company will have the right to purchase 50% of the net smelter royalty (1%) for \$1,000,000 during the three year term of the agreement and for two years after the commencement of commercial production.

As indicated above, the Company is currently in arrears in meeting certain property commitments. However, in order for the property vendor to exercise default mechanisms, the vendor must issue a default notice in writing, the date from which the Company has six months to satisfy the commitments that are in arrears. To date, the property vendor has not issued a default notice.

Expenditures relating to the Ryan Lake and Log Lake, Matachewan, Ontario properties are as follows:

	Ryan Lake	Log Lake	Total
Balance, October 31, 2004	\$ -	\$ -	\$ -
Acquisition costs	100,000	5,000	105,000
Deferred exploration costs	<u>116,864</u>	<u>-</u>	<u>116,864</u>
Balance, October 31, 2005	\$216,864	\$ 5,000	\$ 221,864
Acquisition costs	373,000	110,000	483,000
Deferred exploration costs	<u>440,572</u>	<u>6,976</u>	<u>447,548</u>
Balance, October 31, 2006	<u>\$1,030,436</u>	<u>\$ 121,976</u>	<u>\$ 1,152,412</u>

PEPA DE ORO

- iv) On November 1, 2004, the Company entered into an option agreement to option the Pepa de Oro gold property in Chile. Under the option agreement, the Company paid U.S. \$20,000 which will entitle the Company to explore the property for one year. The exploration period may be extended for an additional six months by paying U.S. \$40,000. After twelve or eighteen months of exploration the Company must either abandon the property or agree to pay the Vendor U.S. \$1,000,000 in three instalments during the following year.

Expenditures relating to the Pepa de Oro property are as follows:

Balance, October 31, 2004	\$ -
Acquisition costs	25,648
Deferred exploration costs	25,724
Write-down of mineral properties	<u>( 51,372)</u>
Balance, October 31, 2005	\$ -
Acquisition costs	140,000
Write-down of mineral properties	<u>(140,000)</u>
Balance, October 31, 2006	<u>\$ -</u>

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS (continued):

PEPA DE ORO (continued)

At October 31, 2005, management made the decision to abandon the property and accordingly the entire carrying value in the amount of \$51,372 was written off. During the year ended October 31, 2006 The Company issued 2,000,000 common shares in June 2006 to fulfil obligations under the agreement. The shares were valued at \$140,000 when issued and this amount was written-off at October 31, 2006 since the property has been abandoned.

6 – INCOME TAXES:

At October 31, 2006, the Company has non-capital loss carry forwards of approximately \$1,242,000 available to reduce taxable income in future years. These losses expire through 2016. The benefit of these non-capital loss carry forwards has not been recognized in the financial statements.

As at October 31, 2006 the tax effects of temporary timing differences that give rise to significant components of the future tax asset and liabilities computed at current rates, were as follows:

Future tax asset:		
Capital assets	\$	15,000
Non-capital losses carry forward		449,000
Unrealized capital losses		<u>1,160,000</u>
		1,624,000
Less: Valuation allowance		<u>( 1,624,000)</u>
		-
Future tax liabilities:		
Resource pools		<u>114,000</u>
Net asset (liabilities)		<u>(\$ 114,000)</u>

The Company's provision for income taxes differ from the amounts computed by applying the basic current rates to loss for the year before taxes, as shown in the following table:

	2006	2005
Statutory rate applied to loss for the year before income taxes	(\$ 157,000)	(\$ 393,000)
Write-off of mineral properties	102,000	328,000
Tax benefit not recognized on current year's losses	55,000	65,000
Tax benefit renounced to flow-through shareholders	<u>( 105,000)</u>	<u>-</u>
Future income tax recovery	<u>(\$ 105,000)</u>	<u>\$ -</u>

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

7 - FINANCIAL INSTRUMENTS:

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and due to a shareholder and officer approximates fair value due to the short-term maturities of these instruments.

8 - SHARE CAPITAL:

a) Authorized

Unlimited number of common shares

b) Issued

Common shares

	2006		2005	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	73,691,257	\$ 13,800,077	63,552,892	\$ 13,226,763
Issued on completion of private placement	56,042,561	3,582,175	10,138,365	634,748
Issued to acquire mineral claims	3,500,000	235,000	-	-
Tax effect of flow-through shares	-	(219,000)	-	-
Issue costs	-	(343,195)	-	(61,434)
Balance, end of the year	133,233,818	\$ 17,055,057	73,691,257	\$ 13,800,077

c)

On November 28, 2004, the Company completed and received approval from the TSX, for a number of private placements and raised \$100,000 through 1,250,000 units priced at \$0.08 per unit. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.12 until November 28, 2006. A director of the Company subscribed for entire \$100,000 of the financing. A finder's fee of 10% was paid on \$57,800 of the total financing in shares of the Company valued at \$0.08 per share.

d)

On February 22, 2005, the Company completed and received approval from the TSX, for a number of private placements and raised \$200,000 through 3,333,333 units priced at \$0.06 per unit. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.10 until February 22, 2007. A director of the Company subscribed for \$116,550 of the financing. A finder's fee of 10% was paid on the financing in shares of the Company valued at \$0.06 per share.

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

8 - SHARE CAPITAL (continued):

e)

On July 28, 2005, the Company completed and received approval from the TSX, for a number of private placements and raised \$316,642. The financing consists of 3,732,600 Flow-Through Units and 1,544,766 Common Share Units. Each Flow-Through Unit consists of one flow-through common share and one-half of one common share purchase warrant (a "Warrant"), with a full Warrant entitling the holder to purchase one additional common share of the Company ("Warrant Shares") at an exercise of C\$0.10 per Warrant Share expiring December 22, 2006. Each Common Share Unit consists of one common share and one common share purchase warrant (a "Warrant"), with a Warrant entitling the holder to purchase one additional common share of the Company ("Warrant Share") at an exercise price of C\$0.10 per Warrant Share expiring December 22, 2006.

The Agent to the private placement received a cash commission of \$25,331 equal to 8% of the gross proceeds and 527,737 Broker Warrants entitling the Agent to acquire Common Share Units at a price of C\$0.10 per Unit expiring December 22, 2006. In addition the Company incurred legal costs in the amount of \$17,998 for total share issue costs of \$43,329.

f) On December 23, 2005, the Company completed and received approval from the TSX, on a private placement for aggregate proceeds of \$351,000 comprised of \$321,000 Flow-Through Units and \$30,000 Common Share Units. Each Flow-Through Unit consist of one flow-through common share, issued at \$0.05 per share, and one-half of one common share purchase warrant exercisable at \$0.10 per common share to June 23, 2007. Each common share unit is comprised of one common share, issued at \$0.05 per share, and one common share purchase warrant exercisable at \$0.10 per common share to June 23, 2007. A director of the Company subscribed for 600,000 Common Share Units. A finder's fee of 80,000 common shares of the Company valued at \$0.05 per share plus \$1,200 cash was paid in connection with the financing. In addition, 180,000 broker warrants entitling the agent to acquire common share units at a price of C\$0.10 per unit were issued expiring June 23, 2007. A total of \$5,639 (\$0.001 per share) was allocated to the warrants.

g) On June 14, 2006, the Company completed and received approval from the TSX, for a number of private placements and raised \$3,661,546. The financing consists of 11,778,333 Flow-Through Units and 37,164,228 Common Share Units. Each Flow-Through Unit consists of one flow-through common share and one common share purchase warrant (a "Warrant"), with a Warrant entitling the holder to purchase one additional common share of the Company ("Warrant Shares") at an exercise price of C\$0.10 per Warrant Share expiring June 12, 2008. Each Common Share Unit consists of one common share and one common share purchase warrant (a "Warrant"), with a Warrant entitling the holder to purchase one additional common share of the Company ("Warrant Share") at an exercise price of C\$0.10 per Warrant Share expiring June 12, 2008.

The Agent to the private placement received a cash commission of \$292,924 equal to 8% of the gross proceeds and 4,894,256 Broker Warrants entitling the Agent to acquire Common Share Units at a price of C\$0.10 per Unit expiring June 12, 2008. In addition the Company incurred legal costs in the amount of \$45,071. C\$0.01 was assigned to the warrants.

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

8 - SHARE CAPITAL (continued):

h) Stock-option plan

Under the Employee Stock Option Plan, approved in April 10, 2003, the Company may grant options for up to 10% of the outstanding shares of common stock. Options may be granted to any director, officer, employee or consultant of the Company or any of its subsidiaries. Options granted to directors, officers and employees vest immediately. If the optionee is a consultant or providing investor relations services to the Company, the options must vest in stages over 12 months, with no more than one quarter of the options vesting in any three-month period. The number of shares reserved for issuance to any one optionee pursuant to options cannot exceed 5% (2% if the optionee is engaged in providing investor relation services to the Company or is a consultant) of the issued and outstanding common shares of the Company at the date of grant of such options. The exercise price of each option cannot be less than the fair market value of the shares on the last trading date preceding the date of the grant. The maximum term of an option is 5 years.

A summary of the status of the Company's stock option plan as of October 31, 2006 and 2005, and changes during the year is presented below:

	2006		2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of the year	2,300,000	0.12	3,300,000	0.12
Expired during the year	-	-	(1,000,000)	0.12
Issued during the year	<u>1,900,000</u>	0.10	<u>-</u>	-
Outstanding at end of the year	<u>4,200,000</u>	0.11	<u>2,300,000</u>	0.12

The options outstanding at October 31, 2006 expire as follows: 2,300,000 on May 27, 2008 and 1,900,000 on December 23, 2010. Under Black-Scholes the options issued during the year ended October 31, 2006 have been valued at \$14,000 (2005 - \$nil). The following assumptions were used: dividend yield of 0.00%; expected volatility of 40% risk-free rate of 3.5% and an expected average term of 5 years.

i) Warrants

The following summarizes warrants that have been issued:

	<u>Number of Warrants</u>	
	2006	2005
Balance, beginning of year	9,556,899	5,729,167
Warrants issued on private placements	57,826,817	7,994,399
Warrants expired during the year	<u>(1,562,500)</u>	<u>(4,166,667)</u>
Balance, end of year	<u>65,821,216</u>	<u>9,556,899</u>

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

8- SHARE CAPITAL (continued):

i) Warrants (continued)

At October 31, 2006, the following warrants were outstanding. The warrants entitle the holders to purchase the stated number of common shares at the exercise price on or before the expiry date:

Number of shares	Exercise price	Expiry date
1,250,000	\$ 0.12	November 28, 2006
3,333,333	\$ 0.10	February 22, 2007
1,866,300	\$ 0.10	January 28, 2007
1,544,766	\$ 0.10	January 28, 2007
600,000	\$ 0.10	June 23, 2007
3,210,000	\$ 0.10	June 23, 2007
100,000	\$ 0.10	June 23, 2007
80,000	\$ 0.10	June 23, 2007
<u>53,836,817</u>	\$ 0.10	June 12, 2008
<u>65,821,216</u>		

9 – SUBSEQUENT EVENT:

On November 17, 2006, the Company exercised its option to purchase the Ryan Lake claims and the mill. In addition to the work commitment in the claims, which have been satisfied, the Company paid the \$162,000 remainder owing for the Option payments, \$100,000 for the mill and issued 1,500,000 common shares of the Company to the vendor.