

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2007 AND 2006



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AUDITORS' REPORT

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

We have audited the consolidated balance sheets of Pacific Comox Resources Ltd. (A Development Stage Enterprise) as at October 31, 2007 and 2006 and the consolidated statements of income (loss) and deficit and cash flows for the years 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, February 25, 2007

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

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

CONSOLIDATED BALANCE SHEETS  
As at October 31

## ASSETS

	2007	2006
CURRENT		
Cash and cash equivalents	\$ 759,318	\$ 2,023,417
Accounts receivable	63,683	30,265
Advances and prepaid expenses	<u>186,972</u>	<u>106,365</u>
	1,009,973	2,160,047
INVESTMENT IN RELATED PARTY (note 3)	290,845	222,571
MINERAL PROPERTIES AND INTANGIBLE ASSETS (note 5)	4,536,478	2,148,941
CAPITAL ASSETS (note 4)	<u>1,392</u>	<u>1,989</u>
	<u>\$ 5,838,688</u>	<u>\$ 4,533,548</u>

## LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	\$ 358,444	\$ 270,888
Due to a shareholder and officer (note 3)	<u>1,103</u>	<u>20,952</u>
	359,547	291,840
FUTURE TAX LIABILITIES (note 6)	-	114,000

## SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 8)	18,395,604	17,055,057
CONTRIBUTED SURPLUS (note 9)	531,352	549,658
DEFICIT	<u>( 13,447,815)</u>	<u>(13,477,007)</u>
	<u>5,479,141</u>	<u>4,127,708</u>
COMMITMENTS (note 5)		
	<u>\$ 5,838,688</u>	<u>\$ 4,533,548</u>

Approved by the Board:

(Signed) "Marvin Wolff", Director

(Signed) "Donald Empey", Director

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

PACIFIC COMOX RESOURCES LTD.  
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CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND DEFICIT  
FOR THE YEARS ENDED OCTOBER 31

	2007	2006
EXPENSES		
General, office and administration	\$ 250,747	\$ 257,586
Interest (income) expense	(57,579)	857
Write-down of mineral properties (note 5)	<u>-</u>	<u>281,707</u>
Loss before income taxes	(193,168)	(540,150)
Future income tax recovery (note 6)	<u>(222,360)</u>	<u>(105,000)</u>
NET INCOME (LOSS) FOR THE YEAR	29,192	(435,150)
DEFICIT AT BEGINNING OF THE YEAR	<u>(13,477,007)</u>	<u>(13,041,857)</u>
DEFICIT AT END OF THE YEAR	<u>(\$13,447,815)</u>	<u>(\$13,477,007)</u>
Basic and diluted income (loss) per share (note 2)	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Weighted average number of common shares outstanding	<u>142,026,138</u>	<u>99,565,251</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

	2007	2006
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income (loss) for the year	\$ 29,192	(\$435,150)
Add items not affecting cash:		
Stock-based compensation	-	14,000
Amortization	597	853
Write-down of mineral properties	-	281,707
Future income tax recovery	(222,360)	(105,000)
Net changes in non-cash operating working capital (note 11)	<u>(176,469)</u>	<u>(284,101)</u>
Cash used in operations	<u>(369,040)</u>	<u>(527,691)</u>
CASH USED IN INVESTING ACTIVITIES:		
Deferred exploration and acquisition expenditures	(1,945,537)	(1,021,462)
Due from related party	<u>(68,274)</u>	<u>(52,833)</u>
Cash used in investing	<u>(2,013,811)</u>	<u>(1,074,295)</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Shares issued in private placements (net of issue costs)	287,600	3,673,351
Shares issued on exercise of warrants	851,001	-
Due to a shareholder and officer	<u>(19,849)</u>	<u>(49,181)</u>
Cash provided by financing	<u>1,118,752</u>	<u>3,624,170</u>
INCREASE (DECREASE) IN CASH POSITION	(1,264,099)	2,022,184
CASH POSITION AT BEGINNING OF THE YEAR	<u>2,023,417</u>	<u>1,233</u>
CASH POSITION AT END OF THE YEAR	<u>\$ 759,318</u>	<u>\$ 2,023,417</u>
Supplemental disclosure of non-cash transactions:		
Shares issued or issuable for non-cash consideration:		
Mineral claims	\$ 292,000	\$ 235,000
Issue costs	\$ -	\$ 4,000

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, 2007 AND 2006

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 include 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 amortized using the declining balance 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.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

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

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, 2007, the Company has not incurred or committed any asset retirement obligations related to the development of its exploration properties

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

CASH AND CASH EQUIVALENTS

Cash balances with banks and cashable term deposits are classified as cash and cash equivalents.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property and equipment and other assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Management believes there has been no impairment of the Company's long-lived assets as at October 31, 2007.

REVENUE RECOGNITION

Interest income is recognized on an accrual basis as it is earned.

NEW ACCOUNTING POLICIES

Effective November 1, 2006, the Company adopted the following accounting policies as recommended by the CICA handbook:

Section 3855 - Financial Instruments - Recognition and Measurement: Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. Investments classified as available for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

Section 1530 - Comprehensive Income: This standard introduces new rules for the reporting and display of comprehensive income. Comprehensive income represents a change in shareholder's equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments, and foreign currency gains and losses related to self-sustaining foreign operations.

Transition adjustment to opening balance: The adoption of Sections 1530 and 3855 did not impact the opening equity and losses of the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

3 - RELATED PARTY TRANSACTIONS:

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

	2007	2006
Due to a shareholder and officer	\$ 1,103	\$ 20,952
Investment in a corporation under common management	\$ 290,845	\$ 222,571

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. The Company does not intend on seeking repayment in the next year.

The following related party transactions occurred and were expensed to general, office and administration in the consolidated financial statements during the years ended October 31, 2007 and 2006 as follows:

	2007	2006
Rent paid to a corporation under common management	\$ 9,758	\$ 11,102
Consulting fees to an officer of the Company	\$ 90,000	\$ 90,000

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 \$169,800 (2006 - \$138,485).

Accounts payable at October 31, 2007 includes \$Nil (2006-\$Nil) 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:

	2007			2006
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Computer equipment	<u>\$ 6,823</u>	<u>\$ 5,431</u>	<u>\$ 1,392</u>	<u>\$ 1,989</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS:

Mineral property expenditures are summarized as follows:

	2007	2006
Balance, Beginning of the year	\$2,148,941	\$ 1,076,686
Acquisition costs	437,497	839,810
Deferred exploration costs	1,950,040	514,152
Write-down of mineral properties	<u>-</u>	<u>(281,707)</u>
Balance, End of the year	<u>\$4,536,478</u>	<u>\$ 2,148,941</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 to 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; years three and four – U.S. \$102,000 per year, which has been paid. As at October 31, 2007, the Company has paid US\$51,000 in respect of year five. At October 31, 2007, the Company has satisfied the cash payments to be made under the agreement.
  - (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. 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. These shares were issued in the year ending October 31, 2007. No notice of default had been received by the Company by the holder of this property and the 1,500,000 common shares were issued in the year ending October 31, 2007.
  - (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, 2007, the Company met its work commitments for its five-year period work commitments with total exploration and claim expenditures of Cdn \$2,339,810 (approx. US\$2,450,000) at October 31, 2007.

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.

PACIFIC COMOX RESOURCES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

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

Expenditures relating to the Mexican properties are as follows:

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	\$ 996,529
Acquisition costs	81,497
Deferred exploration costs	<u>265,256</u>
Balance, October 31, 2007	<u>\$ 1,343,282</u>

(d) Write-down of mineral properties

At October 31, 2006, management reviewed the carrying values of these properties and determined that, as a result of the uncertainty at that time of raising financing to move the project towards an economically viable resource, the exploration and acquisition costs expended during the 2006 year should be written down by 50% or \$141,706.

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. The Company has made total cash payments totalling \$600,000 as at October 31, 2007 to satisfy the obligation under the agreement.
  - (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. The 500,000 shares in respect of year one and the 1,500,000 shares in respect of year two have been issued as at October 31, 2007 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, 2007; 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.

On November 17, 2006, the Company exercised its option to purchase the Ryan Lake claims. In addition to the cash payment and common share obligations and work commitment, all of which have been satisfied, the Company paid \$100,000 for the mill on the property.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

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

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; As at October 31, 2007 the Company has paid the \$80,000 year one and \$50,000 year two obligations.
  - (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 issued the 400,000 shares in respect of year one and 200,000 in respect of year two during the year ended October 31, 2007.
  - (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 second anniversary date of the agreement, in the amount of approximately \$114,000 as at October 31, 2007.
  - (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, 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	\$1,030,436	\$ 121,976	\$ 1,152,412
Acquisition costs	382,000	74,000	456,000
Deferred exploration costs	<u>1,525,660</u>	<u>59,124</u>	<u>1,584,784</u>
Balance, October 31, 2007	<u>\$2,938,096</u>	<u>\$255,100</u>	<u>\$3,193,196</u>

PACIFC COMOX RESOURCES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

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

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. At October 31, 2006, the Property was abandoned.

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 and October 31, 2007	<u><u>\$ -</u></u>

6 – INCOME TAXES:

At October 31, 2007, the Company has non-capital loss carry forwards of approximately \$1,250,000 available to reduce taxable income in future years. These losses expire through 2027. The benefit of these non-capital loss carry forwards has not been recognized in the financial statements.

As at October 31, 2007 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	458,000
Unrealized capital losses	<u>1,160,000</u>
	1,633,000
Future tax liabilities:	
Resource pools	<u>( 517,000)</u>
	1,116,000
Less: Valuation allowance	<u>(1,116,000)</u>
Net asset (liabilities)	<u><u>\$ -</u></u>

PACIFIC COMOX RESOURCES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6 – INCOME TAXES (continued):

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:

	2007	2006
Statutory rate applied to loss for the year before income taxes	(\$ 69,000)	(\$157,000)
Write-off of mineral properties	-	102,000
Tax benefit not recognized on current year's losses	69,000	55,000
Tax benefit renounced to flow-through shareholders	<u>( 222,360)</u>	<u>(105,000)</u>
Future income tax recovery	<u>(\$ 222,360)</u>	<u>(\$105,000)</u>

7 - FINANCIAL INSTRUMENTS:

a) Fair value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The fair value of cash and equivalents, accounts receivable, accounts payable and accrued liabilities and due to a shareholder are comparable to their carrying value due to the relatively short period to maturity of these instruments. The fair value of advances to a related company has not been fixed because they are with a related party and they did not reflect terms and conditions which would have been negotiated with arm's length parties.

b) Credit risk

The Company does not have any material risk exposure to any single debtor or group of debtors.

c) Commodity price risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

d) Foreign exchange risk

Certain of the Company's expenses are incurred in foreign currencies and are therefore subject to gains or losses due to fluctuations in these currencies.

PACIFIC COMOX RESOURCES LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

8 - SHARE CAPITAL:

a) Authorized

Unlimited number of common shares

b) Issued

Common shares

	October 31, 2007		October 31, 2006	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	133,233,818	\$ 17,055,057	73,691,257	\$ 13,800,077
Issued on completion of private placement	3,000,000	300,000	56,042,561	4,016,546
Issued to acquire mineral claims	3,600,000	292,000	3,500,000	235,000
Issued on exercise of warrants	8,510,010	851,001	-	-
Warrant cost transferred to common shares on exercise	-	43,206	-	-
Fair value of warrants attributable to private placement	-	(24,900)	-	(434,371)
Tax effect of flow-through shares	-	(108,360)	-	(219,000)
Issue costs	-	(12,400)	-	(343,195)
	<hr/>			
Balance, end of the year	<u>148,343,828</u>	<u>\$ 18,395,604</u>	<u>133,233,818</u>	<u>\$ 17,055,057</u>

- c) 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.
- d) 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. A total of \$428,732 (\$0.01 per warrant) was assigned to the warrants.

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FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

8 - SHARE CAPITAL (continued):

- e) On December 21, 2006, the Company completed a non-brokered flow-through private placement for aggregate proceeds of \$300,000. Each common share unit is comprised of one common share, issued at \$0.10 per share, and one common share purchase warrant exercisable at \$0.12 per common share to December 21, 2007. Directors of the Company subscribed for 1,125,000 common share units. A finder's fee of \$12,400 was paid in connection with the financing. A total of \$24,900 (\$0.02 per warrant) was assigned to the warrants. The following assumptions were used under Black Scholes: dividend yield of 0.00; expected volatility of 100%; risk free rate of 3.5% and expected term of one year.
- f) 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 and changes during the year is presented below:

	October 31, 2007		October 31, 2006	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of the year	4,200,000	0.11	2,300,000	0.12
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Granted during the year	-	-	<u>1,900,000</u>	0.10
Outstanding at end of the year	<u>4,200,000</u>	0.11	<u>4,200,000</u>	0.11

The options outstanding at October 31, 2007 expire as follows: 2,300,000 on May 27, 2008 and 1,900,000 on December 23, 2010. Under Black-Scholes there were no options issued during the year ended October 31, 2007 and accordingly the stock-based compensation is \$Nil (October 31, 2006 - \$14,000 on 1,900,000 options issued). The following assumptions were used in 2006: dividend yield of 0.00%; expected volatility of 40%; risk-free rate of 3.5% and an expected average term of 5 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

8 - SHARE CAPITAL (continued):

g) Warrants

The following summarizes warrants that have been issued:

	<u>Number of Warrants</u>	
	2007	2006
Balance, beginning of year	65,821,216	9,556,899
Warrants issued on private placements	1,500,000	57,826,817
Warrants expired during the period	(8,234,399)	(1,562,500)
Warrants exercised during the period	<u>(8,510,010)</u>	<u>-</u>
Balance, end of year	<u>50,576,807</u>	<u>65,821,216</u>

At October 31, 2007, 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
49,076,807	\$ 0.10	June 12, 2008
<u>1,500,000</u>	\$ 0.12	December 21, 2007
<u>50,576,807</u>		

9- CONTRIBUTED SURPLUS:

Contributed surplus is comprised of the following:

	2007	2006
Balance, beginning of the year	\$ 549,658	\$ 101,287
Stock-based compensation cost	-	14,000
Fair value of warrants	24,900	434,371
Fair value of warrants exercised	<u>( 43,206)</u>	<u>-</u>
Balance, end of the year	<u>\$ 531,352</u>	<u>\$ 549,658</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2007 AND 2006

10 - COMPARATIVE FIGURES:

Certain figures shown for comparative purposes have been reclassified to conform with the classifications adopted in the current period.

11 – CHANGES IN NON-CASH OPERATING WORKING CAPITAL:

	2007	2006
Accounts receivable	(\$ 33,418)	(\$ 20,943)
Advances and prepaid expenses	( 80,607)	( 104,008)
Accounts payable and accrued liabilities	( 62,444)	( 159,150)
	<u>(\$176,469)</u>	<u>(\$ 284,101)</u>

12 – SEGMENTED INFORMATION:

The Company operates in a single reportable operating segment, the exploration and development of mineral properties. Geographic information is as follows:

The following table allocates assets by segments:

	2007	2006
Canada	\$4,475,712	\$ 3,536,864
Mexico	<u>1,362,976</u>	<u>996,684</u>
Total assets	<u>\$5,838,688</u>	<u>\$ 4,533,548</u>

The following table allocates net income (loss) by segments:

	2007	2006
Canada	\$ 33,429	(\$ 153,341)
Chile	-	( 140,000)
Mexico	<u>( 4,237)</u>	<u>( 141,809)</u>
Net loss	<u>\$ 29,192</u>	<u>(\$ 435,150)</u>

13 – SUBSEQUENT EVENT:

On November 30, 2007, the Company closed a private placement of \$2.5 Million. The financing is in the form of units consisting of a flow-through share and one-half of one share purchase warrant and was at \$0.11 per unit. One full purchase warrant entitles the buyer to purchase one common share at \$0.15 until November 30, 2008. A finder's fee of \$122,000 was payable on the units. Directors of the Company subscribed for \$275,000 of the financing. The funds raised will be used to advance the exploration program at Ryan Lake copper-molybdenum properties near Matachewan, Ontario