

PACIFIC COMOX RESOURCES LTD.
(A Development Stage Enterprise)
CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2008 AND 2007



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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, 2008 and 2007 and the consolidated statements of income, comprehensive income 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 audit.

We conducted our audit 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, 2008 and 2007 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 23, 2009

(Signed) "*Edmund Cachia & Co. LLP*"
CHARTERED ACCOUNTANTS
Licensed Public Accountants

PACIFIC COMOX RESOURCES LTD.
(A Development Stage Enterprise)

CONSOLIDATED BALANCE SHEETS

AS AT OCTOBER 31

ASSETS

	2008	2007
CURRENT		
Cash and cash equivalents	\$ 1,007,322	\$ 759,318
Accounts receivable	2,716	63,683
Advances and prepaid expenses	<u>56,000</u>	<u>186,972</u>
	1,066,038	1,009,973
INVESTMENT IN RELATED PARTY (note 3)	330,685	290,845
MINERAL PROPERTIES AND INTANGIBLE ASSETS (note 5)	6,542,296	4,536,478
CAPITAL ASSETS (note 4)	<u>975</u>	<u>1,392</u>
	<u>\$ 7,939,994</u>	<u>\$ 5,838,688</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	\$ 226,105	\$ 358,444
Due to a shareholder and officer (note 3)	<u>184</u>	<u>1,103</u>
	226,289	359,547

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 8)	19,813,439	18,395,604
CONTRIBUTED SURPLUS (note 9)	935,755	531,352
DEFICIT	<u>(13,035,489)</u>	<u>(13,447,815)</u>
	<u>7,713,705</u>	<u>5,479,141</u>
COMMITMENTS (note 5)		
	<u>\$ 7,939,994</u>	<u>\$ 5,838,688</u>

Approved by the Board:

(Signed) "Marvin Wolff", Director

(Signed) "Donald Empey", Director

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

PACIFIC COMOX RESOURCES LTD.
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CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND DEFICIT

FOR THE YEARS ENDED OCTOBER 31

	2008	2007
EXPENSES		
Bank charges and interest	\$ 2,579	\$ 3,678
Consulting fees	79,200	54,000
Depreciation of fixed assets	418	597
Foreign exchange loss	11,168	14,810
Legal and audit	40,029	63,337
Office, general and investor relations	128,080	88,275
Rent	9,860	9,758
Stock-based compensation cost	88,000	-
Transfer agent's and regulatory fees	44,831	19,969
Write-down of mineral properties (note 5v))	<u>48,231</u>	<u>-</u>
	452,396	254,424
Other		
Interest income	<u>22,859</u>	<u>61,256</u>
Loss before income taxes	(429,537)	(193,168)
Future income tax recovery (note 6)	<u>(841,863)</u>	<u>(222,360)</u>
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR	412,326	29,192
DEFICIT AT BEGINNING OF THE YEAR	<u>(13,447,815)</u>	<u>(13,477,007)</u>
DEFICIT AT END OF THE YEAR	<u>(\$ 13,035,489)</u>	<u>(\$ 13,447,815)</u>
Basic and diluted loss per share (note 2)	<u>(\$ 0.00)</u>	<u>(\$ 0.00)</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

	2008	2007
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income for the year	\$ 412,326	\$ 29,192
Add items not affecting cash:		
Amortization	418	597
Stock-based compensation	88,000	-
Future income tax recovery	(841,863)	(222,360)
Write-down of mineral properties	48,231	-
Net changes in working capital balances:		
Decrease (increase) in accounts receivable	60,967	(33,418)
Decrease (increase) in prepaid expenses	130,972	(80,607)
Decrease in accounts payable and accrued liabilities	<u>(132,340)</u>	<u>(62,444)</u>
Cash provided by (used in) operations	<u>(233,289)</u>	<u>(369,040)</u>
CASH USED IN INVESTING ACTIVITIES:		
Deferred exploration and acquisition expenditures	(2,036,549)	(1,945,537)
Due from related party	<u>(39,840)</u>	<u>(68,274)</u>
Cash used in investing	<u>(2,076,389)</u>	<u>(2,013,811)</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Shares issued in private placements (net of issue costs)	2,551,101	287,600
Shares issued on exercise of warrants	7,500	851,001
Due to a shareholder and officer	<u>(919)</u>	<u>(19,849)</u>
Cash provided by financing	<u>2,557,682</u>	<u>1,118,752</u>
INCREASE (DECREASE) IN CASH POSITION	248,004	(1,264,099)
CASH POSITION AT BEGINNING OF THE YEAR	<u>759,318</u>	<u>2,023,417</u>
CASH POSITION AT END OF THE YEAR	<u>\$ 1,007,322</u>	<u>\$ 759,318</u>
Supplemental disclosure of non-cash transactions:		
Shares issued or issuable for non-cash consideration:		
Mineral claims	\$ 17,500	\$ 292,000

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

PACIFIC COMOX RESOURCES LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

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.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The business of mining and exploring for minerals involves a high degree of risk and there is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its mineral property interests.

The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

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.

PACIFIC COMOX RESOURCES LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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 their 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.

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.

EARNINGS (LOSS) PER SHARE

Earnings (loss) per share have 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.

PACIFIC COMOX RESOURCES LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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 reasonably 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, 2008, 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.

CASH AND CASH EQUIVALENTS

Cash balances with banks and cashable term deposits are classified as cash and cash equivalents. The Company places its cash and cash investments with institutions of high credit worthiness.

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, 2008.

REVENUE RECOGNITION

As of the year-end, the Company has not earned any revenue related to its nature of business. Interest income is recognized on an accrual basis as it is earned.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

CAPITAL DISCLOSURE

Effective November 1, 2007 the Company adopted CICA Handbook Section 1535 Capital Disclosures, which specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 11 to these financial statements.

FINANCIAL INSTRUMENTS - DISCLOSURES

Effective November 1, 2007, the Company adopted the new recommendations of CICA Handbook Section 3862, Financial Instruments – Disclosures.

The provisions in Section 3862, Financial Instruments – Disclosures, increase the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. The Company has included disclosures recommended by the new handbook section in Note 7.

All financial instruments are categorized into one of the following categories: held for trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial categorization. For financial instruments other than those held-to-maturity, the Company's policy is to add transaction costs to the fair value:

Held-to-maturity assets, loans and receivables, and financial liabilities, other than held-for-trading financial liabilities, are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.

Available-for-sale financial assets are measured at fair value. Changes in fair value are included in other comprehensive income (loss) until the gain or loss is recognized in income.

Held-for-trading financial instruments will be measured at fair value. All changes in fair value are included in net earnings (loss) in the period in which they arise.

All derivative financial instruments will be measured at fair value, even when they are part of a hedging relationship. All changes in fair value are included in net earnings (loss) in the period in which they arise, except for hedge transactions, which qualify for hedge accounting treatment, in which case gains and losses will be recognized in other comprehensive income. The Company has no derivative financial instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

FINANCIAL INSTRUMENTS - PRESENTATION

Effective April 1, 2008, the Company adopted the new recommendations of CICA Handbook Section 3862, Financial Instruments – Presentation, which replaces the existing requirements on presentation of financial instruments. The Company classifies for presentation on the balance sheet its financial assets, financial liabilities and equity based upon the substance of the instrument at the date of issuance, and separately classifies the components of any instrument that contains elements of financial liability and equity while appropriately classifying costs or gains associated with issuing financial liabilities within the income statement and distributions to holders of equity instruments in the equity section of the balance sheet.

HEDGING

CICA Handbook Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company does not engage in hedging transactions and therefore does not have any financial instruments which are subject to hedge accounting.

COMPREHENSIVE INCOME

Comprehensive income is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of net income for the period and other comprehensive income, and this standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in “other comprehensive income” until it is considered appropriate to recognize into net earnings. Comprehensive income, and its components, are required to be presented in a separate financial statement that is displayed with the same prominence as the other financial statements.

The Company had no comprehensive income or loss transactions, other than its net loss which is presented in the Statement of Operations and Deficit, nor accumulated other comprehensive income during the periods that have been presented. Accordingly a statement of comprehensive income has not been presented.

3 - RELATED PARTY TRANSACTIONS:

The following related party transactions occurred and were reflected in the consolidated financial statements during the years ended October 31, 2008 and 2007 as follows:

	2008	2007
Rent paid to a corporation under common management	\$ 9,860	\$ 9,758
Consulting fees to an officer of the Company	\$ 79,200	\$ 54,000

PACIFIC COMOX RESOURCES LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

3 - RELATED PARTY TRANSACTIONS (continued):

Amounts due to/from related parties are as follows:

	2008	2007
Due to a shareholder and officer	\$ 184	\$ 1,103
Investment in a corporation under common management	\$ 330,685	\$ 290,845

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.

During the year, the Company reimbursed certain directors of the Company for corporate costs paid directly by the directors. These credits were made at cost and aggregated approximately \$499,913 (2007 - \$169,800).

Mineral properties and intangible assets include at October 31, 2008 includes \$52,800 (2007 - \$36,000) of consulting fees from an officer and director

Advances and prepaid expenses at October 31, 2008 includes \$20,000 (2007 - \$Nil) advanced to an officer and director.

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

4 - CAPITAL ASSETS:

	2008			2007
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Computer equipment	<u>\$ 6,823</u>	<u>\$ 5,848</u>	<u>\$ 975</u>	<u>\$ 1,392</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS:

Mineral property expenditures are summarized as follows:

	2008	2007
Balance, Beginning of the year	\$4,536,478	\$ 2,148,941
Acquisition costs	162,617	437,497
Deferred exploration costs	1,891,432	1,950,040
Write-down of mineral properties	<u>(48,231)</u>	<u>-</u>
Balance, End of the year	<u>\$6,542,296</u>	<u>\$ 4,536,478</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, four and five – U.S. \$102,000 per year, which has been paid. As at October 31, 2008, 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 satisfying the share issuance obligations under the agreement..
 - (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, 2008, the Company met its work commitments for its five-year period work commitments with total exploration and claim expenditures of Cdn \$3,194,839 (approx. US\$2,642,000).

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

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

Expenditures relating to the Mexican properties are as follows:

Balance, October 31, 2006	\$ 996,529
Acquisition costs	81,497
Deferred exploration costs	<u>265,256</u>
Balance, October 31, 2007	\$ 1,343,282
Acquisition costs	71,867
Deferred exploration costs	<u>783,162</u>
Balance, October 31, 2008	<u><u>\$2,198,311</u></u>

(d) Write-down of mineral properties

For the years ending October 31, 2004 to 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 through those dates were written down by accumulated amount of \$996,528.

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, 2008 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, 2008 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, 2008; 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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FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

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, 2008, the Company has paid the \$80,000 in respect of year one, the \$50,000 in respect of year two and the \$50,000 in respect of 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 issued the 400,000 shares in respect of year one, the 200,000 in respect of year two and the 250,000 shares in respect of year three as at October 31, 2008.
 - (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 third anniversary date of the agreement, in the amount of approximately \$169,000 as at October 31, 2008.
 - (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, despite not meeting the total work commitment spending on the property, the claims were transferred to the Company subsequent to year end

POWELL LAKE

- iv) On September 8, 2008, the Company entered into an option agreement to acquire four claims in Powell Township contiguous to 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 \$100,000 payable: on closing - \$20,000; year one – \$20,000; year two – \$20,000 and \$40,000 for year three. As at October 31, 2008, the Company has paid the \$20,000 due on closing.
 - (b) Subject to regulatory approval and conditions, issue a total of 500,000 common shares of the Company to the vendors, in a three year period; respectively, 100,000 on closing, 100,000 shares in year one, 100,000 shares in year two and 200,000 shares in year three. As at October 31, 2008, the Company issued the 100,000 shares due on closing.
 - (c) A total work commitment of \$6,000, to be spent on the property in the three-year period; respectively, \$2,000 in year one, \$2,000 in year two and \$2,000 in year three.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Powell Lake	Ryan Lake	Log Lake	Total
Balance, October 31, 2006	-	\$1,030,436	\$ 121,976	\$ 1,152,412
Acquisition costs	-	382,000	74,000	456,000
Deferred exploration costs	<u>-</u>	<u>1,525,660</u>	<u>59,124</u>	<u>1,584,784</u>
Balance, October 31, 2007	-	\$2,938,096	\$255,100	\$ 3,193,196
Acquisition costs	25,000	-	65,750	90,750
Deferred exploration costs	<u>-</u>	<u>1,060,039</u>	<u>-</u>	<u>1,060,039</u>
Balance, October 31, 2008	<u>\$25,000</u>	<u>\$3,998,135</u>	<u>\$ 320,850</u>	<u>\$4,343,985</u>

OTHER PROPERTIES

- v) During the year, the Company was engaged in other exploration activities. The Company incurred initial due diligence exploration costs of \$48,231. It was then determined that the properties would not be pursued and accordingly all of the amounts incurred were written-off as at October 31, 2008.

Balance, October 31, 2007	\$ -
Deferred exploration costs	48,231
Write-off of mineral properties	<u>(48,231)</u>
Balance, October 31, 2008	<u>\$ -</u>

6 - INCOME TAXES:

At October 31, 2008, the Company has non-capital loss carry forwards of approximately \$1,376,928 available to reduce taxable income in future years in Canada. These losses expire through 2028. The benefits of those losses have not been reflected in the consolidated financial statements

As at October 31, 2008 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:

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6 – INCOME TAXES (continued):

Future tax assets:	
Capital assets	\$ 11,000
Non-capital loss carry forward	465,000
Unrealized capital losses	<u>739,000</u>
	1,215,000
Future tax liabilities:	
Resource pools	<u>(229,000)</u>
	986,000
Less: Valuation allowance	<u>(986,000)</u>
Net asset (liabilities)	<u>\$ -</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:

	2008	2007
Statutory rate applied to loss for the year before income taxes	(\$142,000)	(\$69,000)
Write-off of mineral properties	16,000	-
Stock based compensation	29,000	-
Other	400	-
Tax benefit not recognized on current year's losses	96,600	69,000
Tax benefit renounced to flow-through shareholders	<u>(841,863)</u>	<u>(222,360)</u>
Future income tax recovery	<u>(\$ 841,863)</u>	<u>(\$222,360)</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 and officer 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.

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7 - FINANCIAL INSTRUMENTS (continued):

(b) Risk management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below:

- Capital risk

The Company manages its capital with the objective of providing adequate capital resources for the Company. The capital structure of the Company consists of shareholder's equity and depends on the ability of the Company to raise capital.

- Credit risk

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's credit risk is low as it is primarily attributable to funds held in Canadian banks.

- Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

- Market risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair value of financial assets and liabilities.

- Interest rate risk

The Company has no interest-bearing debt. The Company's current policy is to deposit excess cash in interest bearing accounts at its banking institutions.

(c) Sensitivity analysis

Financial instruments included in accounts receivable and prepaid expenses and deposits are classified as accounts receivable, which are measured at cost. Bank indebtedness and accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at cost. As at October 31, 2008, the carrying and fair value amounts of the Company's financial instruments are the same.

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7 - FINANCIAL INSTRUMENTS (continued):

Based on management's knowledge and experience of the financial markets, the Company believes that the movements in interest rates that are reasonably possible over the next twelve month period will not have a significant impact on the Company.

(d) Classification of financial instruments

The Company's financial assets, financial liabilities and equity are classified and presented as follows:

- Current assets

Cash and cash equivalents – earnings, gains and losses are included in income in the period in which they occur. Cash and cash equivalents are exposed to credit risk and these amounts are placed in a major Canadian bank. There is little exposure to interest rate risk as the maturities are kept to a term of one year or less. Accounts receivable and prepaid expenses and advances – the Company records no earnings on these, as they turn over frequently, are generally recovered quickly, and are modest in nature. The associated credit risk is considered minimal since these amounts are for services to be rendered by reputable vendors in the next twelve months.

- Financial liabilities

Accounts payable and accrued liabilities, and due to shareholder – any interest expense, are included in income in the period in which they occur. The Company manages interest rate risk by settling in advance of interest charges.

- Equity

Shareholders' deficiency – costs are included in income in the period in which they arise. The Company manages capital risk by maintaining close contact with investors and advisors knowledgeable about the mining industry, by maintaining relationships with sources of debt financing, and by ongoing discussions with potential strategic partners. The Company manages its liquidity risk by budgeting for future costs and project program expenditures and by negotiating investment of financing in time to meet them, although there can be no guarantee that such financings will be available on time or at all.

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8 - SHARE CAPITAL:

Authorized

Unlimited number of common shares

a) Issued

Common shares

	2008		2007	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	148,343,828	\$ 18,395,604	133,233,818	\$ 17,055,057
Issued on completion of private Placement	23,191,827	2,551,101	3,000,000	300,000
Issued to acquire mineral claims	350,000	17,500	3,600,000	292,000
Issued on exercise of warrants	75,000	7,500	8,510,010	851,001
Warrant cost transferred to common shares on exercise	-	597	-	43,206
Fair value of warrants attributable to private placement	-	(317,000)	-	(24,900)
Tax effect of flow-through shares	-	(841,863)	-	(108,360)
Issue costs	-	-	-	(12,400)
Balance, end of the year	<u>171,960,655</u>	<u>\$ 19,813,439</u>	<u>148,343,828</u>	<u>\$ 18,395,604</u>

- b) 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 consisted of 11,778,333 Flow-Through Units and 37,164,228 Common Share Units. Each Flow-Through Unit consisted 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 consisted 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.
- c) 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-half of 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.

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8 - SHARE CAPITAL (continued):

- d) On November 30, 2007, the Company closed a private placement of \$2,551,101. 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. Directors of the Company subscribed for \$154,000 of the financing. The funds raised will be used to advance the exploration program at Ryan Lake copper-molybdenum properties near Matachewan, Ontario. A total of \$317,000 (\$0.027 per share) 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.

e) 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.

On October 20, 2008, the Company granted 8,500,000 options to directors, officers and consultants. The fair value of the options was estimated using Black-Scholes pricing model based on the following assumptions: dividend yield rate of 0%, volatility of 100%, risk free interest rate of 3.5% and an expected life of 5 years. The total value of the options granted during year is \$88,000 (2007 – \$Nil).

A summary of the status of the Company's stock option plan and changes during the year is presented below:

	2008		2007	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of the year	4,200,000	0.11	4,200,000	0.11
Exercised during the year	-	-	-	-
Expired during the year	(2,300,000)	0.12	-	-
Granted during the year	<u>8,500,000</u>	0.10	<u>-</u>	-
Outstanding at end of the year	<u>10,400,000</u>	0.10	<u>4,200,000</u>	0.11

There are 1,900,000 options outstanding that expire on December 23, 2010 and 8,500,000 options outstanding that expire on October 20, 2013 as at October 31, 2008.

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8 - SHARE CAPITAL (continued):

f) Warrants

The following summarizes warrants that have been issued:

	<u>Number of Warrants</u>	
	2008	2007
Balance, beginning of year	50,576,807	65,821,216
Warrants issued on private placements	11,595,914	1,500,000
Warrants expired during the year	(50,501,807)	(8,234,399)
Warrants exercised during the year	<u>(75,000)</u>	<u>(8,510,010)</u>
Balance, end of year	<u>11,595,914</u>	<u>50,576,807</u>

At October 31, 2008, 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
<u>11,595,914</u>	\$ 0.15	November 30, 2008

9- CONTRIBUTED SURPLUS:

Contributed surplus is comprised of the following:

	2008	2007
Balance, beginning of the year	\$ 531,352	\$ 549,658
Options granted	88,000	-
Fair value of warrants	317,000	24,900
Fair value of warrants exercised	<u>(597)</u>	<u>(43,206)</u>
Balance, end of the year	<u>\$ 935,755</u>	<u>\$ 531,352</u>

10 - COMPARATIVE FIGURES:

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

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11 – CAPITAL MANAGEMENT:

The Company considers its capital to include components of shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefits of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

The Company expects its current capital resources will be sufficient to carry out its exploration plans, operation plans and operations through its current operating period.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended October 31, 2008. The Company is not subject to externally imposed capital requirements.

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:

	2008	2007
Canada	\$5,664,003	\$ 4,475,712
Mexico	<u>2,275,991</u>	<u>1,362,976</u>
Total assets	<u>\$7,939,994</u>	<u>\$ 5,838,688</u>

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12 – SEGMENTED INFORMATION (continued):

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

	2008	2007
Canada	\$ 427,427	\$ 33,429
Mexico	(15,101)	(4,237)
Net income	<u>\$ 412,326</u>	<u>\$ 29,192</u>