

PACIFIC COMOX RESOURCES LTD.
(A Development Stage Enterprise)

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars, unless otherwise stated)

JANUARY 31, 2010 and JANUARY 31, 2009

Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements for Pacific Comox Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the October 31, 2009 audited consolidated financial statements. Only changes in accounting information have been disclosed in these consolidated financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Corporation is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

Disclosure Required Under National Instrument 51-102 - "Continuous Disclosure Obligations" - Part 4.3(3) (a)

The auditor of Pacific Comox Resources Ltd. has not performed a review of the unaudited consolidated financial statements for the three months ended January 31, 2010 and January 31, 2009.

PACIFIC COMOX RESOURCES LTD.
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CONSOLIDATED BALANCE SHEETS

AS AT

ASSETS

	January 31 2010 (unaudited)	October 31 2009 (audited)
CURRENT		
Cash and cash equivalents	\$ 197,832	\$ 299,847
Accounts receivable	5,957	14,933
Advances and prepaid expenses	<u>40,838</u>	<u>13,083</u>
	244,627	327,863
ADVANCES TO RELATED PARTY (note 3)	374,082	364,117
MINERAL PROPERTIES (note 5)	7,316,990	7,179,293
CAPITAL ASSETS (note 4)	<u>631</u>	<u>682</u>
	<u>\$ 7,936,330</u>	<u>\$ 7,871,955</u>

LIABILITIES

CURRENT

Accounts payable and accrued liabilities	\$ 231,744	\$ 235,747
Due to a shareholder and officer (note 3)	<u>2,584</u>	<u>92,816</u>
	234,328	328,563

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 8)	19,959,439	19,822,439
CONTRIBUTED SURPLUS (note 9)	965,755	935,755
DEFICIT	<u>(13,223,192)</u>	<u>(13,214,802)</u>
	<u>7,702,002</u>	<u>7,543,392</u>
NATURE OF OPERATIONS AND GOING CONCERN (note 1)		
COMMITMENTS (note 5)		
	<u>\$ 7,936,330</u>	<u>\$ 7,871,955</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 THREE MONTHS ENDED JANUARY 31

	2010 (unaudited)	2009 (unaudited)
EXPENSES		
Bank charges and interest	\$ 305	\$ 123
Consulting fees	13,500	13,500
Depreciation of fixed assets	51	73
Foreign exchange loss	2,115	6,110
Legal and audit	10,692	145
Office, general and investor relations	8,050	6,694
Press and news releases	485	815
Stock exchange and filing fees	1,750	-
Transfer agent fees	1,978	5,015
Rent	<u>2,465</u>	<u>2,485</u>
	41,391	34,960
OTHER		
Interest income	<u>-</u>	<u>-</u>
Loss before income taxes	(41,391)	(34,960)
Future income tax recovery (note 6)	<u>(33,000)</u>	<u>-</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(8,391)	(34,960)
DEFICIT AT BEGINNING OF THE PERIOD	<u>(13,214,801)</u>	<u>(13,035,489)</u>
DEFICIT AT END OF THE PERIOD	<u>(\$13,223,192)</u>	<u>(\$13,070,449)</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.
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CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED JANUARY 31

	2010 (unaudited)	2009 (unaudited)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income (loss) for the period	\$ (8,391)	\$ (34,960)
Add items not affecting cash:		
Amortization	51	73
Future income tax recovery	(33,000)	-
Net changes in working capital balances:	<u>(22,781)</u>	<u>(34,296)</u>
Cash provided by (used in) operations	<u>(64,121)</u>	<u>(69,183)</u>
CASH USED IN INVESTING ACTIVITIES:		
Deferred exploration and acquisition expenditures	(137,697)	(96,417)
Due from related party	<u>(9,965)</u>	<u>(9,985)</u>
Cash used in investing	<u>(147,662)</u>	<u>(106,402)</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Shares issued in private placements (net of issue costs)	200,000	-
Due to a shareholder and officer	<u>(90,232)</u>	<u>5,006</u>
Cash provided by financing	<u>109,768</u>	<u>5,006</u>
INCREASE (DECREASE) IN CASH POSITION	(102,015)	(170,579)
CASH POSITION AT BEGINNING OF THE PERIOD	<u>299,847</u>	<u>1,007,322</u>
CASH POSITION AT END OF THE PERIOD	<u>\$ 197,832</u>	<u>\$ 836,743</u>
Supplemental disclosure of non-cash transactions:		
Shares issued or issuable for non-cash consideration:		
Mineral claims	\$ -	\$ -

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 THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

1 - NATURE OF OPERATIONS AND GOING CONCERN:

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.

While the consolidated financial statements have been prepared on a "going concern" basis, there are adverse conditions which cast doubt upon the validity of this assumption. For the three months ended January 31, 2010, the Company incurred a loss before income tax recovery of \$41,391 (2009- \$34,960) and as at January 31, 2010, had an accumulated deficit of \$13,256,192 (October 31, 2009- \$13,214,802). The Company has no income or cash flow from operations and, at January 31, 2010, had a working capital surplus of \$10,299 (October 31, 2009 - working capital deficiency of \$700). The Company must secure sufficient funding to maintain legal title to its resources properties, to fund its exploration and development activities and to fund its general and administrative costs.

In addition to the funds raised subsequent to the year end (see note 12), management intends on securing additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient and there remains some uncertainty as to the ability of the Company to continue as a going concern.

2 - SIGNIFICANT ACCOUNTING POLICIES:

The unaudited consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. These unaudited consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the fiscal year ended October 31, 2009. The disclosures provided below are incremental to those included with the audited annual consolidated financial statements. These unaudited consolidated financial statements should be read in conjunction

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

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. not been presented.

3 - RELATED PARTY TRANSACTIONS:

The following related party transactions occurred and were reflected in the consolidated financial statements during the three months ended January 31, 2010 and January 31, 2009:

	2010	2009
Rent paid to a corporation under common management	\$ 2,465	\$ 2,485
Consulting fees to an officer of the Company	\$ 13,500	\$ 13,500

Amounts due to/from related parties are as follows:

	January 31 2010	October 31 2009
Due to a shareholder and officer	\$ 2,584	\$ 92,816
Advances to a corporation under common management	\$ 374,082	\$ 364,117

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

The advances are to a corporation under common management and represent amounts advanced that are repayable on demand. The advances are interest free. The Company does not intend on seeking repayment in the next year.

During the period, the Company reimbursed certain directors of the Company for corporate costs paid directly by the directors. These credits were made at cost and aggregated \$14,767 (2009 - \$34,395).

Mineral properties and intangible assets at January 31, 2010 include \$169,800 (October 31, 2009 - \$160,800) of accumulated consulting fees from an officer and director.

Advances and prepaid expenses at January 31, 2010 include \$20,000 (October 31, 2009 - \$Nil) advanced to an officer and director.

See note 8 for additional related party information, unless otherwise stated.

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

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FOR THE THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

4 - CAPITAL ASSETS:

	January 31, 2010			October 31, 2009
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Computer equipment	<u>\$ 6,823</u>	<u>\$ 6,192</u>	<u>\$ 631</u>	<u>\$ 682</u>

5 - MINERAL PROPERTIES AND COMMITMENTS:

Mineral property expenditures are summarized as follows:

	January 31 2010	October 31 2009
Balance, Beginning of the period	\$7,179,293	\$ 6,542,296
Acquisition costs	-	34,390
Deferred exploration costs	137,697	612,607
Write-down of mineral properties	<u>-</u>	<u>(10,000)</u>
Balance, End of the period	<u>\$7,316,990</u>	<u>\$ 7,179,293</u>

The accumulated costs are represented by the expenditures relating to the companies Mabel, Ryan Lake, Log Lake, and Powell Lake 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. 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 has satisfied 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 January 31, 2010, the Company met its work commitments for its five-year period work commitments with total exploration and claim expenditures of Cdn \$3,708,141 (approx. U.S. \$3,345,000); and

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FOR THE THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

5 - MINERAL PROPERTIES AND COMMITMENTS (continued):

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, 2008	\$ 2,198,311
Deferred exploration costs	<u>401,345</u>
Balance, October 31, 2009	\$ 2,599,656
Deferred exploration costs	<u>111,958</u>
Balance, January 31, 2010	<u>\$ 2,711,614</u>

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 of \$600,000 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 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; 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 obligation 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 THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

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. The Company has made cash payments totalling \$180,000 to satisfy the obligation under the agreement;
 - (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 shares in year three. The Company has issued the 850,000 common shares to satisfy the obligation under the agreement;
 - (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; and
 - (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.

During the year ended October 31, 2009, the Company issued 300,000 common shares with a deemed value of \$9,000 (note 8) to the vendor in order to facilitate the completion of the transfer of 100% ownership of the claims. As a result, certain work commitments that were outstanding with respect to the original option agreement were forgiven.

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, 2009, the Company has paid the \$20,000 due on closing and the amount of \$20,000 due September 8, 2009 has been accrued and included in accounts payable and accrued liabilities as at January 31, 2010;
 - (b) Subject to regulatory approval and conditions, issue a total of 500,000 common shares of the Company to the vendor, in a three year period; respectively, 100,000 shares 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, 2009, the Company issued the 100,000 shares due on closing and the 100,000 share obligation due September 8, 2009 has been accrued in the amount of \$2,000 and included in accounts payable and accrued liabilities as at January 31, 2010; and
 - (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

FOR THE THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

5 - MINERAL PROPERTIES AND COMMITMENTS (continued):

POWELL LAKE (continued)

The Company is currently in arrears in meeting certain property commitments with respect to the Powell Lake claims. 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 in arrears. To date, the property vendor has not issued any default notice.

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, 2008	\$ 25,000	\$ 3,998,135	\$320,850	\$ 4,343,985
Acquisition costs	22,945	-	11,445	34,390
Deferred exploration costs	<u>1,872</u>	<u>173,590</u>	<u>25,800</u>	<u>201,262</u>
Balance, October 31, 2009	\$ 49,817	\$ 4,171,725	\$ 358,095	\$ 4,579,637
Acquisition costs	-	-	-	
Deferred exploration costs	<u>623</u>	<u>25,116</u>	<u>-</u>	<u>25,739</u>
Balance, January 31, 2010	<u>\$ 50,440</u>	<u>\$ 4,196,841</u>	<u>\$ 358,095</u>	<u>\$ 4,605,376</u>

6 - INCOME TAXES:

At January 31, 2010, the Company has non-capital loss carry forwards of approximately \$ 1,512,959 available to reduce taxable income in future years in Canada. These losses expire through 2030. The benefits of those losses have not been reflected in the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

6 – INCOME TAXES (continued):

As at January 31, 2010, the tax effects of temporary timing differences that give rise to significant components of the future tax assets and liabilities computed at current rates (33%) were as follows:

Future tax assets:	
Capital assets	\$ 11,626
Non-capital losses carry forward	515,563
Capital losses carry forward	642,476
Cumulative eligible capital	<u>2,508</u>
	1,172,173
Future tax liabilities:	
Resource pools	<u>(1,164,437)</u>
	7,736
Less: Valuation allowance	<u>(7,736)</u>
Net asset (liability)	<u>\$ _____</u>

During the period, the Company's provision for income taxes differ from the amounts computed by applying the basic current rate of 33% (2009- 33%) to loss for the period before taxes, as shown in the following table:

	January 31 2010	January 31 2009
Statutory rate applied to loss for the year before income taxes	(\$ 13,659)	(\$ 11,537)
Tax benefit not recognized on current year's losses	13,659	11,537
Tax benefit not recognized on current year's losses	<u>(33,000)</u>	<u>-</u>
Future income tax recovery	<u>\$ (33,000)</u>	<u>\$ -</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 and accounts payable and accrued liabilities are comparable to their carrying value due to the relatively short period to maturity of these instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

7 - FINANCIAL INSTRUMENTS (continued):

(a) Fair value (continued)

The fair value of the advances to a related company and due to a shareholder and officer have not been fixed because they are with a related parties and therefore do not reflect terms and conditions which would have been negotiated with arm's length parties.

(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 shareholders' 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 chartered banks, GST refundable from the Canadian government, and amounts recoverable from a related company. Management does not believe it is exposed to any significant concentration of credit risk except that a significant portion of its cash and cash equivalents are on deposit with a major Canadian chartered bank. All GST recoverable are with the government of Canada. Management believes the advances due from a related party will be recovered.

- 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.

- Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars and Mexican Pesos. The Company funds operations and exploration in Canada and Mexico. The Company maintains a Mexican Peso bank account in Mexico.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

7 - FINANCIAL INSTRUMENTS (continued):

(b) Risk management (continued)

- Foreign currency risk (continued)

Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. During the three months ended January 31, 2010, the Company recorded a non-cash loss of \$2115 (2009 – loss of \$6,110) which reflects the volatility in the current foreign exchange market against the Canadian dollar and due to the variances in the balance sheet from year to year.

Based on the Company's exposure to foreign exchange risk and assuming all other variables remain constant, a 10% increase or decrease in value of the foreign currency against the Canadian dollar would result in an increase or decrease of approximately \$10,000 (2009-\$10,000) in the Company's net loss.

- Interest rate risk

The Company invests cash surplus to its operational needs in investment-grade short term deposit certificates issued by the bank where it keeps its Canadian Bank accounts. The Company periodically assesses the quality of its investments with this bank and is satisfied with the credit rating of the bank and the investment grade of its short term deposit certificates. A change in the interest rate of 1% would cause interest income to change by less than \$1,000.

- Political Risk

Certain properties held by the Company are located in Mexico; accordingly, the Company is subject to risks normally associated with exploration and development of mineral properties in Mexico. The Company's ability to conduct future exploration and development activities is subject to changes in government regulations and shifts in political attitudes over which the Company has no control.

- Business Risk

There is numerous business risks involved in the mineral exploration industry, some of which are outlined below. The Company's current or future operations, including development activities, are subject to environmental regulations which may make operations not economically viable or prohibit them altogether. The success of the operations and activities is dependent to a significant extent on the efforts and abilities of its management, outside contractors, experts and other advisors. Investors must be willing to rely to a significant degree on management's discretion and judgment, as well as the expertise and competence of the outside contractors, experts and other advisors. The company does not have a formal program in place for succession of management and training of management. The loss of one or more of the key employees or contractors, if not replaced on a timely basis, could adversely affect the Company's operations and financial performance.

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7 - FINANCIAL INSTRUMENTS (continued):

(b) Risk management (continued)

- Commodity price risk

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

(c) Sensitivity analysis

As at January 31, 2010, the carrying value amounts of the Company's financial instruments approximates their fair value unless otherwise stated.

(d) Classification of financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, advances, accounts payable and accrued liabilities and due to a shareholder and officer.

The Company has made the following classifications:

- Cash and cash equivalents are classified as held-for-trading and are measured at fair value. Gains and losses related to subsequent revaluations are recorded in net income (loss);
- Accounts receivable and advances are classified as loans and receivables and are initially measured at fair value with subsequent measurement at amortized cost. All accounts receivable bad debts are charged to general and administrative expenses; and
- Accounts payable and accrued liabilities and due to a shareholder and officer are classified as other liabilities and are initially measured at fair value with subsequent measurement at amortized cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8 - SHARE CAPITAL:

Authorized

Unlimited number of common shares

a) Issued

Common shares

	January 31, 2010		October 31, 2009	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	172,260,655	\$ 19,822,439	171,960,655	\$ 19,813,439
Issued on completion of private Placement (b) – flow-through	2,000,000	100,000	-	-
Issued on completion of private Placement (b) – non flow-through	2,000,000	100,000	-	-
Issued to acquire mineral claims	-	-	300,000	9,000
Issued on exercise of warrants	-	-	-	-
Fair value of warrants reallocated from contributed surplus to share capital	-	-	-	-
Fair value of warrants attributable to private placement (b)	-	(30,000)	-	-
Tax effect of flow-through shares	-	(33,000)	-	-
Issue costs	-	-	-	-
Balance, end of the year	<u>176,260,655</u>	<u>\$ 19,959,439</u>	<u>172,260,655</u>	<u>\$ 19,822,439</u>

- b) On December 31, 2009, the Company closed a private placement raising gross proceeds of \$200,000. Of the financing, \$100,000 is in the form of flow-through units consisting of one flow-through common share and one common share purchase warrant and \$100,000 is in the form of units consisting of one common share and one common share purchase warrant. Each unit was priced at \$0.05 and each warrant is exercisable at \$0.10 for a period of two years expiring December 31, 2011. Directors of the Company subscribed for \$175,000 of the financing. The funds raised will be used to advance the exploration program at Ryan Lake copper-molybdenum properties near Matachewan, Ontario, the Mabel gold/silver property in Mexico, and for general working capital purposes. A total of \$30,000 (\$0.00762 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 2.5% and expected term of one year.

c) Stock Option Plan

Under the Employee Stock Option Plan, 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.

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8 - SHARE CAPITAL (continued):

c) Stock-option plan (continued)

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 0.00%, expected 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 the period ended January 31, 2010 is \$Nil (October 31, 2009 – \$Nil).

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

	January 31, 2010		October 31, 2009	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of the period	10,400,000	0.10	10,400,000	0.10
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Granted during the period	-	-	-	-
Outstanding at end of the period	<u>10,400,000</u>	0.10	<u>10,400,000</u>	0.10

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 January 31, 2010.

d) Warrants

The following summarizes warrants that have been issued:

	<u>Number of Warrants</u>	
	January 31 2010	October 31 2009
Balance, beginning of period	-	11,595,914
Warrants issued on private placements	4,000,000	-
Warrants expired during the period	-	(11,595,914)
Warrants exercised during the period	-	-
Balance, end of period	<u>4,000,000</u>	<u>-</u>

At January 31, 2010, there were 4,000,000 warrants outstanding, exercisable at \$0.10 until December 31, 2011 (October 31, 2009 – Nil).

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9 - CONTRIBUTED SURPLUS:

Contributed surplus is comprised of the following:

	January 31 2010	October 31 2009
Balance, beginning of the period	\$ 935,755	\$ 935,755
Fair value of stock options granted	-	-
Fair value of private placement ascribed to warrants	-	-
Fair value of warrants reallocated to share capital	<u>30,000</u>	<u>-</u>
Balance, end of the period	<u>\$ 965,755</u>	<u>\$ 935,755</u>

10 - COMPARATIVE FIGURES:

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

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 period ended January 31, 2010. The Company is not subject to externally imposed capital requirements.