

**MAGNA RESOURCES LTD.**

An Exploration Stage Enterprise

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED OCTOBER 31, 2012 AND 2011**

(Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE  
LOSS

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS'  
EQUITY

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Management's Responsibility for the Condensed Interim Consolidated Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of Magna Resources Ltd. (the "Company") have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards of the Canadian Institute of Chartered Accountants for a review of interim financial statements.

**MAGNA RESOURCES LTD.**  
**Condensed Consolidated Interim Statements of Operation and**  
**Comprehensive Loss**  
**(Expressed in Canadian Dollars - unaudited)**

	<i>Notes</i>	October 31, 2012	July 31, 2012
<b>ASSETS</b>		\$	\$
<b>Current</b>			
Cash and cash equivalents		58,936	-
Short-term investments	3	1,090,037	1,484,273
Prepaid expenses		18,305	25,791
HST/GST receivable		28,524	22,844
Other receivable	4	162,680	162,680
<b>Total current assets</b>		<b>1,358,482</b>	<b>1,695,588</b>
<b>Non-current assets</b>			
Exploration and evaluation assets	6	2,954,993	2,935,031
Intangible assets	7	592,055	480,986
<b>Total non-current assets</b>		<b>3,547,048</b>	<b>3,416,017</b>
<b>Total assets</b>		<b>4,905,530</b>	<b>5,111,605</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank indebtedness		-	65,788
Accounts payable and accrued liabilities		78,113	85,310
Other payable	4	162,680	162,680
Income tax payable		54,595	54,776
Deferred income tax liability		339,466	340,595
Due to related parties	9	40,841	42,486
<b>Total liabilities</b>		<b>675,695</b>	<b>751,635</b>
<b>EQUITY</b>			
<b>Equity attributable to shareholders</b>			
Share capital	8	4,622,161	4,622,161
Reserves		1,330,204	1,330,204
Accumulated deficit		(1,717,468)	(1,591,598)
Accumulated other comprehensive income (loss)		(5,062)	(797)
<b>Total equity</b>		<b>4,229,835</b>	<b>4,359,970</b>
<b>Total liabilities and equity</b>		<b>4,905,530</b>	<b>5,111,605</b>

These condensed consolidated financial statements are authorised by the Board of Directors on December 20, 2012. They are signed on the Company's behalf by:

On behalf of the Board:

*"Rudy de Jonge"*

\_\_\_\_\_  
Rudy de Jonge

*"Darryl Yea"*

\_\_\_\_\_  
Darryl Yea

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

**MAGNA RESOURCES LTD.**  
**Condensed Consolidated Interim Statements of Operation and**  
**Comprehensive Loss**  
**(Expressed in Canadian Dollars - unaudited)**

<b>For the three months ended October 31,</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>General and administrative expenses</b>		
Amortization	-	681
Accounting and audit fees	19,822	16,920
Bank charges and interest	264	164
Consulting fees	29,836	-
Legal fees	26,887	8,128
Licenses and permits	295	-
Insurance	3,307	-
Management fees	-	15,000
Office expenses	5,415	144
Rent	4,500	-
Transfer agent and filing fees	2,122	3,311
Travel and accommodation	(966)	-
Wages	38,226	-
Website, advertising and promotion	750	1,540
Total income (expenses)	(130,458)	(45,888)
Gain (loss) on marketable securities	-	(25,073)
Interest income (expenses)	3,811	-
<b>Net income (loss) for the period</b>	<b>(126,647)</b>	<b>(70,961)</b>
<b>Other comprehensive income (loss)</b>		
Foreign currency translation	777	(1,565)
<b>Total comprehensive loss</b>	<b>(125,870)</b>	<b>(72,526)</b>
Earnings (loss) per share, basic	(0.00)	(0.00)
Earnings (loss) per share (diluted)	(0.00)	(0.00)
Weighted average common shares outstanding - basic	51,506,666	22,420,000
Weighted average common shares outstanding - diluted	51,506,666	22,420,000

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

**MAGNA RESOURCES LTD.**  
**Condensed Consolidated Interim Statements of Operation and**  
**Comprehensive Loss**  
**(Expressed in Canadian Dollars - unaudited)**

<b>For the three months ended October 31,</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Cash provided by (used in):		
<b>Operating activities:</b>		
Net loss for the period	(125,870)	(70,961)
Items not involving cash		
Amortization	-	681
Foreign exchange	-	-
Loss/(gain) on disposal of short-term investment	-	106,382
Deferred taxes	-	350
Changes in non-cash working capital:		
Receivables	(5,680)	(7,724)
Other receivable	-	-
Prepaid expenses	7,486	(4,956)
Due to related parties	(2,877)	
Accounts payable and accrued liabilities	(7,275)	6,108
	<b>(134,216)</b>	<b>29,880</b>
<b>Investing activities:</b>		
Bank indebtedness	(65,788)	-
Exploration and evaluation assets and intangible assets	(131,031)	(10,720)
Sale (purchase) of short-term investment	394,236	-
Website development	-	(5,268)
	<b>197,417</b>	<b>(15,988)</b>
Net change in cash and cash equivalents	63,201	13,892
Effect of exchange rate changes on cash	(4,265)	4,664
Cash and cash equivalents, beginning of period	-	34,250
Cash and cash equivalents, end of period	<b>58,936</b>	<b>52,806</b>

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

**MAGNA RESOURCES LTD.**  
**Condensed Consolidated Interim Statements of Changes in**  
**Shareholders' Equity**  
**(Expressed in Canadian Dollars - unaudited)**

	<u>Common Shares</u>				<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareholders' Equity</u>
	<u>Number of Shares</u>	<u>Amount</u>	<u>Reserve</u>	<u>Deficit</u>		
		\$	\$	\$	\$	\$
Balance on July 31, 2011	22,420,000	1,322,961	314,194	1,255,219	(18,426)	363,510
Net income (loss) for the period	-	-	-	(66,328)	-	(66,328)
Other comprehensive income (loss)	-	-	-	-	(1,565)	(1,565)
Balance on October 31, 2011	22,420,000	1,322,961	314,194	1,321,547	(19,991)	295,617
Common shares issued:						
Shares issued for cash @ \$0.16/share	22,420,000	1,299,200	-	-	-	1,299,200
Finders shares issued in private placement	6,666,666	2,000,000	-	-	-	2,000,000
Warrants	-	-	327,600	-	-	327,600
Share-based payments	-	-	688,410	-	-	688,410
Net income (loss) for the year	-	-	-	(270,051)	-	(270,051)
Other comprehensive income (loss)	-	-	-	-	19,194	19,194
Balance on July 31, 2012	51,506,666	4,622,161	1,330,204	1,591,598	(797)	4,359,970
Net income (loss) for the period	-	-	-	(125,870)	-	(125,870)
Other comprehensive income (loss)	-	-	-	-	(4,265)	(4,265)
Balance on October 31, 2012	51,506,666	4,622,161	1,330,204	1,717,468	(5,062)	4,229,835

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

## **MAGNA RESOURCES LTD.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian Dollars - unaudited)**

---

#### **1. NATURE OF OPERATIONS**

Magna Resources Ltd. (the "Company") was incorporated on June 5, 2006 under the laws of British Columbia. The Company's principal business activity is the acquisition and exploration of exploration and evaluation assets. The shares of the Company are traded on the Canadian National Stock Exchange ("CNSX") under the symbol "MNA". As at October 31, 2012 the parent company to Magna Resources Ltd. is Confederation Minerals Ltd. ("Confederation"), which owns 56.47% of the Company's common shares.

The business of exploring for and mining of exploration and evaluation assets involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations.

The financial information is presented in Canadian Dollars (CDN\$), which is the presentation and functional currency of the Company.

The Company has working capital as at October 31, 2012 of \$682,787 (July 31, 2012: \$943,953) and an accumulated deficit of \$1,717,468 (July 31, 2012: \$1,591,598). The Company incurred a net loss of \$126,647 for the three months ended October 31, 2012 (October 31, 2011: \$72,526). These financial statements have been prepared under the assumptions of a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to maintain its existence is dependent upon the continuing support of its creditors and its success in obtaining new equity financing for its ongoing operations. Financing options available to the Company include public equity financings, loans and tax credit refunds. Realization values may be substantially different from carrying values, as shown in these financial statements, should the Company be unable to continue as a going concern.

The Company's head office and registered and records office is 2600 - 1066 West Hastings Street, Vancouver, BC, Canada V6E 3X1.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

These condensed consolidated interim financial statements are unaudited and prepared on a condensed basis in accordance with the International Accounting Standards ("IAS") 34, *Interim Financial Reporting* issued by the International Accounting Standard Board. These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies described in Note 2 of the Company's Annual Financial Statements as at and for the year ended July 31, 2012. Accordingly, these condensed consolidated interim statements for the three months ended October 31, 2012 and 2011 should be read together with the Annual Financial Statements as at and for the year ended July 31, 2012.

**MAGNA RESOURCES LTD.****Notes to the Condensed Consolidated Interim Financial Statements****(Expressed in Canadian Dollars - unaudited)**

---

**3. SHORT-TERM INVESTMENT**

Short-term investments consist of marketable securities and short-term deposit. As at October 31, 2012, the Company has a short term deposit of \$1,090,037 of principal (July 31, 2012: \$1,475,000) and \$9,273 of accrued interest due on January 18, 2013 (July 31, 2012: \$9,273) with an annual yield of prime minus 1.8%.

	October 31, 2012	July 31, 2012
	\$	\$
Short-term deposit	1,090,037	1,484,273

For the marketable securities, the fair market value are measured using quoted prices in active market for the identical assets, the total fair market value is the published market price per unit multiplied by the number of units held without consideration of transaction costs.

**4. BUSINESS ACQUISITION**

On November 21, 2011, the Company and Confederation signed a purchase and sale agreement in respect of the acquisition of the remaining 50% interest in American Potash previously held by Confederation ("Purchase and Sale Transaction"). Under the terms of the agreement the Company also completed a 2 for 1 subdivision of its outstanding common shares, resulting in the Company having 22,420,000 common shares being issued and outstanding immediately prior to closing of the Purchase and Sale Transaction. When combined with the Company's previously held 50% interest in American Potash, American Potash became a wholly-owned subsidiary of the Company.

In consideration for Confederation's 50% interest in American Potash, the Company issued 22,420,000 common shares of the Company (the "Consideration Shares") to Confederation using a deemed value of \$0.20 per share and 2,400,000 common share purchase warrants to exactly match the number of issued and outstanding securities of the Company immediately prior to closing of the Purchase and Sale Transaction. Each warrant entitles Confederation to purchase a further common share at a price of \$0.10 until February 25, 2016. Under IFRS 3, the considerations transferred were measured using the acquisition-date fair value. As a result, a discount from the deemed value of \$0.20 per share has been applied due to a lack of marketability of the Consideration Shares held as a block in the hands of Confederation which resulted in the fair value of the Consideration Shares at \$0.06 being assigned per share.

The reassessment at fair value of the previously held interest in American Potash gave rise to a gain of \$1,001,754 that was recognized in the statements of operations and comprehensive loss under "Gain on business combination achieved in stage". The fair value of the previously held 50% interest was set at \$1,328,805, being the same value as the 50% interest of American Potash acquired.

On January 19, 2012, the Purchase and Sale transaction was completed. As a result of the Purchase and Sale Transaction, the Company holds a 100% interest in American Potash.



**MAGNA RESOURCES LTD.**

**Notes to the Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian Dollars - unaudited)**

---

**4. BUSINESS ACQUISITION (cont'd)**

American Potash holds potash leases and an option in respect of potash lease applications in the State of Utah.

The Purchase and Sale Transaction was accounted for using the acquisition method with operating results included in the Company's statements of operations and comprehensive loss from the date of acquisition in accordance with IFRS 3, Business Combination and the Company is considered to be the accounting acquirer.

The purchase price allocation is as follows:

<b>Consideration</b>	<b>\$</b>
Fair value of 50% interest in American Potash	1,328,805
<hr/>	
<b>Fair Value of Net Asset Acquired</b>	
Cash	1,884
Prepaid	5,047
Trade and other payables	(74,220)
Exploration and evaluation costs	1,234,689
Intangible assets	161,405
	<hr/> 1,328,805

In addition to the above transaction, Confederation subscribed for 6,666,666 common shares of the Company at \$0.30 per share for gross proceeds of \$2,000,000. As at October 31, 2012, the Company has an aggregate of 51,506,666 common shares and 4,800,000 common share purchase warrants exercisable at \$0.10 per share issued and outstanding (on a non-diluted basis) and Confederation holds 56.47% of the shares and 50% of the warrants in the Company.

As at October 31, 2012, a 10% withholding tax on the gross sales price of American Potash in the amount of \$162,680 is held by the Company.

**5. OTHER ASSETS**

On November 2, 2010, American Potash agreed to amend the Sweetwater Option Agreement to remove the Arizona permits and Arizona properties from the agreement because Sweetwater wanted to grant the option to Passport Potash Inc. ("Passport") to acquire 100% of Sweetwater's rights and interest in the Arizona properties, subject to a 2% royalty, in consideration of payments. In return, Sweetwater agreed to compensate American Potash for the expenditures already incurred by allocating a portion of the option payments from Passport to American Potash. The allocation is based on a pre-determined formula. As a result, American Potash is entitled to 70.70% of the following:

i) 500,000 free trading shares (received) of Passport (the "Passport Shares") on the earlier of December 15, 2010 or within five business days of the date of receipt of the TSX Exchange acceptance of the option agreement (the "Acceptance Date"); and

**MAGNA RESOURCES LTD.**

**Notes to the Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian Dollars - unaudited)**

---

**5. OTHER ASSETS (cont'd)**

ii) Three cash payments of US\$30,000 each within 122 (received), 18 (received) and 24 (received) months of the Acceptance Date.

Under the agreement, the Arizona permits are subject to a 2% NSR royalty in favour of Sweetwater and American Potash, with Passport retaining the option to buy one-half for US\$150,000 and the remaining one-half of the royalty for an additional US\$150,000.

The allocation of the payments and the royalty to Sweetwater and American Potash is according to each of their respective percentage of total expenses incurred by them on the Arizona permits.

During the year ended July 31, 2012, Passport paid US\$60,000 as option payments to acquire a 100% interest in the Arizona exploration permits and US\$300,000 to obtain 100% of the 2% NSR royalties. American Potash's share of the received payment is US\$254,484 (CAD \$256,571) which is recorded as other income on the consolidated statements of operations and comprehensive loss.

During the year ended July 31, 2011, the Company received as consideration a 50% proportionate interest in 353,450 Passport Shares for a total of \$91,897. The market value of 50% of the 353,450 Passport Shares being 176,725 shares held by the Company, as of July 31, 2011, was \$104,268. During the year ended July 31, 2012, American Potash sold all the shares for gross proceeds of \$173,718 (USD \$172,084).

**6. EXPLORATION AND EVALUATION ASSETS**

**Green River Potash Project**

In May, 2009, and amended on November 2, 2010 and further amended on December 6, 2011, American Potash entered into an option agreement (the "Sweetwater Option Agreement") with Sweetwater River Resources LLC ("Sweetwater"), John Glasscock and Kent Ausburn (collectively called the "Optionors"), to acquire pending exploration permit applications to the United States Bureau of Land Management ("BLM") in respect of certain Utah prospects and to the State of Arizona in respect of certain Arizona prospects, together with all permits and other rights issued pursuant to the applications, to allow for the exploration of potash prospects in Utah and Arizona. As at October 31, 2012, the applications in Utah are pending approval from the BLM (See Note 6 for further details).

In 2011, American Potash acquired 160 Federal lithium placer mining claims totalling 1,295 hectares (3,200 acres) in northwestern Paradox Basin, southeast Utah, USA. These claims are located on BLM-administered Federal lands and are staked over a portion of American Potash's BLM pending potash prospecting permit areas.

In 2011, American Potash acquired eleven non-contiguous Utah State Trust Land potash lease units in the potash bearing Paradox Basin. The eleven lease units total 2,853 hectares, (7,050

**MAGNA RESOURCES LTD.****Notes to the Condensed Consolidated Interim Financial Statements****(Expressed in Canadian Dollars - unaudited)****6. EXPLORATION AND EVALUATION ASSETS (cont'd)**

acres) and are all within the boundaries of the BLM potash prospecting permit applications held by American Potash.

<b>Property Expenditures</b>	<b>Green River Potash</b>
	<b>\$</b>
<b>Mineral acquisition</b>	
Opening balance, July 31, 2011	115,515
Cash payments	18,830
	<u>134,345</u>
<b>Deferred exploration expenditures</b>	
Opening balance, July 31, 2011	57,215
Bonding	10,123
Surveys	17,827
Geological consulting	181,084
	<u>266,249</u>
<b>Reassessment exploration and evaluation asset through business acquisition (Note 4)</b>	2,534,437
<b>Balance, July 31, 2012</b>	<u>2,935,031</u>
<b>Mineral acquisition</b>	
Cash payments	<u>3,841</u>
<b>Deferred exploration expenditures</b>	
Surveys	2,124
Geological consulting	15,796
	<u>17,920</u>
<b>Foreign exchange translation adjustment</b>	(1,799)
<b>Total as at October 31, 2012</b>	<u>2,954,993</u>

**MAGNA RESOURCES LTD.**

**Notes to the Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian Dollars - unaudited)**

**7. INTANGIBLE ASSETS**

	<b>October 31, 2012</b>	<b>July 31, 2011</b>
	\$	\$
Potash Prospects Applications	592,055	480,986
	592,055	480,986

**Green River Potash Project**

In May 2009, and amended on December 6, 2011, American Potash entered into an option agreement with Sweetwater River, John Glasscock and Kent Ausburn, to acquire pending exploration permit applications to the United States Bureau of Land Management ("BLM") in respect of certain Utah prospects and to the State of Arizona in respect of certain Arizona prospects, together with all permits and other rights issued pursuant to the applications, to allow for the exploration of potash prospects in Utah and Arizona. As at June 30 2012, the applications in Utah are pending approval from the United States Bureau of Land Management.

The option agreement entitles American Potash to acquire a 100% interest in permits, subject to a 2% royalty to the Optionors which may be bought back for \$2,000,000 USD. The option may be exercised by having Company pay a total of \$270,000 USD and issue in aggregate, 4,000,000 shares of Company to the Optionors upon receiving grants of exploration permits for not less than 25,000 acres of Utah property, as follow:

- \$70,000 USD upon signing the option agreement (paid);
- 400,000 shares of Magna upon grant of the permits representing not less than 25,000 acres;
- \$50,000 USD cash and 1,200,000 shares of Magna on or before the first anniversary date;
- \$50,000 USD cash and 1,200,000 shares of Magna on or before the second anniversary date;
- \$50,000 USD cash and 1,200,000 shares of Magna on or before the third anniversary date; and
- \$50,000 USD cash on or before the fourth anniversary date.

The option period is the earlier of the fourth anniversary of the grant date or December 31, 2018. Company will pay a finder's fee in connection with this acquisition. The fee will be US \$7,000 and 40,000 shares of Company, payable on the grant date, and thereafter 10% of the cash and stock payments made under the option agreement, payable as and when such payments are made.

**MAGNA RESOURCES LTD.**

**Notes to the Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian Dollars - unaudited)**

---

**8. SHARE CAPITAL**

**a) Authorized:** Unlimited common shares with no par value

**b) Issued and outstanding:**

At October 31, 2012 there were 51,506,666 issued and fully paid common shares (July 31, 2012: 51,506,666).

**c) Common shares**

During the year ended July 31, 2011, the Company completed a non-brokered private placement raising an aggregate of \$192,000 by the issuance of 1,200,000 units ("Units") at a price of \$0.16 per Unit. Each Unit consists of one common share and one share purchase warrant ("Warrant"). Each Warrant is exercisable into one additional common share for a period of five years at a price of \$0.20 per share ("Warrant Share"), expiring February 26, 2016. The Warrants were valued at \$207,777 based on the Black Scholes model which utilizes the following assumptions: expected dividend yield of nil, expected volatility of 131%, expected life of 5 years and a risk free interest rate of 2.60%. The relative fair value allocated is \$89,091.

During the year ended July 31, 2012, The Company and Confederation signed a Purchase Agreement in respect of the acquisition by the Company of Confederation's 50% interest in American Potash.

On January 19, 2012, the Company issued 22,420,000 common shares at the fair value of \$0.20 and 2,400,000 common share purchase warrants to Confederation. Each warrant entitles the Company to purchase a further common share at a price of \$0.10 until February 25, 2016 (Also see note 4).

Also during the year ended July 31, 2012, Confederation subscribed for 6,666,666 common shares of the Company at \$0.30 per share for gross proceeds to the Company of \$2,000,000.

**d) Escrow shares**

As at October 31, 2012, all shares have been released from escrow.

**e) Stock options**

The Company has a stock option plan whereby the Company is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

On February 2, 2012, the Company granted 3,285,000 stock options to directors, officers and consultants, exercisable at \$0.40 per share for a term of five years, expiring February 2, 2017.

**MAGNA RESOURCES LTD.****Notes to the Condensed Consolidated Interim Financial Statements****(Expressed in Canadian Dollars - unaudited)****8. SHARE CAPITAL (cont'd)**  
**e) Stock options (cont'd)**

The fair value of these stock options was calculated using the Black-Scholes option pricing model. The options were valued at fair value of \$688,410 (\$0.210 per share) where the exercise price is equal to the market price at the date of grant and the fair value of each option granted, assuming a risk-free interest rate of 1.29%, a dividend yield of nil, an expected volatility of 98.51% and an average expected life of 5 years. A share-based payment expense of \$688,410 was charged to operations and added to reserves.

The continuity of stock options for the period ended October 31, 2012 is as follows:

	<b>Number of Options Outstanding</b>	<b>Weighted Average Exercise Price (\$)</b>
<b>Balance July 31, 2011 and 2010</b>	<b>857,500</b>	<b>0.25</b>
Granted, exercisable on or before February 2, 2017	3,285,000	0.40
<b>Balance, October 31, 2012 and July 31, 2012</b>	<b>4,142,500</b>	<b>0.37</b>

The options outstanding and exercisable at July 31, 2012, are as follows:

<b>Number Outstanding</b>	<b>Weighted Average Exercise Price (\$)</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>
857,500	0.25	1.65
3,285,000	0.40	4.25
4,142,500	0.37	3.71

**f) Share purchase warrants**

In January 2012, the Company issued 2,400,000 common share purchase warrants pursuant to the Purchase Agreement with Confederation. Each warrant entitles Confederation to purchase a further common share at a price of \$0.10 until February 25, 2016. The fair value of these warrants was calculated using the Black-Scholes option pricing model. The warrants were valued at fair value of \$327,600 where the exercise price is equal to the market price at the date of grant and the fair value of each warrant granted, assuming a risk-free interest rate of 1.25%, a dividend yield of nil, an expected volatility of 100.01% and an average expected life of 2 years.

**MAGNA RESOURCES LTD.****Notes to the Condensed Consolidated Interim Financial Statements****(Expressed in Canadian Dollars - unaudited)****8. SHARE CAPITAL (cont'd)**  
**f) Share purchase warrants (cont'd)**

The continuity of warrants for the period ended October 31, 2012 is as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price (\$)</b>
Balance, July 31, 2010	-	-
Issued, exercisable on or before February 25, 2016	2,400,000	0.10
<b>Balance, July 31, 2011</b>	<b>2,400,000</b>	<b>0.10</b>
Issued, exercisable on or before February 25, 2016	2,400,000	0.10
<b>Balance, October 31, 2012 and July 31, 2012</b>	<b>4,800,000</b>	<b>0.10</b>

**9. RELATED PARTY TRANSACTIONS**

The following directors and/or senior officers transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. The aggregate value of transactions and outstanding balances relating to key management personnel were as follows:

<b>Service provided by:</b>	<b>October 31, 2012</b>	<b>October 31, 2011</b>
Alexander Peck	a) 3,000	-
St. Cloud Mining Services Inc.	b) 15,000	15,000
Mike Sieb	c) 37,500	-
Global Mining Services Inc.	d) 12,405	-
	67,905	15,000

a) Alexander Peck, the CFO of the Company provided management services to the Company.

b) St. Cloud Mining Services Inc. is a privately held corporation controlled by a director who provided consulting services to the Company.

c) Mike Sieb, the president of the Company provided management services to the Company

d) Global Mining Services Inc. is a privately held corporation controlled by a director, who provided services to American Potash LLC.

**MAGNA RESOURCES LTD.**

**Notes to the Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian Dollars - unaudited)**

---

**9. RELATED PARTY TRANSACTIONS (cont'd)**

	<b>October 31, 2012</b>		<b>October 31, 2011</b>
	<b>\$</b>		<b>\$</b>
Global Mining Services Inc.	6,002	*	-
St. Cloud Mining Services Inc.		*	30,000
Confederation Minerals Ltd.	121,839	**	-
	<u>133,302</u>		<u>25,000</u>

\*The balance is included in accounts payable and accrued liabilities.

\*\*The balance included \$162,680 withholding tax receivable and \$40,841 shareholder's loan which is unsecured, non-interest bearing, and payable on demand.

A director of the Company is a party to the Sweetwater Option Agreement with American Potash LLC.

Also see Note 4 and 10.

**10. COMMITMENTS**

- a) See Note 5.
- b) On April 1, 2011, American Potash renewed a consulting agreement with an independent party to provide advice and consultation to American Potash regarding exploration, leasing and mining on public lands. Compensation is \$5,000 USD for 35 hours of service per month for a period of one year. Additional hours to complete services will be billed at \$165 USD per hour.
- c) On June 1, 2011, the Company entered into an agreement with St. Cloud Mining Services Inc. (wholly owned by one of the directors), to provide management/consulting services to the Company.
- d) On January 1, 2012, the Company entered into an agreement with Alec Peck to provide consulting services as CFO of the Company.
- e) On September 1, 2012, American Potash LLC entered into an agreement with Global Mining Services (wholly owned by one of the directors) to provide services as Chief Operating Officer of American Potash LLC.



**MAGNA RESOURCES LTD.****Notes to the Condensed Consolidated Interim Financial Statements****(Expressed in Canadian Dollars - unaudited)****11. FINANCIAL INSTRUMENTS**

## (a) Fair Values

Financial instruments recognized at fair value on the consolidated statement of financial position must be classified in one of the following three fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability; or

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated statements of financial position are as follows:

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at October 31, 2012	\$	\$	\$
Cash and cash equivalents	58,936	-	-
Short term investments	1,090,037	-	-
Total	1,148,973	-	-

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at July 31, 2012	\$	\$	\$
Cash and cash equivalents	-	-	-
Short term investments	1,484,273	-	-
Total	1,484,273	-	-

The fair values of other financial instruments, which include other receivable, other assets, bank indebtedness, accounts payable and accruals and due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

## (b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and short-term investments. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit

**MAGNA RESOURCES LTD.****Notes to the Condensed Consolidated Interim Financial Statements****(Expressed in Canadian Dollars - unaudited)****11. FINANCIAL INSTRUMENTS (cont'd)**

quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

**(c) Foreign Exchange Rate Risk**

The functional currency of the Company's subsidiary American Potash is the US dollar. Foreign currency risk arises from the fluctuation in currency exchange between the Canadian dollar and US dollar. The Company has not entered into financial instruments to hedge against this risk.

**(d) Liquidity Risk**

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

Contractual maturity analysis is as follows:

	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Total
	\$	\$	\$	\$	\$
<b>October 31, 2012</b>					
Accounts payable and accrued liabilities	78,113	-	-	-	78,113
Due to related parties	-	40,841	-	-	40,841
<b>July 31, 2012</b>					
Bank indebtedness	65,788	-	-	-	65,788
Accounts payable and accrued liabilities	85,310	-	-	-	85,310
Due to related parties	-	42,486	-	-	42,486
<b>October 31, 2011</b>					
Accounts payable and accrued liabilities	82,153	-	-	-	82,153

**(e) Price Risk**

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

**(f) Interest Rate Risk**

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest bearing assets in relation to cash at banks carried at floating interest rates with reference to the

**MAGNA RESOURCES LTD.**

**Notes to the Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian Dollars - unaudited)**

---

**11. FINANCIAL INSTRUMENTS (cont'd)**

market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instrument to hedge potential fluctuations in interest rates. The exposure to interest rates for the Company is considered immaterial. As at October 31, 2012, the Company has in total \$1,090,037 (July 31, 2012: \$1,484,273) in guaranteed investment certificates.

The policies to manage interest rate risk have been followed by the Company during prior periods and are considered to be effective.

**12. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. 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 Company has not generated any revenues since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of working capital and shareholders' equity. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. The Company is not subject to externally imposed capital requirements.

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

**13. SEGMENTAL INFORMATION**

The Company's activities are all in one industry segment of mineral property acquisition and exploration. The Company's mining operations are centralized whereby management of the Company is responsible for business results and the everyday decision-making. The Company's operations therefore are segmented on a geographic basis. All of the Company's resource properties are located in the United States. The Company's total assets are located in the following geographic locations:

	<b>October 31, 2012</b>	<b>July 31, 2012</b>
Canada	\$ 1,354,250	\$ 1,750,634
United States	3,551,280	3,360,971
	<u>\$ 4,905,530</u>	<u>\$ 5,111,605</u>

**MAGNA RESOURCES LTD.**

**Notes to the Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian Dollars - unaudited)**

---

**14. SUBSEQUENT EVENTS**

Further to the Company's news release issued on December 4, 2012, on December 19, 2012, Confederation Minerals Ltd. received an order from the Supreme Court of British Columbia approving the distribution of 21,086,656 common shares in the share capital of the Company (the "Magna Shares"), on a pro rata basis, to the Confederation shareholders of record as of November 27, 2012 of common shares of Confederation. The distribution of the Magna Shares by Confederation will result in Confederation no longer maintaining a control block of the Company. Confederation expects to complete the distribution of Magna Shares on December 24, 2012.

**15. COMPARATIVE INFORMATION**

Certain comparative information has been reclassified to conform with the presentation adopted in the current period.