

Luri Gold Limited
(A Development Stage Company)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
OCTOBER 31, 2011 AND 2010**

(Stated in Australian Dollars)



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Luir Gold Limited

We have audited the accompanying consolidated financial statements of Luir Gold Limited and its subsidiaries, which comprise the consolidated balance sheets as at October 31, 2011 and 2010, and the consolidated statements of shareholders' equity, consolidated statements of operations, comprehensive loss and deficit, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Luir Gold Limited and its subsidiaries as at October 31, 2011 and 2010, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
January 25, 2012

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Luri Gold Limited
(A Development Stage Company)
Consolidated Balance Sheets
(expressed in Australian dollars)

As at October 31,	2011 \$	2010 \$ (Note 3)
ASSETS		
Current Assets		
Cash and equivalents	2,727,167	3,545,485
Amounts receivable	49,469	160,857
Advances and prepaid expenses	5,650	15,176
	2,782,286	3,721,518
Mineral Properties (Note 8)	715,209	75,352
Equipment (Note 9)	63,010	52,297
	3,560,505	3,849,167
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	755,228	300,308
	755,228	300,308
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)	20,731,748	18,700,498
Contributed Surplus (Note 13)	5,446,678	5,072,043
Currency Translation Adjustments	(1,601,125)	(1,329,589)
Deficit	(21,772,024)	(18,894,093)
	2,805,277	3,548,859
	3,560,505	3,849,167
Going Concern (Note 2)		
Commitments and Contingencies (Note 14)		

APPROVED ON BEHALF OF THE BOARD

signed "Evan Kirby"

Evan Kirby, Director

signed "Michael Langoulant"

Michael Langoulant, Director

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

Luri Gold Limited
(A Development Stage Company)
Consolidated Statement of Shareholders' Equity
(expressed in Australian dollars)

	Share Capital #	Share Capital \$	Contributed Surplus \$	Share Purchase Warrants \$	Deficit \$	Currency Translation Adjustments \$	Shareholders' Equity \$
Balance – October 31, 2009	71,556,905	11,605,474	4,408,015	445,904	(13,995,084)	(1,424,743)	1,039,567
Shares issued on fundraising, net of issuance costs of \$738,428	40,000,000	7,261,572	-	-	-	-	7,261,572
Valuation of agents options granted on fundraising	-	(166,548)	166,548	-	-	-	-
Stock option compensation expense	-	-	51,576	-	-	-	51,576
Valuation of warrants expired	-	-	445,904	(445,904)	-	-	-
Currency translation adjustments	-	-	-	-	-	95,154	95,154
Net loss for the year	-	-	-	-	(4,899,009)	-	(4,899,009)
Balance – October 31, 2010	111,556,905	18,700,498	5,072,043	-	(18,894,093)	(1,329,589)	3,548,859
Shares issued on fundraising	15,875,000	2,031,250	-	-	-	-	2,031,250
Stock option compensation expense	-	-	374,635	-	-	-	374,635
Currency translation adjustments	-	-	-	-	-	(271,536)	(271,536)
Net loss for the year	-	-	-	-	(2,877,931)	-	(2,877,930)
Balance – October 31, 2011	127,431,905	20,731,748	5,446,678	-	(21,772,024)	(1,601,125)	2,805,277

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

Luri Gold Limited

(A Development Stage Company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

(expressed in Australian dollars)

For the years ended October 31	2011 \$	2010 \$ (Note 3)
Expenses		
Consulting and advisory fees	674,053	45,584
Mineral properties expenses	407,214	3,777,171
Professional fees	394,488	215,950
Stock-based compensation (Note 12)	374,635	51,106
Management fees	318,569	322,661
Office and administration	210,744	90,723
Employee expenses	208,233	-
Investor relations	162,305	304,168
Travel and accommodation	105,671	101,672
Transfer agent and filing fees	82,404	107,379
Directors fees (Note 15)	61,693	131,105
Insurance	35,137	22,264
Amortization	10,527	12,589
Loss for the year before the undernoted	(3,045,673)	(5,182,372)
Interest income	128,689	232,081
Foreign exchange gain	39,053	51,282
Net loss and comprehensive loss for the year	(2,877,931)	(4,899,009)
Deficit – beginning of year	(18,894,093)	(13,995,084)
Deficit – end of year	(21,772,024)	(18,894,093)
Loss per share - basic and diluted	(0.02)	(0.04)
Weighted average number of common shares - basic and diluted	115,816,152	109,693,891

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

Luri Gold Limited
(A Development Stage Company)
Consolidated Statements of Cash Flows
(expressed in Australian dollars)

For the years ended October 31	2011 \$	2010 \$ (Note 3)
Cash and cash equivalents provided by (used in)		
Operating Activities		
Net loss for the year	(2,877,931)	(4,899,009)
Adjustments for non-cash items:		
Amortization	10,527	12,589
Stock-based compensation (Note 12)	374,635	51,106
Foreign exchange	(271,536)	95,154
Changes in non-cash working capital items:		
Amounts receivable	111,388	(64,982)
Advances and prepaid expenses	9,526	25,860
Accounts payable and accrued liabilities	163,545	(230,229)
Net cash used in Operating Activities	<u>(2,479,846)</u>	<u>(5,009,511)</u>
Financing Activities		
Issuance of common shares and warrants	2,031,250	7,999,925
Share issue costs	-	(469,276)
Deferred financing costs	-	(169,788)
Net cash provided from Financing Activities	<u>2,031,250</u>	<u>7,360,861</u>
Investing Activities		
Expenditures on mineral properties	(348,482)	-
Acquisition of property and equipment	(21,240)	(6,657)
Net cash used in Investing Activities	<u>(369,722)</u>	<u>(6,657)</u>
Change in cash and equivalents	(546,782)	2,249,539
Cash and equivalents - beginning of year	<u>3,545,485</u>	<u>1,200,792</u>
Cash and equivalents - end of year	<u><u>2,727,167</u></u>	<u><u>3,545,485</u></u>
Cash and equivalents consists of:		
Cash	959,663	378,910
Equivalents	1,767,504	3,166,575
	<u>2,727,167</u>	<u>3,545,485</u>
Supplemental information		
Interest and taxes paid	-	-
Change in accrued deferred financing costs	-	(161,533)
Change in accrued mineral properties expenditures	(291,375)	
Agent options	-	166,548

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

Luri Gold Limited
(A Development Stage Company)
Notes to Consolidated Financial Statements
October 31, 2011 and 2010
(expressed in Australian dollars)

1. Nature of Operations and Basis of Presentation

Luri Gold Limited (the "Company") was incorporated on February 3, 2004, in the Province of British Columbia under the British Columbia Business Corporations Act and is currently engaged in the acquisition, exploration and development of mineral properties. To date, the Company has not earned revenues and is considered to be in the development stage, as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11.

The Company is in the process of exploring its mineral property interests in Zambia, Continent of Africa, and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's continuing operations, the underlying value and the recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests and on future profitable production or proceeds from the disposition of the mineral property interests. The business of exploring for and mining of minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. 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 on which it is conducting exploration and 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 unregistered prior agreements, unregistered claims, other land claims and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

2. Going Concern

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, which assumes that the Company will be able to 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. Accordingly, these consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

As at October 31, 2011, the Company had no source of operating cash flow and has an accumulated deficit of \$21,772,024 (October 31, 2010 - \$18,894,093). Operations for the year ended October 31, 2011 have been funded primarily from the issuance of common shares. The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing, the discovery, development or sale of mining reserves and the achievement of profitable operations. The Company is planning to meet its future expenditures and obligations by raising funds through public offerings, private placements or by farm-outs of its mineral property interests. It is not possible to predict whether these efforts will be successful or whether the Company will attain profitable levels of operation.

Continued...

Luri Gold Limited
(A Development Stage Company)
Notes to Consolidated Financial Statements
October 31, 2011 and 2010
(expressed in Australian dollars)

3. Changes in Accounting Policies

Changes in accounting policy of capitalizing mineral properties

Effective October 31, 2011, the Company changed its accounting policy of capitalizing mineral properties costs in order to provide more reliable and relevant financial information. Under the new policy, which is in accordance with CICA Handbook section 3061, mineral properties costs other than costs associated with acquiring and maintaining title to the properties are expensed until it has been established that a mineral deposit is commercially viable and a mine development decision has been made by the Company.

Thereafter, the Company capitalises expenditures subsequently incurred to develop the mine, prior to the start of mining operations. The consolidated financial statements for the year ended October 31, 2010 have been restated to reflect adjustments made as a result of this change in accounting policy. The accumulated effect of the change has been reflected in the opening deficit of the consolidated financial statements for the year ended October 31, 2011.

Change in Functional and Reporting Currency

Effective May 1, 2011, as a result of various operational changes, the Company determined that its functional currency had changed from the Canadian dollar to the Australian dollar.

The Company also changed reporting currency from the Canadian dollar to the Australian dollar, effective May 1, 2011 concurrently with the change in functional currency, in order to provide more meaningful information to its financial statement users. To effect this conversion the prior period comparative figures have been translated from Canadian dollars to Australian dollars using the current rate method. Using this method assets and liabilities are translated using the year end rate of exchange and revenues and expenses are translated using the average rate of exchange for the year. The related foreign exchange gains and losses arising on this translation are included in shareholders' equity as currency translation adjustments.

The change in functional currency is based upon the fact that the vast majority of the Company's operating, investing and financing activities are now conducted in Australian dollars. Specifically, the majority of the Company's shareholders are Australian residents, the Company's main corporate office is now located in Australia, the majority of its cash assets are now held in Australian dollars and all non-exploration assets are now held in Australia.

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Luri Gold Limited
(A Development Stage Company)
Notes to Consolidated Financial Statements
October 31, 2011 and 2010
(expressed in Australian dollars)

3. Change in Accounting Policies (Continued)

The following is a reconciliation of the Company's consolidated balance sheet as at October 31, 2010 and consolidated statements of operations, comprehensive loss and deficit and cash flows for the year then ended reflecting the impact of these restatements:

	For the year ended October 31, 2010		
	As Previously Reported \$	Adjustment \$	As Restated \$
Balance Sheet			
Current assets	3,735,714	(14,196)	3,721,518
Mineral properties	12,623,314	(12,547,962)	75,352
Equipment	52,496	(199)	52,297
Total assets	16,411,524	(12,562,357)	3,849,167
Current liabilities	301,454	(1,146)	300,308
Future income tax liability	335,000	(335,000)	-
Total liabilities	636,454	(336,146)	300,308
Share capital	16,934,233	1,766,265	18,700,498
Contributed surplus	4,496,940	575,103	5,072,043
Currency translation adjustments	39,419	(1,369,008)	(1,329,589)
Deficit	(5,695,522)	(13,198,571)	(18,894,093)
Total shareholders' equity	15,775,070	(12,226,211)	3,548,859
Total liabilities and shareholders' equity	16,411,524	(12,562,357)	3,849,167
Statement of Operations			
Exploration expenses	-	3,777,171	3,777,171
Incomes tax recovery	256,000	(256,000)	-
Net loss for the year	797,674	4,101,335	4,899,009
Loss per share – basic and diluted	0.01	0.03	0.04
Statement of Cash Flows			
Cash flows from operating activities	(932,300)	(4,077,211)	(5,009,511)
Cash flows from financing activities	7,029,692	331,169	7,360,861
Cash flows from investing activities	(3,868,387)	3,861,730	(6,657)

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Luri Gold Limited
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Notes to Consolidated Financial Statements
October 31, 2011 and 2010
(expressed in Australian dollars)

4. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles consistently applied, except as disclosed. Outlined below are those policies considered particularly significant.

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. The Company regularly reviews the estimates and assumptions that affect the consolidated financial statements and actual results could differ from those estimates. Significant areas where management's judgment is applied are asset valuations, the recoverability of exploration and development expenditures on mineral properties, the valuation of stock-based compensation, warrants, tax accounts, asset retirement obligations and contingent liabilities. The valuation of mineral properties is subject to various risks and uncertainties related to ownership rights. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented are reflected in the consolidated financial statements. Actual results could differ from those estimated.

(c) Mineral Properties

Direct property acquisition costs and holding costs are deferred until the properties to which they relate are brought into production, at which time they will be amortized on a unit of production basis, or until the properties are sold, abandoned or allowed to lapse, at which time they will be written off.

Costs include the cash consideration paid and the fair market value of the shares as they are issued, if any, on the acquisition of mineral properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. Any proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year.

All other exploration costs are charged to operations.

The recorded amounts for acquisition costs of properties represent actual expenditures incurred and are not intended to reflect present or future values. The Company, however, reviews the capitalized costs on its properties on a periodic basis and will recognize an impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Continued...

Luri Gold Limited
(A Development Stage Company)
Notes to Consolidated Financial Statements
October 31, 2011 and 2010
(expressed in Australian dollars)

4. Significant Accounting Policies (Continued)

(d) Foreign Currency Translation

During the year the Company changed its functional currency from the Canadian dollar to the Australian dollar. The Company considers its Zambian operations to be integrated operations. As such, monetary assets and liabilities of the Company's foreign operations denominated in a currency other than the Australian dollar are translated into Australian dollars at the exchange rate prevailing as at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenue and expenses are translated at the average exchange rates prevailing during the year, with the exception of depreciation and amortization, which are translated at historical rates. Exchange gains and losses on translation are charged to operations.

(e) Cash and Equivalents

Cash and equivalents include cash on account and highly liquid investments with a term to maturity of three months or less at the date of purchase.

(f) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is provided on a diminishing value basis over the estimated useful life at the following annual rates:

Equipment	15.0%
Motor Vehicles	25.0%
Office Furniture and Equipment	10.0% or 30.0%

(g) Asset Retirement Obligations

The Company's mineral exploration and development activities are subject to various Zambian laws and regulations regarding the protection of the environment. As a result of these, the Company is expected to incur expenses from time to time to discharge its obligations under these laws and regulations.

Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory and operating licence requirements and measured at fair value. Fair value is determined based on the net present value of future cash expenditures expected upon reclamation and closure and subsequent annual recognition of an accretion amount on the discounted liability. Reclamation and closure costs are capitalized as property development costs and amortized over the life of the mine on a unit-of-production basis. Management is not aware of any legal obligations relating to the reclamation of its mineral properties.

(h) Income Taxes

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Continued...

Luri Gold Limited
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Notes to Consolidated Financial Statements
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(expressed in Australian dollars)

4. Significant Accounting Policies (Continued)

i) Stock-Based Compensation

Stock-based payments are accounted for using a fair value-based method of accounting. The fair value of each stock option is accounted for in operations, over the vesting period thereof, and the related credit is included in contributed surplus. If and when the stock options are ultimately exercised and shares are issued, the applicable units of contributed surplus will be transferred to share capital. The fair value is calculated based on the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable.

Common shares issued for non-monetary consideration are recorded at their fair market value based on the trading price of the Company's shares on the Australian Securities Exchange ("ASX") or the TSX Venture Exchange.

(j) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings (loss) per share, according to the treasury stock method, assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share. Stock options and share purchase warrants outstanding were not included in the computation of diluted earnings (loss) per share as their inclusion would be anti-dilutive.

(k) Financial Instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

Continued...

Luri Gold Limited
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Notes to Consolidated Financial Statements
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4. Significant Accounting Policies (Continued)

(l) Comprehensive Income (Loss)

Comprehensive income (loss), composed of net income (loss) and other comprehensive income (loss), is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income (loss) for the Company includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income (loss) are disclosed in the statement of operations and comprehensive income (loss). Cumulative changes in other comprehensive income (loss) are included in accumulated other comprehensive income ("AOCI").

5. Future Change in Accounting Standards

International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008, the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2012. The Company has created an implementation team, which consists of internal resources and external consultants. A changeover plan is being established to convert to the new standards within the allotted timeline. The Company continues to evaluate the impact this will have on the Company's financial statements.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective November 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The CICA concurrently issued Section 1601 "Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Financial Statements."

Section 1601 provides revised guidance on the preparation of financial statements and Section 1602 addresses accounting for non-controlling interests in financial statements subsequent to a business combination. These standards are effective November 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The adoption of these standards is not expected to have a material effect on the Company's financial statements.

Continued...

Luri Gold Limited
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6. Capital Management

The Company defines the capital that it manages as its shareholders' equity. As at October 31, 2011 total shareholders' equity (managed capital) was \$2,805,277 (2010 - \$3,548,859). As a development company, 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 and as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay the administrative costs, the Company will spend its existing working capital and will attempt to 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.

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 periods ended 2011 and 2010. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

7. Financial Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous period.

Credit risk

The Company's credit risk is primarily attributable to cash and equivalents in current assets. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of term deposits, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Amounts receivable consist of goods and services tax due from the Federal Government of Canada and the Australian government, VAT due from the Government of Zambia and receivables from unrelated companies. Management believes that the credit risk concentration with respect to financial instruments is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2011, the Company has a cash and equivalents balance of \$2,727,167 (October 31, 2010 - \$3,545,485) to settle current liabilities of \$755,228 (October 31, 2010 - \$300,308). All of the Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

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Luri Gold Limited
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(expressed in Australian dollars)

7. Financial Risk Factors (Continued)

Market risk

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign Currency risk

The Company's functional currency is the Australian dollar as major transactions are in Australian dollars. The Company funds certain operations, exploration and administrative expenses in Zambia on a cash call basis using US dollar currency converted from its Australian dollar bank accounts held in Australia. The Company also incurs certain operating expenses in Canadian dollars and British pounds. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not currently hedge its foreign exchange risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Fair Values

Canadian GAAP requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying value of cash equivalents, amounts receivable and accounts payable and accrued liabilities approximate fair value because of the limited term of these instruments. At October 31, 2011, the Company's financial instruments that are carried at fair value, consisting of cash equivalents have been classified as follows within the fair value hierarchy: Level 2 - \$1,767,504. (2010 - \$3,166,575)

Sensitivity analysis

The Company has designated its cash equivalents as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the next three months:

- Cash equivalents include deposits at call, which are at variable rates. Sensitivity to a 1% change in rates would have a corresponding impact on net loss of approximately \$27,000, based on current cash equivalents balances.
- A 10% increase in foreign exchange rates relative to the Australian dollar would have impacted net loss for the year by approximately \$10,000.
- Price risk is remote since the Company is not a producing entity.

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8. Mineral Properties

The cumulative acquisition costs of the Company's interest in its Zambian mineral properties are as follows:

	Year ended October 31 2011 \$	Year ended October 31 2010 \$
Balance, beginning of the year	75,352	75,352
Incurred in the year	639,857	-
	715,209	75,352
Balance, end of the year	715,209	75,352

Luir Hill Project, Zambia

The Company's Zambian tenements together constitute the Company's "Luir Hill Project", which the Company is exploring for gold and copper-gold deposits.

In May 2010, the Zambian Department of Mines and Mineral Development ("Mines Department") advised the Company that it was in default of its mining license LML 48 which was cancelled. Notwithstanding the Company's initial unsuccessful legal appeal to this decision, an extensive period of negotiations with all stakeholders resulted in the tenement being re-instated in October 2011. This area has been renewed as mining licence 8074-HQ-LML. See Note 14.

Negotiations are continuing with the Zambian Government in regard to its other previously held licence areas.

9. Equipment

	October 31, 2011			October 31, 2010		
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Cost \$	Accumulated Amortization \$	Net Book Value \$
Motor Vehicles, Office Furniture and Equipment	128,065	(65,055)	63,010	108,955	(56,658)	52,297
	128,065	(65,055)	63,010	108,955	(56,658)	52,297

During the year ended October 31, 2011, the Company recorded \$54,528 (2010 - \$44,069) of amortization expenses to mineral properties expenses.

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10. Share Capital

Authorized:

Unlimited number of common shares without par value.

Issued:

	Number of Shares #	Amount \$
Balance, October 31, 2009	71,556,905	11,605,474
Funds received for shares, net of offering costs	40,000,000	7,095,024
Balance, October 31, 2010	111,556,905	18,700,498
Funds received for shares, net of offering costs	15,875,000	2,031,250
Balance, October 31, 2011	127,431,905	20,731,748

Private Placements

In October 2011, the Company completed a private placement of 10,000,000 shares at \$0.115 per share, raising \$1,150,000. There were no share issues costs incurred related to this private placement.

In February 2011, the Company completed a private placement of 5,875,000 shares at \$0.15 per share, raising \$881,250. There were no share issues costs incurred related to this private placement.

Australian Listing and Fundraising

In November 2009, the Company completed an ASX listing and fundraising of \$8,000,000 through the issuance of 40,000,000 shares at \$0.20 each. The Company incurred finance costs of \$738,428 related to this fundraising, of which \$280,472 was accrued as deferred finance costs at October 31, 2009. The Company also granted agent options with a fair value of \$166,548 in relation to the fundraising.

11. Share Purchase Warrants

The following summarizes the share purchase warrant activity during 2010 and 2011:

	Number of Warrants #	Weighted Average Exercise Price \$ per share	Estimated Grant Date Fair Value \$
Balance, October 31, 2009	3,000,000	0.91	445,904
Expired	(3,000,000)	0.91	(445,904)
Balance, October 31, 2010	-	-	-
Movements	-	-	-
Balance, October 31, 2011	-	-	-

There are no share purchase warrants outstanding at October 31, 2011.

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12. Stock-Based Compensation

The Company may grant incentive stock options to its officers, directors, employees and consultants, for the purchase of up to 10% of the outstanding number of common shares of the Company. Stock options are non-transferable. The Board of Directors of the Company determines the exercise price, but it may be no less than the current market price at the time of the grant. Options have a maximum term of five years and terminate 90 days after the termination of employment or other contracting arrangement of the option holder. Vesting of options may be at the time of granting of the option or over a period as set out in each option agreement. Once approved and vested, stock options are exercisable at any time until expiry or termination as described above. The Company records the stock-based compensation expense over the vesting term of the options granted.

In August 2011, 800,000 options were issued to an employee as part of his compensation. The options are exercisable at \$0.17 on or before June 30, 2015. The stock options vest on August 31, 2012 subject to continuity of employment obligations. A share compensation expense of \$13,473 was recorded and added to contributed surplus in shareholders' equity on the balance sheet. The fair value of options was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.2% per annum, expected volatility of 130%, expected dividend rate of \$nil and an expected life of 3.83 years.

In June 2011, 8,000,000 options were issued as an incentive to directors. The options are exercisable at \$0.17 on or before June 30, 2015. The stock options vest on July 17, 2012 subject to continuity of employment obligations. A share compensation expense of \$361,162 was recorded and added to contributed surplus in shareholders' equity on the balance sheet. The fair value of options was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 2.2% per annum, expected volatility of 119%, expected dividend rate of \$nil and an expected life of 3.5 years.

On November 13, 2009, 1,000,000 options were issued as part of the Australian fundraising. The options are exercisable for a period of thirty months at a price of \$0.20 per common share. The stock options vested immediately and \$166,548 was recorded as offering costs against the proceeds of the financing. The fair value of options was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.39% per annum, expected volatility of 100%, expected dividend rate of \$nil and an expected life of 2.5 years.

On April 1, 2010, 300,000 options were issued to an employee as part of his compensation. The options are exercisable for a period of sixty months at a price of 100,000 options at \$0.45, \$0.65 and \$0.85 per common share. The stock options vested immediately and \$51,106 was recorded as a compensation expense and added to contributed surplus in shareholders' equity on the balance sheet. The fair value of options was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 3.04% per annum, expected volatility of 100%, expected dividend rate of \$nil and an expected life of 5 years.

The exercise price of all share purchase options granted was greater than or equal to the market price at the grant date.

Option pricing models require the input of highly subjective assumptions. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing model does not necessarily provide a reliable measure of the fair value of the Company's options at the date of grant.

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12. Stock-Based Compensation (Continued)

The following summarizes the stock option activity during 2010 and 2011:

	October 31, 2011		October 31, 2010	
	Number of Options #	Weighted average exercise price \$ per share	Number of Options #	Weighted average exercise price \$ per share
Balance, beginning of the year	3,703,500	0.48	3,803,500	0.52
Granted	8,800,000	0.17	1,300,000	0.30
Expired	(2,403,500)	(0.49)	(1,400,000)	(0.43)
Balance, end of the year	10,100,000	0.19	3,703,500	0.48

The weighted average grant date fair value of options granted during 2011 was \$0.13 (2010 - \$0.16).

Summary of stock options outstanding as at October 31, 2011:

Expiry Date	Options Outstanding #	Options Exercisable #	Exercise Price \$	Estimated Grant Date Fair Value \$
May 13, 2012	1,000,000	1,000,000	0.20	166,548
April 1, 2015	100,000	100,000	0.45	18,267
April 1, 2015	100,000	100,000	0.65	17,192
April 1, 2015	100,000	100,000	0.85	16,118
June 30, 2015	8,800,000	Nil	0.17	1,146,875
	10,100,000	1,300,000		1,365,000

13. Contributed Surplus

The following summarizes the contributed surplus activity during 2010 and 2011:

	October 31, 2011 \$	October 31 2010 \$
Balance, beginning of the year	5,072,043	4,408,015
Value of stock options granted	374,635	218,214
Value of expired warrants	-	445,904
Balance, end of the year	5,446,678	5,072,043

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14. Commitments and Contingencies

Under the terms of non-cancellable operating leases, the Company is committed to rental payments of \$22,000 due within one year.

The Company is party to certain management contracts that expire in June 2012. Commitments under these contracts approximate \$95,000 due within one year.

In conjunction with the mineral properties settlement agreement with the Zambian government (Note 7), the Company has made formal commitments to the local communities in relation to community development programs during the exploration phase of the project.

These commitments of the Company include:

- Initial funding of a community development trust fund (the "Community Fund"), which is to be established, with the Company responsible for the following:
 - payment of US\$150,000 to the Community Fund; and
 - issuance to the Community Fund of shares of the Company having a value equivalent to 5% of the market value of the project, based on an independent valuation of the project at the date of issue. The issuance of such shares shall be subject to regulatory approval and shareholder approval, if required.
- Facilitation and funding of a local community development committee. This committee will monitor and administer the funding of social development projects and activities within a certain area of the project.

As of October 31, 2011, no payments of cash or shares have been made to the Community Fund. As at October 31, 2011, the Company had accrued for the US\$150,000 payment that is to be made to the Community Fund. As the timing of the issuance of shares of the Company to the Community Fund is not determinable, there is no reasonable method to estimate the number of shares or valuation of the project and shares that are to be issued. As a result, no accrual related to the contingent share issuance has been made as at October 31, 2011.

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

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15. Related Party Transactions

Related party transactions occurred in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. The following amounts were paid to related parties during the year ended October 31, 2011:

- Palace Trading Limited, a company associated with the Company's current Chairman, was paid \$80,000 (2010 - Nil) for the Chairman's corporate and management services;
- Metallurgical Management Services Pty Ltd, a company associated with the Company's current CEO, was paid \$52,500 (2010 - Nil) for the CEO's management services;
- Lanza Holdings Pty Ltd, a company associated with the Company's current CFO, was paid \$33,333 (2010 - Nil) for the CFO's corporate and accounting services;
- Westland Corporate Pty Ltd, a company associated with a non-executive director, was paid \$55,250 (2010 - \$75,642) for the services of the Company's ex-CFO; and
- Global Management Services Pty Ltd, a company associated with the Company's previous CEO, was paid \$23,600 for the services of the Company's past-CEO. In addition the Company's past-CEO received \$172,547 (2010 - \$147,462) in wages as a full time employee of the Company until his resignation.

Directors' fees are paid on the basis of \$3,333 per month for the Chairman and \$2,500 per month for other directors. For the year ended October 31, 2011 the Company paid directors fees of \$61,693. (2010 - \$123,137).

16. Segmented Information

The Company considers its business to consist of three geographical segments, Zambia, the corporate head office in Australia and a registered office in Canada.

Geographic segmentation of the Company's assets is as follows:

	October 31 2011 \$	October 31 2010 \$
Canada	-	280,604
Australia	2,706,374	3,283,790
Zambia	854,131	284,773
	3,560,505	3,849,167

All of the Company's mineral properties are located in Zambia.

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17. Income Taxes

(a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 29% (2010 – 31%) were as follows:

	<u>2011</u>	<u>2010</u>
Loss before income taxes	<u>2,877,931</u>	<u>4,899,009</u>
Expected income tax benefit based on statutory rate	826,000	1,519,000
Adjustments to benefit resulting from:		
Share issue costs	-	177,000
Expired non-capital losses	(271,000)	-
Stock-based compensation	(94,000)	(12,000)
Non-deductible mineral properties	(192,000)	
Differences in income tax rates	(107,000)	(294,000)
Change in income tax rates	-	(430,000)
Change in foreign exchange rates	(250,000)	(284,000)
Other	(262,000)	(233,000)
Change in valuation allowance	350,000	(443,000)
Provision for income taxes	<u>-</u>	<u>-</u>

(b) Future Income Tax Balances

The tax effects of temporary differences that give rise to future income tax assets and liabilities in Canada approximate the following:

	<u>2011</u>	<u>2010</u>
Future income tax assets (liabilities)		
Non-capital losses	4,181,000	4,269,000
Mineral properties	(215,000)	(23,000)
Fixed assets	(17,000)	(13,000)
Share issue costs	123,000	189,000
Valuation allowance	(4,072,000)	(4,422,000)
Future income tax liabilities	<u>-</u>	<u>-</u>

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17. Income Taxes (Continued)

(c) Income Tax Loss Carry-Forwards

The following table summarizes the non-capital losses of the Company in Canada and Zambia, along with their expiry dates, which may be used, under certain circumstances, to reduce taxable income of future years:

<u>Expiry Date</u>	<u>Canada</u>	<u>Zambia</u>
2012	-	271,000
2013	-	2,481,000
2014	18,000	1,838,000
2015	101,000	1,058,000
2016	-	2,647,000
2017	-	855,000
2026	465,000	-
2027	537,000	-
2028	813,000	-
2029	664,000	-
2030	1,064,000	-
2031	2,080,000	-
	<u>5,742,000</u>	<u>9,825,000</u>

The loss carry-forwards in Zambia of \$9,825,000 have been converted based on a Kwacha balance of approximately K\$50,501,851. The loss carry-forwards in Canada of \$5,742,000 have been converted based on a Canadian dollar balance of approximately C\$6,089,331.

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