

# **ADVANCE GOLD CORP.**

## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**August 31, 2012**

**(Unaudited)**

*(Expressed in Canadian dollars)*

**MANAGEMENT'S COMMENTS ON  
UNAUDITED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of Advance Gold Corp. as at August 31, 2012 and the three months ended August 31, 2012 and 2011 have been prepared by and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT AUGUST 31, 2012 AND MAY 31, 2012**  
*(Expressed in Canadian Dollars)*

	<u>August 31,</u> <u>2012</u>	<u>May 31,</u> <u>2012</u> (Note 13)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 140,024	\$ 215,976
Amounts receivable	4,955	3,810
Prepaid expenses	2,616	3,467
	147,595	223,253
<b>Equipment (Note 5)</b>	85	89
<b>Exploration and evaluation assets (Statement) (Note 6)</b>	438,813	505,208
	\$ 586,493	728,550
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 51,983	\$ 82,796
<b>EQUITY</b>		
Share capital (Note 8)	4,715,524	4,675,591
Share subscription	-	50,000
Reserve (Note 8)	875,517	816,762
Deficit	(5,056,531)	(4,896,597)
	534,510	645,754
	\$ 586,493	\$ 728,550
<b>Nature and Continuance of Operations (Note 1)</b>		
<b>Commitments (Note 10)</b>		
<b>Comparative Figures (Note 13)</b>		

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

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2012 AND 2011**  
*(Expressed in Canadian Dollars)*

	<u>2012</u>	<u>2011</u>
<b>Administrative Expenses</b>		
Advertising and promotion	\$ 242	\$ 4,760
Amortization of equipment	4	6
Corporate development	-	11,250
Consulting fees	3,000	-
Due, conferences and subscriptions	-	1,716
Impairment of mineral property	56,665	
Interest, bank charges and foreign exchange loss	2,681	201
Insurance	82	-
Investor relationship	2,000	-
Management fees (Note 9)	15,000	15,000
Office and sundry	455	22
Professional fees	12,106	26,369
Property investigation	-	15
Rent and telephone	2,349	5,211
Stock based compensation	50,129	-
Transfer agent and filing fees	2,764	5,049
Wages and benefits	12,455	-
<b>Loss And Comprehensive Loss For The Period</b>	<b>\$ (159,932)</b>	<b>\$ (69,599)</b>
<b>Basic And Diluted Loss Per Common Share (Note 8)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Number Of Common Shares</b>		
<b>Outstanding</b>	<b>35,023,134</b>	<b>24,116,402</b>

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2012 AND 2011**  
*(Expressed in Canadian Dollars)*

	Number Of Common Shares		Share Capital		Share Subscriptions		Stock option Reserve		Warrant Reserve		Deficit		Total Equity
<b>Balance At May 31, 2012</b>	34,806,696	\$	4,675,591	\$	50,000	\$	338,949	\$	477,813	\$	(4,896,599)	\$	645,754
Loss and comprehensive loss for the period	-		-		-		-		-		(159,932)		(159,932)
Private placement	1,000,000		50,000		(50,000)		-		-		-		-
Share issuance costs	-		(1,441)		-		-		-		-		(1,441)
Allocated to warrants on the issue of shares for cash	-		(8,626)		-		-		8,626		-		-
Stock option vesting	-		-		-		50,129		-		-		50,129
<b>Balance At August 31, 2012</b>	35,806,696	\$	4,715,524	\$	-	\$	389,078	\$	486,439	\$	(5,056,531)	\$	534,510
<b>Balance At May 31, 2011</b>	24,116,402	\$	4,305,469	\$	-	\$	332,777	\$	329,517	\$	(4,553,976)	\$	413,787
Loss and comprehensive loss for the period	-		-		-		-		-		(69,599)		(69,599)
Private placement	-		-		-		-		-		-		-
Share issuance costs	-		-		-		-		-		-		-
<b>Balance At August 31, 2011</b>	24,116,402	\$	4,305,469	\$	-	\$	332,777	\$	329,517	\$	(4,623,575)	\$	344,188

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2012 AND 2011**  
*(Expressed in Canadian Dollars)*

	<u>2012</u>	<u>2011</u>
<b>Cash Provided By (Used For):</b>		
<b>Operating Activities</b>		
Loss and comprehensive loss for the period	\$ (159,932)	\$ (69,599)
Items not requiring cash:		
Amortization	4	6
Impairment of mineral property	56,665	-
Stock based compensation	50,129	-
Net change in non-cash working capital items	(31,107)	53,195
Cash used for operating activities	(84,241)	(16,398)
<b>Investing Activities</b>		
Deferred exploration expenditures paid	(91,620)	-
Deferred exploration expenditures refunded	101,350	13
Cash used for investing activities	9,730	13
<b>Financing Activities</b>		
Proceeds from loan payable	-	50,000
Payment of share issuance costs	(1,441)	-
Cash provided by financing activities	(1,441)	50,000
<b>Decrease In Cash And Cash Equivalents</b>	(75,952)	33,615
<b>Cash , Beginning Of Period</b>	215,976	13,288
<b>Cash, End Of Period</b>	\$ 140,024	\$ 46,903
<b>Supplemental Information</b>		
Interest received in cash	\$ -	\$ -
Income taxes paid in cash	\$ -	\$ -

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF EXPLOARTION AND EVALUATION ASSETS**  
**- ACQUISITION COST -**  
*(Expressed in Canadian Dollars)*

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	<b>May 31, 2012</b> <b>(Note 13)</b>	<b>Additions</b>	<b>Impairment</b>	<b>August 31,</b> <b>2012</b>
<b>Kakamega property, Kenya</b>	\$ 453,228	(37,462)	-	415,766
<b>Singida Property, Tanzania</b>	-	267	(267)	-
	453,228	(37,195)	(267)	415,766

	<b>May 31, 2011</b>	<b>Additions</b>	<b>Impairment</b>	<b>August 31,</b> <b>2011</b>
<b>Kakamega property, Kenya</b>	\$ 654,722	(13)	-	654,709
<b>Ngira Migori Property, Kenya</b>	1	-	-	1
	654,723	(13)	-	654,710

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF EXPLORATION AND EVALUATION ASSETS**  
**- EXPLORATION EXPENDITURES -**  
*(Expressed in Canadian Dollars)*

	<u>August 31,</u> <u>2012</u>	<u>August 31,</u> <u>2011</u>
<b>Nyakagwe Property</b>		
Opening balance	\$ -	\$ -
Geochemical	23,046	-
Ending balance	23,046	-
<b>Kakamega Property</b>		
Opening balance	51,980	54,294
Administration	5	-
Camp	5,360	-
Prepaid	6,543	-
Reimbursement	(63,888)	(13)
Ending balance	-	54,281
<b>Singida Property</b>		
Opening balance	\$ -	\$ -
Administration	720	-
Camp	1,807	-
Geological	40,630	-
Field supplies	100	-
Geochemical	3,903	-
Technical/field staff	643	-
Transportation	391	-
Vehicle	7,210	-
Travel	994	-
Write off	(56,398)	-
Ending balance	-	-
	\$ 23,046	\$ 54,281



**ADVANCE GOLD CORP.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2012**  
*(Expressed in Canadian Dollars)*

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Advance Gold Corp. (the "Company") was incorporated in the Province of British Columbia on September 28, 2004 as Liberian Gold Corporation and changed its name to Africa West Minerals Corp. ("AWMC (Old)") on June 28, 2006. The Company changed its name to Advance Gold Corp. on May 3, 2010. The Company's shares are listed on the TSX-Venture Exchange (the "Exchange"). The Company is an exploration stage company engaged in the exploration and evaluation of mineral property interests. The Company's registered and head office is located at #1100 – 235 First Avenue, Kamloops, British Columbia V2C 3J4.

These consolidated financial statements have been prepared on the going concerns basis, which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has incurred significant losses from inception and as at August 31, 2012 the Company had a deficit of \$4,999,866. The ability of the Company to continue as going concern is in doubt and is dependent upon the continued support from its directors and its ability to continue to raise sufficient financing. Management is seeking equity financing and joint venture opportunities, the outcome of which cannot be predicted at this time. These conditions indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. These financial statements do not reflect the adjustments or reclassifications which would be necessary if the Company were unable to continue.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

The Company is following the same accounting policies and methods of computation in these interim consolidated financial statements as it did in the audited consolidated financial statements for the year ended May 31, 2012.

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended May 31, 2012 which have been prepared in accordance with IFRS as issued by the IASB.

These interim consolidated financial statements for three months ended August 31, 2012 were authorized for issue by the Board of Directors of the Company on October 27, 2012.

**Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its controlled entities have been prepared on a historical cost basis, with the exception of certain financial instruments measured at fair value during the year ended May 31, 2012. All inter-company transactions and balances have been eliminated on consolidation.

**Financial instruments**

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

**ADVANCE GOLD CORP.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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Measurement in subsequent periods depends on the classification of the financial instrument:

*At fair value through profit or loss ("FVTPL")* - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value with changes in fair value recognized in the Company's consolidated statement of comprehensive income or loss for the year. Cash and cash equivalents are classified as FVTPL.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortized cost less impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Amounts receivable are classified as loans and receivable.

*Other financial liabilities* - This category includes financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities, and the loan payable are classified as other financial instruments.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash held in financial institutions, cash on hand and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

#### *(i) Presentation and functional currency*

The Company's functional and presentation currency is the Canadian dollar. Functional currency is also determined for each of the Company's subsidiaries, and items included in the financial statements of the subsidiary are measured using that functional currency. The Canadian dollar is the functional currency of all the Company's subsidiaries.

#### *(ii) Foreign currency transactions*

Transactions in currencies other than the functional currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the consolidated statement of financial position.

Gain and losses arising on foreign currency translations are included in the Company's consolidated statement of comprehensive loss.

### **Exploration and evaluation assets**

Acquired properties are recognized at cost, or if acquired as part of a business combination, at fair value at the date of acquisition. All costs directly related to exploration activities are capitalized once the Company has obtained the legal right to explore. Exploration and evaluation assets are reclassified when technical feasibility and commercial viability of the property can be demonstrated. Acquisition costs include cash consideration and the fair value of common shares, based on recent issue prices, issued for exploration and evaluation assets pursuant to the terms of the agreements. Exploration expenditures, net of recoveries, are capitalized as incurred. After a property is determined by management to be commercially feasible, acquisition costs and their related deferred exploration expenditures on the property will be transferred to mineral properties under development. Prior to transfer the assets will be tested for impairment. The costs related to a property from which there is production, will be depleted and depreciated using the unit-of-production method.

**ADVANCE GOLD CORP.**  
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Exploration and evaluation assets acquired under an option agreement where payments are made at the sole discretion of the Company, are capitalized at the time of payment. Option payments received are treated as a reduction of the carrying value of the related acquisition cost for the exploration and evaluation assets until the payments are in excess of acquisition costs, at which time they are then recognized in profit or loss in the Company's consolidated statement of comprehensive income or loss. Option payments are at the discretion of the optional and, accordingly, are accounted for when receipt is reasonably assured.

The recoverability of the carrying amount of exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, the sale of the respective areas of interest.

**Decommissioning liability**

The Company is required to recognize a liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its exploration and evaluation assets. As of August 31, 2012 and May 31, 2012, the Company has not incurred any such obligations.

**Equipment**

Equipment is carried at cost less accumulated depreciation. The Company provides for depreciation on the following basis:

Office furniture and equipment	- 20% declining balance method
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**Impairment**

At each reporting date, the carrying amounts of the Company's assets, including exploration and evaluation assets are reviewed to determine whether there is an indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of comprehensive income or loss. For the purposes of assessing for indications of impairment and impairment testing, assets that do not have largely independent cash inflows are grouped into cash generating units. Cash generating units are the smallest identifiable groups of assets having independent cash inflows.

An impairment loss, excluding those recognized on goodwill, is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had previously been recognized.

**Loss per share**

The Company presents basic and diluted gain/loss per share data for its common shares, calculated by dividing the gain/loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted gain/loss per share is determined by adjusting the gain/loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. All of the share options and share purchase warrants were anti-dilutive as of August 31, 2012 and May 31, 2012.

**ADVANCE GOLD CORP.**  
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**Share-based compensation**

Share options granted are settled with shares of the Company. The expense is determined based on the fair value of the award granted and recognized over the period which services are received, which is usually the vesting period. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revision in the consolidated statement of comprehensive income or loss.

**Income taxes**

Income taxes are determined using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized to the extent that realization is considered probable.

**Critical accounting estimates and judgments**

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. The preparation of the consolidated financial statements also requires management to make judgments aside from those that involve estimates, in the process of applying the accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key uncertainties related to estimates that have a significant risk of resulting in a material adjustment within the next financial year and to judgments that have the most significant effect on the amounts recognized and disclosed in the consolidated financial statements.

*Impairment of non-financial assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. During the three months ended August 31, 2012, no impairment of non-financial assets were recognized (May 31, 2012 - \$nil)

*Useful life of property, plant and equipment*

Property, plant and equipment are depreciated over the estimated useful lives of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of depreciation recorded during the year and the carrying value of property, plant and equipment. Total carrying value of property, plant and equipment at August 31, 2012 was \$85 (May 31, 2012 - \$89).

*Share-based compensation*

Management is required to make certain estimates when determining the fair value of share option awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's consolidated statement of comprehensive loss. For the three months ended August 31, 2012 the Company recognized share-based compensation expense of \$50,129 (May 31, 2012 - \$6,172).

**ADVANCE GOLD CORP.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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*(Expressed in Canadian Dollars)*

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*Exploration and evaluation assets*

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its mineral properties under exploration. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from exploration and evaluation assets and subject to different accounting treatment. As at August 31, 2012 and May 31, 2012 management had determined that no reclassification of exploration and evaluation assets was required.

*Income taxes*

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements.

**Future changes to accounting standards**

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"). These new or amended standards are not yet effective, and the Company has not completed its assessment of their impact on its consolidated financial statements.

***IFRS 9 Financial Instruments***

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities.

***IFRS 10 Consolidated Financial Statements***

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements (IFRS 10). IFRS 10, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27"), consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 will replace SIC 12 *Consolidation - Special Purpose Entities* and parts of IAS 27.

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**IFRS 11 Joint Arrangements**

IFRS 11 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 11 requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures will be accounted for using the equity method of accounting whereas a party with joint control of a joint operation will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in certain joint ventures. IFRS 11 will replace IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities - Non-monetary Contributions by Venturers.

In conjunction with the issue of IAS 11, IAS 28 Investments in Associates was amended to include joint ventures within its scope, and to address the guidance included in IFRS 10 and IFRS 12 Disclosure of Interest in Other Entities. IAS 28 is retitled to Investments in Associates and Joint Ventures.

**IFRS 12 Disclosure of Interests in Other Entities**

In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities (IFRS 12). IFRS 12, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The IFRS standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements.

**IFRS 13 Fair Value Measurement**

In May 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value and sets out in a single IFRS a framework for measuring fair value that is applied in most circumstances where IFRS requires or permits measurements or disclosures of fair value. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 also establishes disclosures about fair value measurement.

**Other**

In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to revise the way in which other comprehensive income is presented. The Company does not believe the changes resulting from the amended standard will have an impact on its consolidated financial statements. The amended standard is effective for annual periods beginning on or after July 1, 2012.

In June 2011, the IASB issued amendments to IAS 19 Employee Benefits with revised requirements for pensions and other postretirement benefits, termination benefits and other changes. The Company does not believe the changes resulting from these amendments are relevant to its consolidated financial statements. The amended standard is effective for annual periods beginning on or after January 1, 2013.

In October 2011, the IASB issued IFRIC 20 Stripping costs in the production phase of a surface mine. The Company does not believe the changes resulting from this new standard are relevant to its consolidated financial statements. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

**ADVANCE GOLD CORP.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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*(Expressed in Canadian Dollars)*

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**3. MANAGEMENT OF CAPITAL**

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of equity as well as its cash and cash equivalent balances.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, or acquire or dispose of assets.

The Company's investment policy is to invest its cash in highly liquid investments which are readily convertible into cash with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects that its current capital resources will not be sufficient to carry out its exploration and evaluation plans and operations through its current operating period. The Company is planning to use equity financing to support ongoing operations; however there is no assurance that additional funding and/or suitable joint venture agreements will be obtained.

The Company has no externally imposed capital requirements.

**4. Financial Instruments**

**Fair Value**

The Company's financial assets and liabilities measured at amortized cost approximate their fair values due to the short term to maturity.

Fair value estimates are made at the reporting period end date, based on relevant market information. Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act.

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of financial instruments. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3). The Company had no Level 2 or Level 3 financial instruments at May 31, 2012 and there have been no transfers between levels.

**ADVANCE GOLD CORP.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2012**  
*(Expressed in Canadian Dollars)*

The following is an analysis of the Company's financial assets measured at fair value as at August 31, 2012 and May 31, 2012:

	August 31, 2012		
	Level 1	Level 2	Level 3
Cash	\$ 140,024	\$ -	\$ -

  

	May 31, 2012 (Note 13)		
	Level 1	Level 2	Level 3
Cash	\$ 215,976	\$ -	\$ -

**Financial Risk Management**

The Company's financial instruments potentially expose it to a variety of risks, including credit risk, foreign exchange risk (currency), liquidity and interest rate risk.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and receivables. The Company deposits the majority of its cash with high credit quality financial institutions in Canada reducing the credit risk. Receivables consist of refundable tax credits and therefore the credit risk is minimal.

**Currency risk**

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. Certain assets and liabilities of the Company's are denominated in US dollars, and are therefore subject to fluctuation against the Canadian dollar.

The Canadian dollar equivalent of financial instruments denominated in US dollars as at August 31, 2012 and May 31, 2012 is as follows:

	August 31, 2012	May 31, 2012 (Note 13)
Cash	\$ 40,052	\$ 14,300
Trade Payables	-	(14,606)
	\$ 40,052	\$ (306)



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***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

***Liquidity risk***

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year is anticipated to be through equity financing and future loan facilities, and potential joint venture agreements.

Cash on hand at August 31, 2012 are sufficient to fund the Company's operational needs for the next 12 months due to Aviva payment (Note 6(a)).

**5. Equipment**

	<b>August 31, 2012</b>			
	<b>Rate</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
<b>Furniture and equipment</b>	20%	\$ 501	\$ 416	\$ 85
	<b>August 31, 2011</b>			
	<b>Rate</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
<b>Furniture and equipment</b>	20%	\$ 501	\$ 396	\$ 105

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**6. Exploration and Evaluation Assets**

**(a) Kakamega Properties, Kenya:**

The Company has applied for and was granted an Exclusive Prospecting License (“EPL”) to cover the former Rosterman Mine and surrounding areas in Kenya. In addition, the Company has two other licenses in the immediate area. The licenses expire on October 1, 2012, and are in the process of being renewed.

In order to maintain the licences the Company is required to incur a minimum of Kenya Shillings (“KES”) 5,000,000 (Canadian \$71,350) in exploration expenditures per year for each license. The Company is also obligated to pay KES 10,000 (Canadian \$143) for all areas operated under pilot mining.

On April 20, 2011, the Company entered into an option and joint venture agreement with Aviva Corporation Ltd. (“Aviva”). Under the terms of the agreement, Aviva has the right to earn at least a 75% interest in the Kakamega Properties. The agreement was subject to due diligence and the Company obtaining approval of the agreement from the Commissioner of Mines and Geology of Kenya. The agreement became effective on July 21, 2011, when these two conditions had been fulfilled (the “Effective Date”).

To earn a 51% interest in the properties, Aviva must:

- Incur a minimum of US\$100,000 in exploration expenditures on the properties within 12 months of the effective date; Make a US\$100,000 cash payment to the Company within 15 days of date that the initial US\$100,000 exploration expenditures are ratified. This US\$100,000 was received June 30, 2012.
- Incur a further US\$500,000 in exploration expenditures on the properties within 24 months of date that the initial US\$100,000 exploration expenditures was ratified.

Once Aviva has exercised their option to earn a 51% interest in the properties, a joint venture will be formed which will hold the licenses. All revenues, costs, assets and liabilities arising from the joint venture will be shared by the Company and Aviva in accordance with their percentage interests in the properties.

To earn an additional 24% interest in the properties, Aviva must:

- Incur an additional US\$1,000,000 in exploration expenditures on the properties within 24 months of earning a 51% interest.

Once Aviva has obtained a 75% interest, the Company may elect to dilute their interest to 10% after which Aviva may convert the Company’s interest in the property to a 3% net smelter royalty.

On July 23, 2012, it was announced that African Barrick Gold plc, a subsidiary of Barrick Gold Corporation, would be purchasing all of Aviva’s Kenyan gold and base metals assets which includes the option and joint venture agreement with the Company. The purchase has now received the approval of Aviva’s shareholders and the Kenyan Competition authority.

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**(b) Ngira Migori Property, Kenya:**

Pursuant to an agreement dated September 11, 2007 and amended and restated on August 6, 2009, the Company has an option to acquire up to an 85% interest in the Ngira Migori Property (the "Option"), which encompasses 320 km<sup>2</sup> area in the Migori area of Kenya.

In order to maintain the Option in force and to exercise the Option, the Company shall:

- Incur a minimum of \$50,000 in exploration expenditures by September 11, 2008 in order to obtain a 25% interest in the property;
- Incur an additional \$50,000 in exploration expenditures by September 11, 2009 in order to obtain a further 25% interest in the property;
- Incur an additional \$50,000 in exploration expenditures by September 11, 2010 in order to obtain a further 25% interest in the property; and
- Notify the optionor of its intention to install a production plan on the property and to complete such installation within three years of providing such notice in order to obtain a further 10% interest in the property.

The Company entered into an option agreement dated August 13, 2009 with Red Rock Resources PLC ("Red Rock") for Red Rock to acquire a 70% interest in the Ngira Migori Property. Red Rock paid the Company US\$20,000 (Canadian \$22,144) upon signing the agreement and was required to incur minimum expenditures of US\$180,000 and drill 1,200 meters before August 13, 2011 and a minimum of 2,400 meters before August 13, 2012. Red Rock was also required to maintain the property in good standing during the option period (subsequent to May 31, 2012, option was terminated).

During the year ended May 31, 2011, the Company wrote-down the carrying value of this property to \$1 and at May 31, 2012, the Company wrote-off this property.

**(c) Sotik Property, Kenya:**

The Company applied for and was granted a mining exploration license for the Sotik property, which is located on the southern Kenya.

The Company wrote-off this property at May 31, 2011.

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**(d) Singida Property, Tanzania:**

On January 10, 2012, the Company entered into a mining option agreement with Azania Resources BVI Ltd and its subsidiary, Azania Resources (Tanzania) Ltd (collectively "Anzania"), pursuant to which Azania has granted the Company an option (the "Option") to acquire a 100% interest in PL 6266/2009 (the "Property"), which consists of one claim located in the Singida region of Tanzania.

In consideration of the grant of the Option, the Company will pay Azania \$50,000 (\$10,000 paid and \$40,000 accrued) and issue to Azania 500,000 common shares (issued with a fair value of \$20,000). In order to maintain and exercise the option, the Company must (1) by the first of the approval date issue to Azania an additional 1,000,000 common shares of the Company and incur expenses on the Property as required by the applicable government or regulatory authorities and (2) by the third anniversary of the Approval Date, issue to Azania an additional 1,500,000 common shares of the Company. On June 04, 2012 and August 08, 2012, the company made \$20,267 in payments to Azania BVI.

The Company wrote-off this property at August 31, 2012.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The Company's accounts payable and accrued liabilities are comprised of the following:

	<b>August 31, 2012</b>	<b>May 31, 2012 (Note 13)</b>
Trade payables	\$ 5,139	\$ 21,008
Accrued liabilities	46,844	21,788
	<b>\$ 51,983</b>	<b>\$ 42,796</b>

**8. SHARE CAPITAL**

**(a) Authorized Share Capital**

Unlimited number of common shares without par value

Unlimited number of preferred shares at no par value

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**(b) Issued Share Capital**

**2012 Share Issuances:**

On September 19, 2011, the Company closed the first tranche of a non-brokered private placement of 4,250,000 units at a price of \$0.05 per unit for gross proceeds of \$212,500. Each unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.10 per share until September 19, 2013, subject to accelerated expiry in certain circumstances. Of the \$212,500 proceeds, \$75,193 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: an expected life of two year; a volatility of 126.0%; a risk-free interest rate of 0.93%; and an expected dividend yield rate of nil. The Company incurred share issuance costs of \$5,235 in connection with this financing.

On October 25, 2011, the Company closed the second and final tranche which consisted of 2,940,294 units at a price of \$0.05 per unit for gross proceeds of \$147,015. Each unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.10 per share until October 25, 2013, subject to accelerated expiry in certain circumstances. Of the \$147,015 proceeds, \$49,155 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: an expected life of two year; a volatility of 127.37%; a risk-free interest rate of 0.99%; and an expected dividend yield rate of nil. The Company incurred share issuance costs of \$2,767 in connection with this financing.

On February 13, 2012, the company issued Azania BVI 500,000 common shares with a fair value of \$0.04 per share for a total of \$20,000 for the mining option agreement to acquire a 100% interest in the Singida Property (Note 6(e)).

On May 25, 2012 the company closed the first tranche of a non-brokered private placement, this first tranche consisting of 3,000,000 units (the "Units") at a per Unit price of \$0.05 for gross proceeds of \$150,000. Each Unit is comprised of one common share of the Company and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.10 per share until May 25, 2014, subject to accelerated expiry in certain circumstances. Of the \$150,000 proceeds, \$23,948 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: an expected life of two year; a volatility of 120.1%; a risk-free interest rate of 1.07%; and an expected dividend yield rate of nil. The Company incurred share issue costs of \$3,095 in connection with this financing.

At June 13, 2012, the Company had closed the second tranche of the private placement consisting of 1,000,000 units (the "Units") at a per Unit price of \$0.05 for gross proceeds of \$50,000. Each Unit is comprised of one common share of the Company and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.10 per share until June 13, 2014, subject to accelerated expiry in certain circumstances. Of the \$50,000 proceeds, \$8,625.53 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: an expected life of two year; a volatility of 120.1%; a risk-free interest rate of 1.07%; and an expected dividend yield rate of nil. The Company incurred share issue costs of \$1,441 in connection with this financing.

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**(c) Share Options**

The Company has a stock option plan ("the Plan") whereby the aggregate number of common shares reserved for issuance pursuant to the Plan and any other share compensation arrangement granted or made available by the Company from time to time shall not exceed in aggregate 3,337,580 common shares (the "Option Plan Shares"), which represents 20% of the Company's common shares issued and outstanding on the date of adoption of the 2008 Plan by the Board of Directors. The number of Option Plan Shares shall be increased or decreased from time to time as required if more or less Option Plan Shares are required to be issued due to any reorganization of the share capital of the Company. The term of any options granted under the Plan will be fixed by the Board of Directors and may not exceed ten years, but so long as the Company remains a "Tier 2" issuer under the policies of the Exchange, options may not exceed a term of five years. The exercise price of options granted under the Plan will be determined by the Board of Directors, provided that it is not less than the lowest price permitted by the Exchange.

Any options granted pursuant to the Plan will terminate within 30 days of the option holder ceasing to act as an Eligible Person pursuant to and as defined in the Plan, unless such cessation is on account of death, disability or termination of employment with cause. If such cessation is on account of disability or death, the options terminate on the first anniversary of such cessation, and if it is on account of termination of employment with cause, the options terminate immediately. The Plan also provides for adjustments to outstanding options in the event of any consolidation, subdivision, conversion or exchange of the Company's shares.

On March 1, 2012, the Company granted 250,000 stock options. The options have an exercise price of \$0.10 have per share and expire on March 1, 2017. The options vest one quarter on each of June 1, 2012, September 1, 2012, December 1, 2012 and March 1, 2013. The grant date fair value of the options was determined to be \$11,831, with \$6,172 recognized for the year ended May 31, 2012. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: expected life of 5 years; a volatility of 144%; a risk free interest rate of 1.45%; and a dividend yield of 0%.

On August 15, 2012, the Company granted 2,390,000 stock options. The options have an exercise price of \$0.10 have per share and expire on August 15, 2017. The grant date fair value of the options was determined to be \$44,469 recognized for the quarter ended May 31, 2012. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: expected life of 5 years; a volatility of 144%; a risk free interest rate of 1.45%; and a dividend yield of 0%.

A summary of stock option activity for the three months ended August 31, 2012 and year ended May 31, 2012 is as follows:

(Note 13)

	<b>August 31, 2012</b>		<b>May 31, 2012</b>	
	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of period	1,757,000	\$ 0.25	1,507,000	\$ 0.27
Granted	2,390,000	0.10	250,000	0.10
Exercised	-	-	-	-
Cancelled/Expired	1,295,000	0.30	-	-
Outstanding, end of period	2,902,500	\$ 0.10	1,757,000	\$ 0.25

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As at August 31, 2012, the Company had share options outstanding and exercisable to acquire common shares of the Company as follows:

<b>Expiry Date</b>	<b>Options Outstanding</b>	<b>Options Exercisable</b>	<b>Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (In Years)</b>
Oct 1, 2013	12,500	12,500	\$ 0.30	0.01
January 12, 2014	250,000	250,000	0.10	0.11
March 01, 2017	250,000	250,000	0.10	0.39
August 15, 2017	2,390,000	2,390,000	0.10	4.08
	<b>2,902,500</b>	<b>2,902,500</b>	<b>\$ 0.10</b>	<b>4.59</b>

**(d) Warrants**

A continuity schedule of outstanding common share purchase warrants for the three months ended August 31, 2012 and year ended May 31, 2012 is as follows:

	(Note 13)			
	<b>August 31, 2012</b>		<b>May 31, 2012</b>	
	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of period	8,690,294	\$ 0.10	1,575,000	\$ 0.15
Issued	500,000	0.10	8,690,294	0.10
Expired	-	-	1,575,000	0.15
Outstanding, end of period	<b>9,190,294</b>	<b>\$ 0.10</b>	<b>8,690,294</b>	<b>\$ 0.10</b>

As at August 31, 2012, the Company had outstanding share purchase warrants exercisable to acquire common shares of the Company as follows:

<b>Expiry Date</b>	<b>Warrants Outstanding</b>	<b>Exercise Price</b>	<b>Remaining Contractual Life (In Years)</b>
September 19, 2013	4,250,000	\$ 0.10	1.30
October 25, 2013	2,940,294	0.10	1.40
May 25, 2014	1,500,000	0.10	1.73
June 13, 2014	500,000	0.10	1.96
	<b>9,190,294</b>	<b>\$ 0.10</b>	<b>1.44</b>

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**(e) Reserves**

**Stock option reserve**

The stock option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

**Warrant Reserve**

The warrant reserve records the proceeds allocated to warrants on the issuance of units in private placements until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital.

**Investment Revaluation Reserve**

The investment revaluation reserve records unrealized gains and losses arising on available for sale financial assets, except for impairment losses and foreign exchange gains and losses on monetary items.

**9. RELATED PARTY TRANSACTIONS**

**(a) Management transactions**

Management transactions with related parties during the three months ended August 31, 2012 and 2011 were as follows:

	<b>2012</b>	<b>2011</b>
Management fees paid to a company controlled by a director of the Company	\$ 15,000	\$ 15,000

**(b) Compensation to key management during the years ended August 31, 2012 and 2011 are:**

	<b>2012</b>	<b>2011</b>
Short-term employee benefits	\$ 12,455	\$ -
Stock-based compensation	50,129	-
Management fees paid to a company controlled by a director of the Company	15,000	15,000
	\$ 77,584	\$ 15,000



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**10. COMMITMENTS**

The Company has a management services agreement with a company controlled by a director of the Company requiring payments of \$5,000 per month. The agreement is in effect until February 28, 2014 unless terminated earlier in accordance with the provisions of the agreement.

The Company shares its premise with other companies controlled by a director of the Company, and is allocated its proportion of the annual rent.

**11. SEGMENTED INFORMATION**

The Company's worldwide operations are all conducted in one industry segment, the exploration and development of exploration and evaluation assets.

The Company's equipment is located in Canada, and the Company's exploration and evaluation assets are located in Kenya and Tanzania.

**12. INCOME TAXES**

A reconciliation of the statutory tax rate to the effective rate for the Company is as follows:

	August 31, 2012	(Note 13) May 31, 2012
Statutory tax rate	25%	26.1%
Loss and comprehensive loss for the year	\$ (103,267)	\$ (342,623)
Expected income tax recovery	(25,817)	(89,425)
Non-deductible expenses and other	-	164
Write-down of exploration and evaluation assets	-	-
Effect of foreign tax rates and tax rate changes	-	(90)
Effect of deductible temporary differences not recognized	25,817	89,351
<b>Income tax recovery</b>	<b>\$ -</b>	<b>\$ -</b>

Significant components of the Company's deferred tax assets as of August 31, 2012 and May 31, 2012 are as follows:

	August 31, 2012	(Note 13) May 31, 2012
<b>Deferred income tax assets :</b>		
Equipment	\$ 28	\$ 29
Exploration and evaluation assets	382,771	383,943
Non-capital losses carry forwards	909,343	909,343
Share-issue costs	1,441	7,272
	1,293,583	1,343,862
Unrecognized deferred income tax assets	(1,293,583)	(1,343,862)
<b>Deferred income tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

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As at August 31, 2012, the Company has Canadian non-capital losses of approximately \$1,497,881 (May 31, 2012 - \$1,426,550), which expire in various years to 2033, as follows:

<b>Expiry Date</b>	<b>Amount</b>
2015	46,606
2026	61,087
2027	170,664
2028	148,223
2029	301,527
2030	284,640
2031	189,826
2032	223,977
2033	51,704
	<hr/>
	\$ 1,497,881

The Company has Canadian cumulative foreign resource expenditures of \$1,547,559 available to reduce future taxable income. These expenses have no expiration date.

**13. COMPARATIVE FIGURES**

The comparative figures disclosed as at May 31, 2012 in these interim financial statements were subject to an audit engagement.

Certain of the comparative figures in the statement of operations have been reclassified to conform with the financial presentation adopted for in the current period. These changes have no effect on the loss for the prior period disclosed.