



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)**

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

(In Canadian Dollars, unless otherwise noted)

## **NOTICE TO READERS**

### **Notice of No Audit Review of the Interim Consolidated Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

**REDZONE RESOURCES LTD.**  
(An Exploration Stage Company)  
**Condensed Consolidated Interim Balance Sheets (unaudited)**  
As at

(expressed in Canadian dollars)

	Note	October 31 2011 \$	April 30 2011 \$	May 1 2010 \$
<b>Assets</b>				
<b>Current</b>				
Cash		2,796,105	3,552,751	5,353,944
Receivables		36,629	15,844	11,667
Prepaid expenses and advances		8,773	48,205	19,737
		2,841,507	3,616,800	5,385,348
Equipment		2,315	2,902	3,114
Deferred acquisition costs	5	1,600,868	1,280,868	85,214
		4,444,690	4,900,570	5,473,676
<b>Liabilities and Shareholders' Equity</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	8	67,596	80,970	124,953
<b>Shareholders' equity</b>				
Share Capital	6	6,752,640	6,746,295	6,352,105
Contributed surplus	6	1,097,384	807,572	597,542
Deficit		(3,472,930)	(2,734,267)	(1,600,924)
		4,377,094	4,819,600	5,348,723
		4,444,690	4,900,570	5,473,676

**Commitments and contingencies (note 10)**

**On behalf of the Board:**

\_\_\_\_\_  
"Richard Godfrey" Director      "Colin Benner" Director

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

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Condensed Consolidated Interim Statements of Comprehensive Loss** (unaudited)

For the three and six months ended October 31

*(expressed in Canadian dollars)*

	Note	Three months ended October 31		Six months ended October 31	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Mineral property exploration costs</b>		8,557	-	34,281	-
<b>Operating Expenses</b>					
Amortization		293	293	587	587
Professional fees		40,172	20,884	50,633	82,275
Business investigation costs		58,225	-	96,613	60,803
Investor relations		11,040	23,604	13,847	71,173
Consulting fees		16,323	-	25,388	-
Management salaries and benefits	8	37,500	57,473	105,635	89,262
Office facilities and administration	8	45,021	43,788	116,071	86,094
Share-based compensation	6	93,086	72,353	281,596	137,589
Shareholders' information, transfer agent, listing and filing fees		6,563	20,157	19,772	82,223
<b>Loss before other item</b>		(316,780)	(238,552)	(755,234)	(610,006)
<b>Other item</b>					
Interest income		7,796	11,095	16,571	15,751
<b>Loss and comprehensive loss for the period</b>		(308,984)	(227,457)	(738,663)	(594,255)
<b>Loss per share</b>					
Basic and diluted		(0.01)	(0.01)	(0.02)	(0.01)
<b>Weighted average number of common shares outstanding</b>					
Basic and diluted		42,868,137	42,543,137	42,850,973	42,408,083
<b>Number of common shares as at October 31, 2011</b>					
Fully paid and outstanding		42,868,137	42,543,137	42,868,137	42,543,137
Potentially dilutive options and warrants issued and outstanding		9,816,617	8,066,617	9,816,617	8,066,617

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

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Condensed Consolidated Interim Statements of Changes in Equity** (unaudited)*(expressed in Canadian dollars)*

	<b>Common Shares</b>	<b>Share Capital \$</b>	<b>Contributed Surplus \$</b>	<b>Deficit \$</b>	<b>Total \$</b>
Balance, May 1, 2010	42,153,137	6,352,105	597,542	(1,600,924)	5,348,723
Shares issued on exercise of warrants	290,000	174,000	-	-	174,000
Share-based payments	-	-	137,589	-	137,589
Shares issued for deferred acquisition costs	100,000	65,000	-	-	65,000
Net loss for the period	-	-	-	(594,255)	(594,255)
<b>Balance, October 31, 2010</b>	<b>42,543,137</b>	<b>6,591,105</b>	<b>735,131</b>	<b>(2,195,179)</b>	<b>5,131,057</b>
Shares issued on exercise of options	50,000	7,500	-	-	7,500
Fair value on exercise of options	-	5,190	(5,190)	-	-
Shares issued for deferred acquisition costs	250,000	142,500	-	-	142,500
Share-based payments	-	-	77,631	-	77,631
Net loss for the period	-	-	-	(539,088)	(539,088)
<b>Balance, April 30, 2011</b>	<b>42,843,137</b>	<b>6,746,295</b>	<b>807,572</b>	<b>(2,734,267)</b>	<b>4,819,600</b>
Shares issued on exercise of options	25,000	3,750	-	-	3,750
Fair value on exercise of options	-	2,595	(2,595)	-	-
Share-based payments	-	-	292,407	-	292,407
Net loss for the period	-	-	-	(738,663)	(738,663)
<b>Balance, October 31, 2011</b>	<b>42,868,137</b>	<b>6,752,640</b>	<b>1,097,384</b>	<b>(3,472,930)</b>	<b>4,377,094</b>

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

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Condensed Consolidated Interim Statements of Cash flows** (unaudited)

For the three and six months ended October 31, 2011 and 2010

*(expressed in Canadian dollars)*

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>October 31</b>		<b>October 31</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	\$	\$	\$	\$
<b>Cash Flows From Operating Activities</b>				
Loss for the period	(308,984)	(227,457)	(738,663)	(594,255)
Items not involving cash:				
Amortization	293	293	587	587
Share-based payments	93,086	72,353	292,407	137,589
Changes in non-cash working capital items:				
Receivables	(22,512)	8,156	(20,785)	(1,538)
Prepaid expenses and advances	11,057	19,811	39,432	(26,040)
Accounts payable and accrued liabilities	(62,712)	(29,975)	(13,374)	(90,679)
Net cash used in operating activities	(289,772)	(156,819)	(440,396)	(574,336)
<b>Cash Flows From Investing Activities</b>				
Purchase of equipment	-	-	-	(962)
Deferred acquisition costs	(320,000)	(280,638)	(320,000)	(320,301)
Net cash used in investing activities	(320,000)	(280,638)	(320,000)	(321,263)
<b>Cash Flows From Financing Activity</b>				
Issuance of common shares, net of issuance costs	-	-	3,750	-
Net cash (used) provided by financing activity	-	-	3,750	-
<b>Change in cash for the period</b>	(609,772)	(437,457)	(756,646)	(721,599)
<b>Cash, beginning of period</b>	3,405,877	5,069,802	3,552,751	5,353,944
<b>Cash, end of period</b>	2,796,105	4,632,345	2,796,105	4,632,345
<b>Supplementary cash flow information</b>				
Cash received for interest	7,796	11,095	16,571	15,751
<b>Non-cash investing activities</b>				
Issuance of shares for deferred acquisition costs	-	-	-	65,000

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

## **REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

### **Notes to Condensed Consolidated Interim Financial Statements (unaudited)**

For the three and six months ended October 31, 2011

---

## **1. Nature of operations**

The Company was incorporated as Redzone Capital Corp. under the Business Corporations Act (Alberta) on December 23, 2005. On March 3, 2006, the Company was renamed Redzone Resources Ltd. (“the Company”). On October 13, 2009, the Company incorporated a wholly owned subsidiary, Compania Minera Oyamel, S.A. de C.V. (“RZ Mexico”). The principal business activities of the consolidated Company include the acquisition and exploration of mineral properties. The Company’s corporate head office is located at Suite 1030 – 885 West Georgia Street, Vancouver, British Columbia, Canada. The Company’s shares are listed on the Toronto Stock Exchange.

## **2. Basis of preparation and adoption of International Financial Reporting Standards**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”) and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its fiscal 2012 interim consolidated financial statements. In these financial statements the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of International Financial Reporting Standards. The accounting policies followed in these interim financial statements are the same as those applied in the Company’s interim financial statements for the period ended July 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company’s reported balance sheet as at October 31, 2010 and the comprehensive loss for the three and six months ended October 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the fiscal year ended April 30, 2011, as issued and outstanding as of December 6, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS, that are given effect in the company’s annual consolidated financial statements for the year ending April 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended April 30, 2011 and the Company’s condensed interim consolidated financial statements for the quarter ended July 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

## **3. Accounting standards issued but not yet applied**

### **Amendments to IFRS 9 “Financial Instruments: Disclosures”**

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011.

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Notes to Condensed Consolidated Interim Financial Statements** (unaudited)

For the three and six months ended October 31, 2011

---

**New standard IFRS 9 “Financial Instruments”**

IFRS 9 as issued reflects the first phase of the IASB’s work on the replacement of IAS 39, “Financial Instruments: Recognition and Measurement”, and applies to the classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. The IASB is currently addressing hedge accounting and derecognition.

**New standard IFRS 10 “Consolidated Financial Statements”**

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates in its subsidiaries. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

**New standard IFRS 11 “Joint Arrangements”**

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

**IFRS 13 - Fair Value Measurement**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. 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. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

The Company has not applied the new and revised IFRS that have been issued but are not yet effective. These accounting standards are not expected to have a significant effect on the Company’s accounting policies or financial statements.

**4. Adoption of IFRS**

The reconciliation between the Canadian GAAP and IFRS equity as at October 31, 2010 is provided below:

---

---

	<b>October 31, 2010</b>
	\$
<b>Equity under Canadian GAAP</b>	5,131,057
Adjustment	-
<b>Equity under IFRS</b>	<b>5,131,057</b>

---

---

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Notes to Condensed Consolidated Interim Financial Statements** (unaudited)

For the three and six months ended October 31, 2011

The reconciliation between the Canadian GAAP and IFRS total comprehensive loss for the three and six month periods ended October 31, 2010 is provided below:

	Three months ended October 31 2010	Six months ended October 31 2010
	\$	\$
<b>Comprehensive loss under Canadian GAAP</b>	(227,457)	(594,255)
Adjustment	-	-
<b>Comprehensive loss under IFRS</b>	(227,457)	(594,255)

## 5. Mineral Properties

### Lara and Tingo Este Properties

The Company entered into an Option Agreement on February 12, 2010 to acquire the right to earn up to a 75% indirect interest in two copper properties ("Lara" and "Tingo Este") from Lara Exploration Ltd. ("Lara Exploration") via earning into Minas Dixon BVI ("Minas"), a wholly owned subsidiary of Lara Exploration.

The first option to earn 55% of all the securities of Minas requires the Company to allot and issue to Lara Exploration:

- 100,000 common shares within seven days after the acceptance of the agreement by the Toronto Stock Exchange (issued on June 2, 2010, valued at \$65,000);
- a further 250,000 common shares on or before February 12, 2011 (issued on February 9, 2011, valued at \$142,500);
- a further 250,000 common shares on or before February 12, 2012;
- a further 250,000 common shares on or before February 12, 2013;

and funding Minas:

- US\$500,000 on or before the first anniversary of the date upon which all drilling permits required to conduct the proposed exploration on Lara and Tingo Este are obtained ("Permit Date");
- A further US\$1,000,000 on or before the second anniversary of the Permit Date;
- A further US\$1,000,000 on or before the third anniversary of the Permit Date.

Permits were obtained on October 26, 2010 (the "Permit Date") and the Company has since made payments to Minas of US\$1,386,603 (US\$1,066,603 as of April 30, 2011) and as such is in compliance with its payment obligations pursuant to the Option Agreement as at October 31, 2011. Subsequent to October 31, 2011 a further US \$375,000 was paid.

If the first option is exercised, the Company may decide within 60 days of exercising to elect to exercise a second option to earn a further 20% of all the securities of Minas by funding a bankable feasibility study to completion and paying US\$1,500,000 to Lara Exploration on or before December 31, 2014. Additionally, Tinka Resources retains a 1% net smelter royalty on all production on the Tingo Este property.

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Notes to Condensed Consolidated Interim Financial Statements** (unaudited)

For the three and six months ended October 31, 2011

A summary of deferred acquisition costs incurred during the six months ended October 31 2011, with comparative periods, includes the following:

	\$
Deferred acquisition costs, May 1, 2010	85,214
Exploration costs incurred during period	988,154
Fair value of common shares issued during period	207,500
Deferred acquisition costs, April 30, 2011	1,280,868
Exploration costs incurred during period	320,000
Fair value of common shares issued during period	-
Deferred acquisition costs, October 31, 2011	1,600,868

The Company made a \$320,000 payment to Minas during the six months ended October 31, 2011 for costs incurred on the drilling program. Subsequent to October 31, 2011 the Company made an additional payment of US \$375,000 to Minas for the drilling program.

**Mineral property exploration costs**

During the three and six months ended October 31, 2011 the Company expensed geological consulting expenses relating to the Lara properties of \$7,300 and \$24,875 respectively (2010 - \$nil) and \$1,257 and \$9,406 (2010 - \$nil) in associated travel costs

**Las Palmas Properties**

On July 7, 2011, the Company executed a termination agreement whereby the Company and Minera Teck, S.A de C.V have terminated all obligations relating to the Las Palmas properties. No mineral property expenditures had been capitalized for the property and there were no expenses relating to the Las Palmas property for the six months ended October 31, 2011 and 2010.

**6. Share Capital****Authorized**

Unlimited common shares, without par value

Unlimited preferred shares, issuable in series

**Warrants**

Warrant transactions are summarized as follows:

	Number	Weighted average exercise Price
Issued and exercisable as at October 31, 2011 and April 30, 2011	5,091,617	\$0.65

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Notes to Condensed Consolidated Interim Financial Statements** (unaudited)

For the three and six months ended October 31, 2011

At October 31, 2011 the Company had outstanding warrants, enabling the holders to acquire common shares as follows:

	Number	Exercise Price	Weighted average remaining life (years)	Expiry Date
Warrants	4,813,944	\$0.65	0.40	March 24, 2012
Broker warrants	277,673	\$0.65	0.40	March 24, 2012
	5,091,617	\$0.65		

**Stock options**

The Company adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

For the six months ended October 31, 2011, the Company granted 1,500,000 (2010 - 875,000) stock options and 800,000 options were granted outside of the plan. The total stock-based compensation calculated under the fair value method using the Black-Scholes option-pricing model for the three and six months was \$93,086 and \$292,407 (2010 - \$ 72,353 and \$137,589) which was charged to the statement of operations.

The following weighted average assumptions were used for the Black-Scholes valuation:

Risk-free interest rate	1.60%
Expected life of options	2 years
Annualized volatility	105%
Dividend rate	0.00%

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

1,000,000 stock options were granted to external advisors in the past but remain unvested as at October 31, 2011. These options vest on the achievement of certain milestones and deliverables in accordance with the terms of the service contract. Refer to Note 10 for further details. Subsequent to October 31, 2011 500,000 of the options expired unexercised.

Stock option transactions are summarized as follows:

	Number of Options	Weighted average exercise Price	Weighted average remaining life (years)
As at April 30, 2011	3,600,000	\$0.51	3.91
Granted	1,500,000	\$0.37	
Exercised	(25,000)	\$0.15	
Expired	(350,000)	\$0.49	
As at October 31, 2011	4,725,000	\$0.47	3.83
Exercisable – October 31, 2011	3,725,000	\$0.41	3.94

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Notes to Condensed Consolidated Interim Financial Statements** (unaudited)

For the three and six months ended October 31, 2011

The weighted average fair value of 1,500,000 (2010 – 375,000) options granted was \$0.19 (2010 - \$0.37) per option.

During the six months ended October 31, 2011, the weighted average trading price per share as traded on the TSX on the days that options were exercised was \$0.48 per share. No options were exercised in the six months ended October 31, 2010.

At October 31, 2011 the Company had outstanding stock options, enabling the holders to acquire common shares as follows:

<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Exercise Price</b>	<b>Weighted average remaining life (years)</b>	<b>Expiry Date</b>
100,000	100,000	\$0.15	0.35	March 8, 2012
1,775,000	1,725,000	\$0.42	3.21	January 14, 2015
500,000	-	\$0.66	3.55	May 17, 2015
200,000	200,000	\$0.55	3.71	August 13, 2015
200,000	200,000	\$0.59	4.34	November 4, 2015
500,000	-	\$0.72	4.01	March 1, 2016
800,000	800,000	\$0.35	4.63	June 15, 2016
200,000	200,000	\$0.48	4.72	July 20, 2016
400,000	400,000	\$0.36	4.83	August 29, 2016
100,000	100,000	\$0.30	4.92	September 30, 2016
<b>4,725,000</b>	<b>3,725,000</b>			

**7. Financial Instruments****Fair Value of Financial Instruments**

Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs that are not based on observable market data.

The Company does not have any financial instruments measured at fair value under level 2 or level 3. The Company's cash balance is measured at fair value under level 1.

**Risk Exposures**

The Company's financial instruments consist of cash, receivables, prepaids and advances and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and receivables. The Company's receivables are primarily from government

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Notes to Condensed Consolidated Interim Financial Statements (unaudited)**

For the three and six months ended October 31, 2011

---

agencies and are subject to certain risks that would be considered normal in this environment. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

*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 had a cash balance of \$2,796,105 to settle current liabilities of \$67,596. All of the Company's normal financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

The Company entered into an agreement to acquire interests in two copper properties which requires it to spend US\$2,500,000 over a three year period ending October 25, 2013. As of October 31, 2011, the Company has incurred property expenditures of US\$1,386,603 and continues to operate under the agreement's terms.

As at October 31, 2011, the Company has adequate capital to meet its anticipated operating expenditures for the next 12 months. The Company will need additional financing to acquire its interests in these properties and to bring the assets into production.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's cash is in a chequing account with a major Canadian bank and therefore there is currently minimal interest rate risk.

*Foreign currency risk*

As at October 31, 2011, the Company has approximately US\$1,110,000 of option expense obligations relating to the acquisition of interests in mineral properties and therefore is exposed to foreign currency risk. An increase or decrease of \$0.01 in exchange rates will increase or decrease the purchase price by approximately \$11,000.

Upon the acquisition of the Company's interests in the mineral properties, the Company will have exposure to foreign currency risk since the properties are located in Peru.

*Price risk*

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company's ability to raise capital to fund exploration activities is subject in part to risks associated with fluctuations in the market price of commodities.

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Notes to Condensed Consolidated Interim Financial Statements** (unaudited)

For the three and six months ended October 31, 2011

**8. Related Party Transactions**

During the three and six months ended October 31, 2011 and 2010, the Company incurred the following expenditures charged by directors and a company with a director in common:

	Three months ended October 31		Six months ended October 31	
	2011	2010	2011	2010
	\$	\$	\$	\$
Administrative fees	-	12,000	15,223	24,000
Property investigation services	-	-	-	761
	-	12,000	15,223	24,761

Included in accounts payable and accrued liabilities at October 31, 2011 is \$2,004 (April 30, 2011 - \$13,518) due to related parties.

Key management includes the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the three and six months ended October 31, 2011 and 2010 was as follows:

	Three months ended October 31		Six months ended October 31	
	2011	2010	2011	2010
	\$	\$	\$	\$
Management salaries and benefits	37,500	53,211	105,000	85,000
Consulting fees	12,723	-	12,723	-
Share-based payments	-	-	-	54,347
	50,223	53,211	117,723	139,347

**9. Capital Management**

The Company's objectives in managing its capital (items included in shareholders' equity) are to fund the acquisition and exploration of mineral properties and to meet its administrative and corporate activities to ensure that the Company continues as a going concern.

The Company has historically relied on equity financings to raise sufficient funds to carry out its exploration and acquisition activities any pay its administrative costs. Therefore, the Company intends to raise additional funds as required to carry out its planned activities.

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

As at October 31, 2011, the Company had no bank indebtedness or long-term debt and the Company is not subject to any externally imposed capital requirements.

**REDZONE RESOURCES LTD.**

(An Exploration Stage Company)

**Notes to Condensed Consolidated Interim Financial Statements** (unaudited)

For the three and six months ended October 31, 2011

---

## **10. Commitments and Contingencies**

### **Lease Commitment**

The Company entered into a sublease on office space for the period of February 1, 2010 to November 29, 2011. The estimated liability for rent and expenses from November 1, 2011 to November 29, 2011 is \$4,600. Subsequent to October 31, 2011 the Company extended the sublease for six months. The estimated liability for the period November 29, 2011 to May 30, 2012 is \$27,600.

### **Contingencies**

On May 17, 2010, the Company entered into an agreement for business advisory services with a third party. Pursuant to the terms of the agreement, part of the payment for services rendered include the issuance of 500,000 stock options, entitling the service provider to acquire one common share of the Company at a price of \$0.66 per common share for a period of five years from the date of grant. The options granted vest and become exercisable on the day following the successful completion of specific milestones and deliverables, as set out in the agreement. The agreement has been terminated and subsequent to October 31, 2011 the options expired unexercised.

On March 1, 2011, the Company entered into an agreement for advisory services with a third party. Pursuant to the terms of the agreement, payment for services rendered includes the grant of 500,000 stock options at the exercise price of \$0.72 per common share for a period of five years from the date of grant. The options vest and become exercisable on the day following the successful completion of specific deliverables, as set out in the agreement.

The Company has approved compensation packages to related parties. On the completion of a new acquisition, with a minimum value of \$250,000,000, bonuses of up to a maximum of \$4,000,000 cash, 1,000,000 restricted share units and 8,000,000 options could be paid.