

Torex Gold Resources Inc.

(FORMERLY GLEICHEN RESOURCES LIMITED)
(A DEVELOPMENT STAGE COMPANY)

Consolidated Financial Statements
Years Ended October 31, 2010 and 2009
(Expressed in Canadian dollars)

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the accompanying consolidated financial statements. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgements on information currently available.

Management maintains accounting systems and internal control to produce reliable consolidated financial statements and provide reasonable assurance that assets are properly safeguarded.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board of Directors carries out this responsibility through its Audit Committee. The Audit Committee meets periodically with management and the Company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, on behalf of the shareholders. Their report follows.

"Fred Stanford"

Fred Stanford

President and Chief Executive Officer

January 26, 2011

"Andrew Gottwald"

Andrew Gottwald

Chief Financial Officer



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To the Shareholders of Torex Gold Resources Inc.

We have audited the consolidated balance sheet of Torex Gold Resources Inc. as at October 31, 2010 and the consolidated statements of operations and comprehensive loss, shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at October 31, 2009 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated February 26, 2010

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
January 26, 2011

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)
(A DEVELOPMENT STAGE COMPANY)

Consolidated Balance Sheets

	October 31, 2010	October 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 62,685,970	\$ 4,388,064
Amounts receivable	605,333	62,682
Prepaid expenses	1,484,454	10,904
	<u>64,775,757</u>	<u>4,461,650</u>
Mineral property (note 3)	300,675,738	–
Equipment (note 4)	912,641	–
Deferred financing costs	–	182,719
	<u>\$ 366,364,136</u>	<u>\$ 4,644,369</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 2,893,804	\$ 540,655
Future income tax liabilities	73,520,165	–
Shareholders' equity:		
Share capital (note 5)	290,624,771	5,036,219
Warrants (note 6)	7,585,095	–
Contributed surplus	9,359,856	404,615
Accumulated other comprehensive income	5,397,303	–
Deficit	(23,016,858)	(1,337,120)
	<u>289,950,167</u>	<u>4,103,714</u>
Commitments (note 13)		
	<u>\$ 366,364,136</u>	<u>\$ 4,644,369</u>

Approved on behalf of the Board:

"Fred Stanford" _____ Director

"Andrew Adams" _____ Director

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

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)
(A DEVELOPMENT STAGE COMPANY)

Consolidated Statements of Operations and Comprehensive Loss

	Years ended October 31,	
	2010	2009
Expenses:		
General and administrative	\$ 3,437,878	\$ 1,066,765
Stock-based compensation (note 7)	8,625,958	42,000
Exploration and evaluation expenditures	4,339,420	—
Project development	1,576,107	—
Depreciation	146,149	—
	<u>18,125,512</u>	<u>1,108,765</u>
Other expense (income):		
Foreign exchange loss	37,327	700
Interest income	(406,996)	(80,179)
	<u>(369,669)</u>	<u>(79,479)</u>
Loss before income taxes	(17,755,843)	(1,029,286)
Future income tax recovery (note 9)	1,352,158	—
Net loss for the period	(16,403,685)	(1,029,286)
Other comprehensive income	5,397,303	—
Comprehensive loss	<u>\$ (11,006,382)</u>	<u>\$ (1,029,286)</u>
Net loss attributable to:		
Shareholders	(16,402,936)	(1,029,286)
Non-controlling interest	(749)	—
Net loss for the period	<u>\$ (16,403,685)</u>	<u>\$ (1,029,286)</u>
Comprehensive loss attributable to:		
Shareholders	(11,005,633)	(1,029,286)
Non-controlling interest	(749)	—
Comprehensive loss	<u>\$ (11,006,382)</u>	<u>\$ (1,029,286)</u>
Basic and diluted loss per share	\$ (0.06)	\$ (0.04)
Weighted average number of common shares outstanding	268,443,540	28,813,791

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

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)

(A DEVELOPMENT STAGE COMPANY)

Consolidated Statements of Shareholders' Equity

	Number of Shares		Years ended	
	2010	2009	2010	October 31, 2009
Share capital:				
Balance, beginning of period	30,293,380	28,762,380	\$ 5,036,219	\$ 4,109,534
Exercise of stock options	473,333	100,000	360,862	68,685
Exercise of warrants	8,746,672	1,430,000	5,474,874	858,000
Exercise of Special Warrants issued under private placement (note 5(b))	241,500,000	—	234,255,000	—
Cost of issuance of Special Warrants	—	—	(15,058,487)	—
Exercise of Special Warrants issued for acquisition of mineral property	12,443,218	—	12,069,922	—
Acquisition of mineral property	1,560,857	—	1,514,031	—
Public offering, net of cost	50,000,000	—	46,972,350	—
Balance, end of period	345,017,460	30,293,380	290,624,771	5,036,219
Warrants:				
Balance, beginning of period	—	—	—	—
Exercise of Special Warrants issued under private placement	—	—	7,245,000	—
Exercise of warrants	—	—	(33,201)	—
Exercise of Special Warrants issued for acquisition of mineral property	—	—	373,296	—
Balance, end of period	—	—	7,585,095	—
Contributed surplus:				
Balance, beginning of period	—	—	404,615	386,300
Exercise of stock options	—	—	(123,529)	(23,685)
Cost of issuance of compensation options	—	—	452,812	—
Stock-based compensation	—	—	8,625,958	42,000
Balance, end of period	—	—	9,359,856	404,615
Accumulated other comprehensive income:				
Balance, beginning of period	—	—	—	—
Currency translation adjustment	—	—	5,397,303	—
Balance, end of period	—	—	5,397,303	—
Deficit:				
Balance, beginning of period	—	—	(1,337,120)	(307,834)
Loss for the period	—	—	(16,402,936)	(1,029,286)
Acquisition of non-controlling interest	—	—	(5,276,802)	—
Balance, end of period	—	—	(23,016,858)	(1,337,120)
Non-controlling interest:				
Balance, beginning of period	—	—	—	—
Acquisition of mineral property	—	—	46,867,558	—
Currency translation adjustment	—	—	(97,634)	—
Loss for the period	—	—	(749)	—
Acquisition of non-controlling interest	—	—	(46,769,175)	—
Balance, end of period	—	—	—	—
Total shareholders' equity			\$ 289,950,167	\$ 4,103,714

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

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)
(A DEVELOPMENT STAGE COMPANY)

Consolidated Statement of Cash Flows

	Years ended October 31,	
	2010	2009
Cash flow from (used in) operating activities:		
Loss for the period	\$ (16,402,936)	\$ (1,029,286)
Non-controlling interest	(749)	-
Items not involving cash:		
Stock-based compensation	8,625,958	42,000
Amortization	146,149	-
Change in non-cash working capital balances:		
Amounts receivable	(542,651)	(61,598)
Future income tax recovery	(1,352,158)	-
Prepaid expenses	(1,473,550)	(10,904)
Accounts payable and accrued liabilities	2,353,149	387,986
	<u>(8,646,788)</u>	<u>(671,802)</u>
Cash flow used in investing activities:		
Acquisition of Morelos Gold Project, net of cash acquired	(212,065,343)	-
Additions of equipment	(717,786)	-
	<u>(212,783,129)</u>	<u>-</u>
Cash flow from (used in) financing activities:		
Deferred financing costs	(9,743)	(47,989)
Issuance of shares, net of costs	266,811,232	-
Issuance of special warrants	7,245,000	-
Exercise of stock options	237,333	45,000
Exercise of warrants	5,441,674	858,000
	<u>279,725,496</u>	<u>855,011</u>
Effect of foreign exchange rate changes in cash and cash equivalents	2,327	-
Increase (decrease) in cash and cash equivalents	58,297,906	183,209
Cash and cash equivalents, beginning of period	4,388,064	4,204,855
Cash and cash equivalents, end of period	<u>\$ 62,685,970</u>	<u>\$ 4,388,064</u>
Supplemental cash flow information:		
Income taxes paid	\$ -	\$ -
Interest paid	-	-
Mineral properties acquired for shares and special warrants	13,957,249	-

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

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)
(A DEVELOPMENT STAGE COMPANY)

Notes to the Consolidated Financial Statements

For the years ended October 31, 2010 and 2009

1. Nature of operations:

Torex Gold Resources Inc. (formerly Gleichen Resources Limited) (the "Company" or "Torex") is a development stage company, as defined by Accounting Guideline 11, of the Canadian Institute of Chartered Accountants' ("CICA") Handbook. The principal business of the Company is the acquisition, exploration and development of mineral property interests. On April 29, 2010, the name of the Company was changed to Torex Gold Resources Inc. from Gleichen Resources Limited.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. These audited consolidated financial statements have been prepared on the basis of accounting applicable to a going concern in accordance with Canadian generally accepted accounting principles ("GAAP"), with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

2. Significant accounting policies:

Summarized below are those policies considered significant to the Company.

(a) Principles of consolidation:

The audited consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, GRL Resources (Barbados) Ltd., GRL Mining (Barbados) Ltd., TGRXM S.A. de C.V. ("TGRXM") and Minera Media Luna, S.A. de C.V. ("MML"). A non-controlling interest was recorded in equity to reflect the 21.2% interest of the minority shareholder of MML from the date of acquisition of TGRXM on November 16, 2009 until February 24, 2010 when the Company acquired the remaining 21.2% interest of MML as outlined in note 3.

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)
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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

2. Significant accounting policies (continued):

The audited consolidated balance sheets include the accounts of TGRXM and MML at September 30, 2010. The audited consolidated statements of operations include the accounts of TGRXM and MML from the date of acquisition of TGRXM to September 30, 2010. The audited consolidated financial statements are adjusted to reflect transactions incurred in the intervening period from October 1, 2010 to October 31, 2010 that are considered necessary for the fair presentation of the results for the periods. The company has not made any adjustments for the intervening period as at October 31, 2010.

(b) Mineral property and exploration costs:

Exploration and evaluation costs are costs incurred to evaluate and assess deposits that have been identified as having economic potential and include costs for exploratory drilling. The Company expenses mineral property exploration and evaluation costs when incurred with the exception of acquisition costs which are capitalized.

When it has been established that a mineral deposit is commercially mineable and technically feasible and an economic analysis has been completed, the costs subsequently incurred to develop the mine on the property prior to the start of mining operations are capitalized and will be amortized against production following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned.

(c) Foreign currency translation:

The Company has determined the functional currency of its Mexican subsidiaries is the Mexican peso and, consequently, the financial statements of its foreign subsidiaries are translated into Canadian dollars, the parent Company's functional currency, using the current rate method. Assets and liabilities are translated at the exchange rate in effect at the respective balance sheet dates and equity components are translated at the exchange rate in effect at the time of acquisition or issuance. Expenses and other income are translated at the average exchange rate in the period they are recorded. Exchange gains or losses arising on translation are included in shareholders' equity as accumulated other comprehensive income.

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)
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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

2. Significant accounting policies (continued):

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the period-end exchange rates. Expenses denominated in foreign currencies are translated at rates of exchange prevailing on transaction dates, with any exchange gain or loss being recorded in the consolidated statements of operations.

(d) Equipment:

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated lives of the equipment based on the following:

Machinery and survey equipment	10 years
Vehicles	4 years
Computer and software	3 years
Office equipment and furniture	5 years
Leasehold improvements	Term of lease

(e) Cash & cash equivalents:

Cash consist of cash and highly liquid investments, which are readily convertible into cash. As at October 31, 2010 and 2009, there were no cash equivalents.

(f) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their corresponding tax values. Future income tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to be in effect in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in income in the year in which the change is enacted or substantively enacted.

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)
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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

2. Significant accounting policies (continued):

Future income tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

(g) Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of management estimates include the estimation of the carrying value of mineral property interests, the valuation of future income tax assets and the fair value of warrants, stock-based compensation and other stock-based payments. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

(h) Financial instruments:

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in the statement of loss for the period in which they arise. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive loss until the instrument is derecognized or impaired at which time the amounts would be recorded in the statement of loss.

The Company has classified its receivables as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)
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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

2. Significant accounting policies (continued):

(i) Stock-based compensation:

The Company accounts for stock-based compensation using the fair value based method. Accordingly, all stock-based compensation is measured at the fair value of the equity instruments issued on the date of grant. The fair value of stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

(j) Loss per share:

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share purchase options and warrants are used to repurchase common shares at the average market price during the period. Share purchase options and warrants or other contingent issuances are dilutive when the average market price of the common shares during the period exceeds the exercise price.

(k) Asset retirement obligation:

The Company's exploration and project development activities are subject to various governmental laws and regulations governing the protection of the environment. The Company is required to record a liability and corresponding asset, for the estimated present value of future cash flows associated with site closure and reclamation when the liability is incurred and a reasonable estimate of the fair value can be determined. The present value of future cash flows is determined using a credit-adjusted, risk-free rate. The asset retirement cost is amortized over the life of the related asset on a straight-line basis. At the end of each period, the liability is adjusted to reflect any changes in the amount or timing of the estimated future cash flows with the offsetting amount recorded as an adjustment to the related asset.

As at October 31, 2010, the Company has not incurred any asset retirement obligations.

TOREX GOLD RESOURCES INC.

(FORMERLY GLEICHEN RESOURCES LIMITED)
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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

2. Significant accounting policies (continued):

- (l) Newly adopted accounting policies:

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests:

CICA Handbook Section 1582, Business Combinations, is replacing Section 1581, Business Combinations, and establishes standards for the accounting for a business combination. This standard provides the GAAP equivalent to International Financial Reporting Standards ("IFRS") 3, Business Combinations. It requires the increased use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure.

Entities adopting Section 1582 are also required to adopt CICA Handbook Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests. These standards will be effective January 1, 2011, with early adoption permitted. The changes resulting from adopting Section 1582 will be applied prospectively and the changes from adopting Sections 1601 and 1602 will be applied retrospectively. These standards require the measurement of the non-controlling interest at its fair value upon the acquisition and require the non-controlling interest to be presented as part of shareholders' equity on the audited consolidated balance sheet. In addition, the audited consolidated statement of operations and comprehensive income of the Company includes 100% of the subsidiary's results and presents the allocation between the controlling interest and non-controlling interest. Effective November 1, 2009, the Company early adopted these standards.

3. Mineral property:

At October 31, 2010 the Company holds a 100% interest in the Morelos Gold Project in Mexico with a carrying value of \$300,675,738. No mineral property interests were held at October 31, 2009.

- (a) On November 16, 2009, the Company completed the acquisition of 78.8% of the Morelos Gold Project from Teck Resources Ltd. ("Teck") through the acquisition of 100% of TGRXM (previously Oroteck Mexico, S.A. de C.V.), from Teck's subsidiaries, Teck Metals Ltd. and Teck Exploration Ltd., for a purchase price of \$157,254,000 (U.S. \$150,000,000), the issuance of 1,560,857 common shares, and the issuance of 12,443,218 Special Warrants as defined in note 5.

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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

3. Mineral property (continued):

The transaction was accounted for as an asset purchase for accounting purposes with the initial purchase price allocated as follows:

Purchase price:	
Cash paid	\$ 157,254,000
12,443,218 Special Warrants issued	12,443,218
1,560,857 common shares issued	1,514,031
Transaction costs	3,221,791
	<hr/>
	\$ 174,433,040
Net assets acquired:	
Cash	\$ 456,427
Non-cash working capital	18,103
Equipment	346,393
Mineral property	295,090,375
Future income tax liabilities	(74,549,600)
Non-controlling interest	(46,928,658)
	<hr/>
	\$ 174,433,040

- (b) On February 24, 2010, the Company acquired the remaining 21.2% of the Morelos Gold Project, for \$52,000,000, through the exercise of a right of first refusal held by TGRXM, to acquire shares of MML, which shares were held indirectly by Goldcorp Inc. through Desarrollos Mineros San Luis, S.A. de C.V. Upon completion of the acquisition, the Company holds 100% of the Morelos Gold Project through its wholly owned subsidiaries. The Morelos Gold Project is subject to royalties equivalent to 2.5% of the gross income derived from any production produced from the mineral concessions comprising the Morelos Gold Project. The Company incurred \$45,979 of legal costs for the acquisition. As a result of the acquisition, the Company recorded a charge of \$5,276,802 to deficit on elimination of non-controlling interest.

TOREX GOLD RESOURCES INC.

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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

4. Equipment:

October 31, 2010	Cost	Accumulated amortization	Net book value
Machinery and survey equipment	\$ 307,553	\$ 19,895	\$ 287,658
Vehicles	257,952	16,113	241,839
Computer and software	279,367	49,328	230,039
Office equipment and furniture	65,362	6,164	59,198
Leasehold improvements	148,556	54,649	93,907
	<u>\$1,058,790</u>	<u>\$ 146,149</u>	<u>\$ 912,641</u>

The Company did not own any equipment at October 31, 2009.

5. Share capital:

- (a) The Company is authorized to issue unlimited common shares, without par value.
- (b) On November 12, 2009, the Company completed a private placement of 241,500,000 special warrants (the "Special Warrants") issued at a price of \$1.00 per Special Warrant for gross proceeds of \$241,500,000. Each Special Warrant was subsequently deemed exercised for no additional consideration to acquire one unit comprised of one common share of the Company (a "Unit Share") and one-quarter of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). The Unit Shares were valued at \$0.97 per Unit Share and the Warrants were valued at \$0.12 per Warrant. The Special Warrants were issued pursuant to the terms of a Special Warrant Indenture dated November 12, 2009, between the Company and Computershare Trust Corporation of Canada as Special Warrant Agent. Each Warrant is transferrable and entitles the holder thereof to purchase one common share (each, a "Warrant Share") of the Company at a price of \$1.30 per Warrant Share at any time prior to the close of business on November 12, 2011. The Company was receipted by the applicable securities regulators for the Long Form Prospectus qualifying the Unit Shares and Warrants underlying the Special Warrants on January 15, 2010 and all outstanding Special Warrants issued in the financing were automatically exercised into Unit Shares and Warrants as of January 20, 2010.

TOREX GOLD RESOURCES INC.

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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

5. Share capital (continued):

The agents received \$13,282,500 in cash commission and 2,415,000 compensation options with an exercise price of \$1.15 per option. Each compensation option entitles its holder to acquire one common share and one-quarter of one common share purchase warrant with each whole warrant exercisable into one common share of the Company at \$1.30 per share until November 12, 2011. The compensation options were valued at \$452,812 or \$0.19 per option. The Company incurred \$1,323,175 in financing costs mainly consisting of legal, accounting and consulting fees and fees paid to the transfer agent.

As a result, the Company received net proceeds of \$226,894,325 related to this transaction.

- (c) On February 24, 2010, the Company completed a public offering of 50,000,000 common shares issued at a price of \$1.00 per common share for gross proceeds of \$50,000,000.

The agents received \$2,750,000 in cash commission. The Company incurred \$277,650 in financing costs mainly consisting of legal and accounting fees and fees paid to the transfer agent.

TOREX GOLD RESOURCES INC.

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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

6. Warrants:

The following is a summary of share purchase warrant activity for the period ended October 31, 2010:

	Number	Weighted average exercise price
Balance, October 31, 2008	10,701,875	\$ 0.59
Expired	(701,875)	0.45
Exercised	(1,430,000)	0.60
Balance, October 31, 2009	8,570,000	0.60
Expired	(100,000)	0.60
Exercised	(8,746,672)	0.62
Exercise of Special Warrants issued under private placement (note 5(b))	60,374,999	1.30
Exercise of Special Warrants issued for acquisition of mineral property (note 3)	3,110,804	1.30
Balance, October 31, 2010	63,209,131	\$ 1.30

The following share purchase warrants were outstanding at October 31, 2010:

Number	Exercise price	Expiry date
63,209,131	1.30	November 12, 2011

TOREX GOLD RESOURCES INC.

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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

7. Stock options:

The Board of Directors is authorized to grant options to directors, officers, consultants or employees to acquire up to 10% of the then issued and outstanding common shares, including pre-existing stock options. The exercise price of options granted shall not be less than the price permitted by any stock exchange on which the common shares are then listed or other regulatory body having jurisdiction. The term of any stock option grant may not exceed five years.

During the year ended October 31, 2010, the Company approved the grant of 14,691,500 stock options to directors, officers, employees and consultants. Of the total number of options granted, 14,191,500 options vest as follows: one-third on the date of grant and one-third on each of the following two anniversary dates. The remaining options vest when the Company's market capitalization reaches \$750,000,000. The weighted average fair value of the options issued during the year is \$0.60 per option.

A summary of changes in the Company's stock options is presented below:

	Number	Weighted average exercise price
Balance, October 31, 2008	1,290,000	\$ 0.42
Exercised	(100,000)	0.45
Balance, October 31, 2009	1,190,000	0.42
Exercised	(473,333)	0.50
Issued to directors, officers and employees	14,691,500	1.23
Cancelled	(133,333)	1.18
Balance, October 31, 2010	15,274,834	\$ 1.14

TOREX GOLD RESOURCES INC.

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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

7. Stock options (continued):

At October 31, 2010, the Company had outstanding stock options, enabling the holders to acquire common shares as follows:

Number	Exercise price	Expiry date
750,000	\$ 0.40	May 13, 2013
14,133,334	1.18	January 21, 2015
160,000	0.96	February 26, 2015
20,000	1.21	April 29, 2015
75,000	1.27	June 9, 2015
75,000	1.27	July 5, 2015
61,500	1.33	September 14, 2015

The fair value of the stock options recognized in the consolidated financial statements has been estimated using the Black-Scholes option pricing model or a binomial lattice numeral method. The following assumptions were made in the option valuation models for stock options issued during the year ended October 31, 2010:

	2010	2009
Risk-free interest rate	2.4% - 2.5%	—
Expected life of options	5 years	—
Annualized volatility	50.0% - 77.5%	—
Dividend yield	0.0%	—

8. Restricted share units:

The Company has a Restricted Share Unit ("RSU") Plan which allows for RSU's, up to 3% of the then issued and outstanding common shares, to be granted to the participants in the plan.

RSU's are valued based on the closing stock price at the date of grant and are recognized into the consolidated statements of operations over the vesting period. The RSU's are converted into common shares of the Company on the exercise date.

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Notes to the Consolidated Financial Statements (continued)

For the years ended October 31, 2010 and 2009

8. Restricted share units (continued):

On February 24, 2010, the Company issued 3,000,000 RSUs to certain directors of the Company and 500,000 RSUs to a director and officer of the Company. The RSUs, valued at \$0.99 per RSU, vest on the first anniversary of the date of issuance.

9. Income taxes:

(a) A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2010	2009
Loss before income taxes	\$ (17,755,843)	\$ (1,029,286)
Expected tax recovery	\$ (5,593,090)	\$ (309,640)
Non-deductible items in Canada	2,726,535	15,583
Non-deductible items in Mexico	24,749	-
Deductible financing costs	-	(25,075)
Rate difference in Canada	273,438	-
Rate difference in Mexico	169,020	-
Valuation allowance	1,047,190	319,132
Total income taxes	\$ (1,352,158)	\$ -

(b) Details of future income assets and liabilities are as follows:

	2010	2009
Future tax assets:		
Resource deductions	\$ 890,000	\$ 890,000
Excess of tax value of capital assets over book value	17,000	-
Share issuance costs	3,647,000	87,000
Non-capital loss carryforwards in Canada	2,349,000	381,000
	\$ 6,903,000	\$ 1,358,000
Valuation allowance	(6,903,000)	(1,358,000)
Total future tax assets	\$ -	\$ -

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9. Income taxes (continued):

	2010	2009
Future tax liabilities:		
Loss carryforwards in Mexico	\$ 1,352,158	\$ -
Excess of book value of mineral property over tax value	(74,872,323)	-
Total future tax liabilities	\$ (73,520,165)	\$ -

- (c) As at October 31, 2010, the company has accumulated non-capital losses in Canada of approximately \$9,397,000. These losses will expire from 2014 to 2030 as follows:

2014	\$ 67,000
2015	81,000
2026	77,000
2027	116,000
2028	82,000
2029	1,099,000
2030	7,875,000
Total unused tax losses	\$ 9,397,000

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9. Income taxes (continued):

As at October 31, 2010, the company has accumulated non-capital losses in MML for income tax purposes of approximately \$1,883,000 (22,233,000 Mexican pesos ("MXN")). These losses will expire from 2011 to 2020 as follows:

	MXN	CAD \$
2011	1,673,000	\$ 141,000
2012	2,571,000	218,000
2013	3,610,000	306,000
2014	1,302,000	110,000
2015	457,000	39,000
2016	2,384,000	202,000
2017	3,906,000	331,000
2018	3,355,000	284,000
2019	1,503,000	127,000
2020	1,472,000	125,000
Total unused tax losses	22,233,000	\$ 1,883,000

The Company has unclaimed exploration and development expenditures of approximately \$3,560,000 (2009 - \$3,560,000) which can be deducted for income tax purposes in Canada in future years at the Company's discretion. The Company also has unclaimed costs of financing of approximately \$14,588,000 (2009 - \$350,000) in Canada which can be deducted over the next five years.

In assessing the realization of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. A valuation has been provided against all net future tax assets, as realization of such net assets is uncertain.

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10. Related party transactions:

During the year ended October 31, 2010, the Company incurred costs of \$73,334 (2009 - nil), for consulting fees to one director of the Company. The director, the former Chief Executive Officer of the Company, provided consulting services to the Company to assist with the transition of new management and continued corporate development activities. The agreement relating to these services was terminated in April 2010. Nil (2009 – nil) was owing to this director as at October 31, 2010.

During the year ended October 31, 2010, the Company incurred expenses totalling \$201,131 (2009 - nil) for general legal services. Also during the same period \$447,964 (2009 - \$233,513) was incurred for legal services related to the acquisition of the Morelos Gold Project and for services related to the closing of the November 2009 private placement and the February 2010 public offering. The Company's corporate secretary is a partner in the legal firm which provided these services. As at October 31, 2010, \$22,801 (2009 – \$128,200) was due to this related party and included in accounts payable and accrued liabilities.

During the year ended October 31, 2010, the Company incurred costs of \$14,256 (2009 - \$60,000) for office facilities and administrative services payable to a company related by virtue of one director and two officers in common. In addition, \$100,000 (2009 - \$14,000) was incurred for services related to the completion of the acquisition of the Morelos Gold Project and for services related to the closing of the \$241,500,000 private placement. As at October 31, 2010, nil (2009 - \$18,240) was due to this related party and included in accounts payable and accrued liabilities. The limited activity of the Company prior to the acquisition of the Morelos Gold Project did not warrant the Company having its own office and full-time staff and, as a result, the office and administrative service costs were incurred. The Company moved its offices to Toronto and hired permanent staff during the first quarter of 2010 and, as a result, the above relationships were terminated during the same period.

During the year ended October 31, 2010, the Company incurred costs of \$98,597 (2009 – nil) for the rental of its head office space in Toronto from a company related by virtue of two directors in common. As at October 31, 2010, \$14,367 (2009 - nil) was due to this related party and included in accounts payable and accrued liabilities.

The above transactions were in the normal course of business and were measured at the exchange amount which is the amount agreed to by the related parties.

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11. Financial instruments and risks:

The Company's financial instruments consist of cash, amounts receivable and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to their short-term maturity.

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

(a) Credit risk:

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

(b) 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, 2010, the Company had a cash balance of \$62,685,970 (2009 - \$4,388,064) to settle current liabilities of \$2,893,804 (2009 - \$540,655). All of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms. The Company invests its cash in fully liquid Schedule A bank business investment savings accounts.

(c) Market risk:

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

(i) Interest rate risk:

The Company deposits cash in fully liquid Schedule A bank business investment savings accounts. Interest is calculated based on an annual interest rate of 1.05% compounded monthly. As at October 31, 2010, the Company had \$60,241,009 in such accounts. As at October 31, 2009, the Company had cash and cash equivalents totalling \$3,702,154 in cashable short-term Schedule A bank investments. Those investments could be cashed at any time if interest rates moved higher.

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11. Financial instruments and risks (continued):

(ii) Foreign currency risk:

The Company is exposed to financial risk related to foreign exchange rates. The Company operates in Canada and Mexico and has exposure to financial risk arising from fluctuations in foreign exchange rates. The Company expects a significant amount of project development and exploration expenditures associated with the Morelos Gold Project to be paid in Mexican pesos and U.S. dollars. The Company's common shares trade in Canadian dollars and the Company expects that any future equity raised will be raised in Canadian dollars. A significant change in the currency exchange rates between the Canadian dollar and the peso or U.S. dollar is expected to have an effect on the Company's results of operations in future periods.

At October 31, 2010, the Company has not hedged its exposure to foreign currency exchange fluctuations. At October 31, 2010, the Company had cash and cash equivalents denominated in U.S. dollars of \$1,287,801 and accounts payable and accrued liabilities of \$285,940.

A 10% appreciation or depreciation of the U.S. dollar would result in approximately \$102,000 decrease or increase in the Company's net loss for the period.

12. Capital management:

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. As at October 31, 2010, the Company's Shareholders' equity was \$289,950,167 and it had accounts payable and accrued liabilities of \$2,893,804. The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

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12. Capital management (continued):

The capital for expansion was mostly from proceeds from the issuance of common shares. The net proceeds raised are used to advance the development of the Morelos Gold Project and provide sufficient working capital to meet the Company's ongoing obligations.

As at October 31, 2010, the Company had no debt obligations and was not subject to any externally imposed capital requirement.

13. Commitments:

The Company has not entered into any debt or lease arrangements other than entering into office lease agreements. The Company's future commitments to office lease agreements are as follows:

2011	\$	203,842
2012		208,349
2013		226,297
2014		122,512
Thereafter		-

14. Segmented information:

The Company's mineral property and equipment is substantially located in Mexico.

15. Comparative figures:

Certain 2009 figures have been reclassified to conform with the financial statement presentation adopted in 2010.