VICTORY RESOURCES CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in Canadian Dollars)

FOR THE SIX MONTHS ENDED AUGUST 31, 2011

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the period ended August 31, 2011.

VICTORY RESOURCES CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(Unaudited)
(Expressed in Canadian Dollars)

	August 31, 2011	February 28, 2011 (Note 16)	March 1, 2010 (Note 16)
ASSETS			
Current assets			
Cash and cash equivalents (Note 4)	$ 89,643	$ 495,043	$ 100,310
Receivables (Note 5)	47,112	22,833	15,439
Prepaid expenses (Note 6)	8,528	30,799	13,259
Total current assets	145,283	548,675	129,008
Non-current assets			
Equipment (Note 7)	142,384	164,537	10,544
Exploration advances (Note 6)	67,982	413,914	74,515
Exploration and evaluation assets (Note 8)	5,257,148	2,339,927	1,140,603
Total non-current assets	5,467,514	2,918,378	1,225,662
Total assets	$ 5,612,797	$ 3,467,053	$ 1,354,670
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (Note 9)	$ 335,207	$ 157,413	$ 104,222
Due to related parties (Note 10)	114,069	31,260	92,032
Total liabilities	449,276	188,673	196,254
Shareholders' equity			
Capital stock (Note 11)	17,776,959	15,370,459	12,233,529
Reserves (Note 11)	956,950	606,928	498,338
Share subscriptions received in advance (Note 11)	-	-	15,000
Deficit	(13,570,388)	(12,699,007)	(11,588,451)
Total shareholders' equity	5,163,521	3,278,380	1,158,416
Total liabilities and shareholders' equity	$ 5,612,797	$ 3,467,053	$ 1,354,670

Nature, continuance of operations and going concern (Note 1)
Commitments (Note 15)
Subsequent event (Note 16)
Reconciliation of Canadian GAAP to IFRS (Note 16)

Approved and authorized by the Board on ____________.

"Wally Boguski"	Director	*"Paul Lee"*	Director
Wally Boguski		Paul Lee	

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

VICTORY RESOURCES CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE LOSS
(Unaudited)
(Expressed in Canadian Dollars)

	Three Months Ended August 31, 2011	Three Months Ended August 31, 2010	Six Months Ended August 31, 2011	Six Months Ended August 31, 2010
EXPENSES				
Amortization	$ 10,861	$ 6,055	$ 21,722	$ 9,640
Professional fees	42,631	77,302	165,924	155,455
Management fees (Note 10)	21,000	22,000	42,000	41,500
Office and administration	2,870	64,183	41,937	114,254
Stock-based compensation (Note 11)	-	(22,494)	393,905	114,237
Transfer agent and filing fees	1,069	2,944	4,752	30,297
Travel	2,107	37,150	28,016	65,275
Wages and salaries (Note 10)	65,667	26,715	172,090	35,460
Investor relations	-	16,501	-	16,501
Loss before other items	(146,205)	(230,356)	(870,346)	(582,619)
OTHER ITEMS				
Interest income	1	-	38	-
Loss on foreign exchange	(936)	-	(1,073)	-
	(935)	-	(1,035)	-
Comprehensive loss for the period	$ (147,140)	$ (230,356)	$ (871,381)	$ (582,619)
Basic and diluted loss per common share	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.02)
Weighted average number of common shares outstanding	52,930,518	38,311,680	47,115,446	34,783,501

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

VICTORY RESOURCES CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian Dollars)

	Six Months Ended August 31, 2011	Six Months Ended August 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ (871,381)	$ (582,619)
Items not affecting cash:		
Amortization	21,722	9,640
Stock-based compensation	393,905	114,237
	(455,754)	(458,742)
Non-cash working capital item changes:		
Receivables	(24,279)	(31,312)
Prepaid expenses	22,271	(35,460)
Payables and accrued liabilities	115,834	(64,884)
Net cash used in operating activities	(341,928)	(590,398)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	-	(135,411)
Acquisition of exploration and evaluation assets	-	(123,264)
Exploration advances	(4,833)	(181,095)
Exploration and evaluation	(191,697)	(413,923)
Net cash used in investing activities	(196,530)	(853,693)
CASH FLOWS FROM FINANCING ACTIVITIES		
Obligation to issue common shares	-	540,000
Issuance of shares for cash, net of costs	126,500	1,478,465
Amounts due to related parties	52,809	(80,796)
Net cash provided by financing activities	179,309	1,937,669
Effect of foreign exchange rate on cash balances	(46,251)	-
Change in cash for the period	(405,400)	493,578
Cash, beginning of period	495,043	97,310
Cash, end of period	$ 89,643	$ 590,888
Cash and cash equivalent consists of:		
Cash on hand	$ 86,643	$ 587,888
Term deposits	$ 3,000	$ 3,000

Supplemental disclosure with respect to cash flows (Note 14)

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

VICTORY RESOURCES CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)
(Expressed in Canadian Dollars)

	Capital Stock		Reserves						
	Number	**Amount**	**Share-based payment**	**Foreign currency translation**	**Others**	**Total Reserves**	**Obligation to issue common shares**	**Deficit**	**Total equity**
Balance as at March 1, 2010	29,998,128	$ 12,233,529	$ 498,338	$ -	$ -	$ 498,338	$ 15,000	$ (11,588,451)	$ 1,158,416
Issued for:									
Warrants exercise	862,900	101,290	-	-	-	-	-	-	101,290
Private placement	5,780,000	1,445,000	-	-	-	-	540,000	-	1,985,000
Acquisition of mineral properties	2,000,000	400,000	-	-	-	-	-	-	400,000
Share issuance costs	-	(67,825)	-	-	-	-	-	-	(67,825)
Stock-based compensation	-	-	114,237	-	-	114,237	-	-	114,237
Options expired	-	-	(10,986)	-	-	(10,986)	-	10,986	-
Loss for the period	-	-	-	-	-	-	-	(582,619)	(582,619)
Balance as at August 31, 2010	38,641,028	$ 14,111,994	$ 601,589	$ -	$ -	$ 601,589	$ 555,000	$ (12,160,084)	$ 3,108,499
Balance as at March 1, 2011	46,099,685	15,370,459	601,589	(6,116)	11,455	606,928	-	(12,699,007)	3,278,380
Warrants exercise	1,265,000	126,500	-	-	-	-	-	-	126,500
Acquisition of mineral properties	6,000,000	2,280,000	-	-	-	-	-	-	2,280,000
Stock-based compensation	-	-	393,905	-	-	393,905	-	-	393,905
Foreign currency translation differences	-	-	-	(43,883)	-	(43,883)	-	-	(43,883)
Loss for the period	-	-	-	-	-	-	-	(871,381)	(871,381)
Balance as at August 31, 2011	53,364,685	$ 17,776,959	$ 995,494	$ (49,999)	$ 11,455	$ 956,950	$ -	$ (13,570,388)	$ 5,163,521

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

1. NATURE AND CONTINUANCE OF OPERATIONS, AND GOING CONCERN

Victory Resources Corporation, ("Victory" or "the Company") is a publicly traded junior mineral exploration company engaged in the exploration of its British Columbia and Sinaloa, Mexico mineral properties. The Company is in the development stage in respect of its exploration activities, and has no significant revenues. The common shares of the company trade on the TSX Venture Exchange ("TSX-V") under the symbol "VR".

The Company was incorporated in British Columbia on February 8, 1984. The Company's head, registered and records office address is C206 – 9801 King George Highway, Surrey, BC, V3T 5H5.

In fiscal 2011 the Company incorporated two wholly-owned subsidiaries, Victory Resources Corporation U.S.A., incorporated under the laws of Arizona, U.S.A. in August 2010 and VicRes Mining Mexico S.A. de C.V., incorporated under the laws of Sonora, Mexico in April 2010.

These condensed consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at August 31, 2011 the Company has a deficit of $13,570,388 and has incurred losses since inception. The Company is in the process of exploring and developing its mineral properties and has not yet determined whether those properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties interests is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to fund property commitments and to complete the exploration and development of the properties and upon achieving future profitable production or proceeds from the disposition thereof.

The Company has financed its operations primarily through the issuance of common shares, loans proceeds and advances from related parties. The Company continues to seek capital through various means including the issuance of equity and/or debt. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future or on terms that are favorable to the Company. Accordingly these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

2. BASIS OF PREPARATION AND FIRST TIME ADOPTION OF IFRS

Statement of compliance

These consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

2. BASIS OF PREPARATION AND FIRST TIME ADOPTION OF IFRS (cont'd…)

Statement of compliance (cont'd…)

The Company's transition date to IFRS is March 1, 2011. The rules for first-time adoption of IFRS are set out in IFRS 1, "First-time adoption of International Financial Reporting Standards". In preparing the Company's first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles ("GAAP"). Historical results and balances have been restated under IFRS. These consolidated interim financial statements should be read in conjunction with the Company's 2010 GAAP annual financial statements, and in consideration of the disclosure regarding the transition from Canadian GAAP to IFRS included in Note 16. Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS are not included in these interim financial statements nor in the Company's most current annual GAAP financial statements.

Basis of consolidation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

The financial statements include the financial statements of Victory Resources Corporation and its subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest	Principal Activity
Victory Resources Corporation, U.S.A.	Arizona, U.S.A.	100%	Mineral exploration
VicRes Mining Mexico S.A. de C.V.	Sonora, Mexico	100%	Mineral exploration

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the parent company's functional currency. The functional currency for Victory Resources Corporation, U.S.A. is in US dollars and the functional currency for VicRes Mining Mexico S.A. de C.V. is in Mexican Pesos.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2. BASIS OF PREPARATION AND FIRST TIME ADOPTION OF IFRS (cont'd…)

Use of estimates and judgments (cont'd…)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Estimated useful lives of property, plant and equipment

The estimated useful lives of property, plant and equipment which are included in the consolidated statements of financial position will impact the amount and timing of the related depreciation included in profit or loss.

Share-based compensation

The fair value of stock options issued with Canadian dollar exercise prices are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. The Company has not recorded any deferred tax assets.

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements are, but are not limited to, the following:

Determination of functional currency

In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates" management determined that the functional currency of the Company is Canadian dollars and the functional currency of its US subsidiary is the US dollar and the functional currency of its Mexican subsidiary is the Mexican Pesos.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid short-term interest bearing variable rate investments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

Foreign currency translation

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the period-end exchange rate.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss.

On consolidation, for subsidiaries with functional currencies other than Canadian dollars, the assets and liabilities are translated into Canadian dollars using the period-end rate and the operations and cash flows are translated using the average rates of exchange. Exchange adjustments arising when the opening net assets and the profit or loss are translated into Canadian dollars are taken into a separate component of equity and reported in the other comprehensive profit or loss.

Financial instruments

<u>Financial assets</u>

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

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 carried at cost less any provision for 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.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial assets (cont'd…)

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for- sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the income statement.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

Other financial liabilities: This category includes promissory notes, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified its cash and cash equivalents as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities and due to a related party are classified as other financial liabilities.

Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the declining balance method at the following annual rates:

Computer and office equipment	30%
Exploration equipment	20%
Furniture and fixtures	20%
Vehicles	30%

Equipment that is withdrawn from use, or have no reasonable prospect of being recovered through use or sale, are regularly identified and written off.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Equipment (cont'd…)

Assets measured at historical cost less accumulated depreciation and impairment losses. Depreciation is charged on the declining balance basis over the useful lives of these assets. Residual values and useful economic lives are reviewed at least annually, and adjusted if appropriate, at each reporting date.

Subsequent expenditure relating to an item of property, plant and equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance.

Mineral properties

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractor and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Mineral properties (cont'd…)

Exploration and evaluation expenditures (cont'd…)

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction." Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

Reclamation deposits

Cash which is subject to contractual restrictions on use is classified separately as reclamation deposits. Reclamation deposits are classified as loans and receivables.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such 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. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount 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 profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asst belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Provision for environmental rehabilitation

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Stock-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-base compensation is transferred to accumulated losses (deficit). The corporation estimates a forfeiture rate and adjusts the corresponding expense each period based on an updated forfeiture estimate.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes (cont'd…)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Mining tax credits

Mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining tax credits are earned in respect to exploration costs incurred in British Columbia, Canada and are recorded as a reduction of the related deferred exploration expenditures.

Flow through shares

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow through shares whereby the premium paid for the flow through shares in excess of the market value of the shares without flow through features at the time of issue is credited to other liabilities and included in income at the same time the qualifying expenditures are made.

New standards not yet adopted

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entitles would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact on the Company upon implementation of the issued standard.

(Expressed in Canadian Dollars)

4. CASH AND CASH EQUIVALENTS

	August 31, 2011	February 28, 2011	March 1, 2010
Cash on deposit	$ 86,643	$ 492,043	$ 97,310
Liquid short term deposit	3,000	3,000	3,000
	$ 89,643	$ 495,043	$ 100,310

5. RECEIVABLES

The Company's receivables arise from two main sources: harmonized sales tax ("HST") receivable due from Canadian government taxation authorities and IVA tax receivable from Mexican government. These are broken down as follows:

	August 31, 2011	February 28, 2011	March 1, 2010
HST receivable	$ 18,313	$ 18,108	$ 15,439
IVA taxes receivable	28,799	4,725	-
	$ 47,112	$ 22,833	$ 15,439

6. PREPAID EXPENSES, EXPLORATION ADVANCES AND DEPOSITS

	August 31, 2011	February 28, 2011	March 1, 2010
Prepaid expenses and deposits	$ 8,528	$ 30,799	$ 13,259
Exploration advances	$ 67,982	$ 413,914	$ 74,515

The Company advances exploration deposits against future work in the course of exploring its Canadian and Mexican properties.

(Expressed in Canadian Dollars)

7. EQUIPMENT

	Furniture and fixtures	Computer & office equipment	Exploration equipment	Vehicles	Total
Cost					
Balance, March 1, 2010	$ 41,969	$ 40,887	$ -	$ -	$ 82,856
Additions	16,751	12,278	92,039	107,847	228,915
Disposals	-	-	(46,976)	-	(46,976)
Balance, February 28, 2011	58,720	53,165	45,063	107,847	264,795
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Foreign exchange adjustment	(534)	-	-	-	(534)
Balance, August 31, 2011	$ 58,186	$ 53,165	$ 45,063	$ 107,847	$ 264,261
Accumulated depreciation					
Balance, March 1, 2010	$ 36,068	$ 36,244	$ -	$ -	$ 72,312
Depreciation for the year	2,854	3,234	9,204	16,177	31,469
Disposals	-	-	(3,523)	-	(3,523)
Balance, February 28, 2011	38,922	39,478	5,681	16,177	100,258
Depreciation for the period	1,980	2,053	3,938	13,751	21,722
Foreign exchange adjustment	(103)	-	-	-	(103)
Balance, August 31, 2011	$ 40,799	$ 41,531	$ 9,619	$ 29,928	$ 121,877
Carrying amounts					
As at March 1, 2010	$ 5,901	$ 4,643	$ -	$ -	$ 10,544
As at February 28,2011	$ 19,798	$ 13,687	$ 39,382	$ 91,670	$ 164,537
As a August 31, 2011	$ 17,387	$ 11,634	$ 35,444	$ 77,919	$ 142,384

8. EXPLORATION AND EVALUATION ASSETS

	Toni Property	Reforma Project	Total
Activities during the periods			
Balance, March 1, 2010	$ 983,022	$ 157,581	$ 1,140,603
Additions:			
Acquisition costs	21,704	506,036	527,740
Geological and other consulting	99,250	153,094	252,344
Fieldwork, equipment rental and other	16,332	112,852	129,184
Analysis and report preparation	13,828	24,614	38,442
Travel	8,509	53,460	61,969
Drilling	106,522	-	106,522
Project management	35,500	59,067	94,567
Less: BC mineral exploration tax credit received	(11,444)	-	(11,444)
Balance, February 28, 2011	1,273,223	1,066,704	2,339,927

-Continued-

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

	Toni Property	Reforma Project	Total
Continued…			
Additions:			
Acquisition costs	$ -	$ 2,385,954	$ 2,385,954
Geological and other consulting	5,000	81,775	86,775
Fieldwork, equipment rental and other	662	332,960	333,622
Analysis and report preparation	242	43,806	44,048
Travel	-	1,526	1,526
Drilling	-	4,722	4,722
Project management	15,000	51,744	66,744
Less: BC mineral exploration tax credit received	(8,969)	-	(8,969)
Foreign exchange adjustment	-	2,799	2,799
Balance, August 31, 2011	$ 1,285,158	$ 3,971,990	$ 5,257,148
Total carrying amounts			
Acquisition costs	$ 223,948	$ 2,918,788	$ 3,142,736
Geological and other consulting	363,307	298,182	661,489
Fieldwork, equipment rental and other	155,714	449,002	604,716
Analysis and report preparation	97,883	86,565	184,448
Travel	32,236	80,087	112,323
Drilling	316,983	4,722	321,705
Project management	115,500	131,845	247,345
Less: BC mineral exploration tax credit received	(20,413)	-	(20,413)
Effect of foreign exchange translation	-	2,799	2,799
Balance, August 31, 2011	$ 1,285,158	$ 3,971,990	$ 5,257,148

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties, and to the best of its knowledge, title to all of its properties, except as described below, are properly registered and in good standing.

Toni Property, Nicola Division, British Columbia

At August 31, 2011 the company owns a 100% interest in 59 mineral tenures totaling 22,141 Ha, known as the "Toni Property", subject to a 2% net smelter royalty on certain portions thereof.

a) During the year ended February 28, 2006, the Company entered into a Property Option and Joint Operation Agreement to earn an initial 50% interest in a mineral property located in the Nicola Mining Division, British Columbia with an option to acquire up to a 70% interest (amended to 100% during the year ended February 28, 2007).

b) During the year ended February 28, 2007, the Company exercised the option and earned a 100% interest in the mineral property free and clear of all charges, encumbrances and claims. As consideration the Company paid $30,000, issued 300,000 common shares and incurred at least $250,000 in cumulative exploration expenditures during the years ended February 28, 2006 and 2007. The agreement is subject to a 2% net smelter return royalty.

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Toni Property, Nicola Division, British Columbia (cont'd…)

c) During the year ended February 29, 2008, the Company acquired a 100% interest in four mineral properties contiguous to the Toni project (formerly Au/Wen) for cash consideration of $6,038.

d) During the year ended February 28, 2009, the Company acquired an additional seven mineral claims in the Nicola Mining Division adjacent to its existing holdings for total consideration of $20,000 and an additional 56 mineral claims at a cost of $11,564 through staking.

e) During the year ended February 28, 2010 the Company amalgamated 15 of the Toni properties and forfeited 23 Toni property leases.

f) During the year ended February 28, 2011, the Company paid $21,704 in order to extend 50 mineral tenures into the years 2011, 2012, 2013 and 2014. The Company chose to forfeit 8 tenures in August 2010. All but 8 of the 59 mineral tenures are in good standing to March 20, 2012 or later.

Reforma Project

On March 4, 2010 the Company executed a formal agreement (the "Reforma Agreement") whereby it has been granted an option to acquire a 70% undivided interest in the Reforma Mine property, Sinaloa, Mexico. Approval of the Reforma agreement was received from the TSX Venture Exchange on May 20, 2010.

In order to earn its 70% interest, the Company is required to pay to the owners US$300,000, issue a total of 14,000,000 common shares and conduct work programs aggregating US$2,500,000. The shares issued to the Owners in the second and third tranches (i.e. 12,000,000 shares) will be pooled voluntarily. 1,500,000 shares will be released 12 months after TSX approval and 1,500,000 will be released every six months thereafter. Upon the completion of the earn in by the Company, the parties have agreed to form a joint venture ("the JV") for the purpose of the further development and exploration of the property with the owner to retain a carried interest for the first US$15,000,000 of JV expenditures. Thereafter, the parties will fund their further participation in the JV in accordance with their 30/70 respective interest and will be subject to standard penalties.

In order to meet the terms of its Option agreement and earn its 70% interest in the Reforma Property, the Company must make cash and share payments and complete work programs as detailed below:

Cash payments	Shares to be issued	Work Program commitment
US$50,000 due June 10, 2010 (paid)	2,000,000 shares by June 10, 2010 (issued)	US$500,000 by May 20, 2011 (spent)
US$50,000 due November 20, 2010 (paid)	6,000,000 shares by May 20, 2011 (issued)	US$1,000,000 by May 20, 2012
US$100,000 due May 20, 2011 (paid subsequently as per agreement)	6,000,000 shares by May 20, 2012	US$1,000,000 by May 20, 2013
US$100,000 due May 20, 2012		

(Expressed in Canadian Dollars)

9. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

Payables and accrued liabilities for the Company are broken down as follows:

	August 31, 2011	February 28, 2011	March 1, 2010
Trade payables	$ 295,207	$ 60,413	$ 64,622
Accrued liabilities	40,000	97,000	39,600
Total	$ 335,207	$ 157,413	$ 104,222

All payables and accrued liabilities for the Company fall due within the next 12 months.

10. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management personnel during the three months ended August 31, 2011 and 2010 are as follows:

Six months ended August 31,	2011	2010
Salaries and directors fees	$ 32,000	$ 11,500
Management fees	30,000	30,000
Stock-based compensation (i)	139,106	70,299
Project management fees	30,000	30,000
Exploration expenses	5,000	67,750
Consulting fees	-	9,000
	$ 236,106	$ 218,549

(i) Share-based payments are the fair value of options granted to key management personnel.

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

The amounts due from the related party are as follows:

	August 31, 2011	February 28, 2011	March 1, 2010
Due from (to) directors and officers	$ (40,358)	$ 1,126	$ (77,032)
Due to Sierra Iron Ore (formerly Naina Capital) (i)	(43,711)	(32,386)	(15,000)
Due to CBR Capital (i)	(30,000)	-	-
	$ (114,069)	$ (31,260)	$ (92,032)

(i) Companies controlled by a common director

11. CAPITAL STOCK AND RESERVES

a) Authorized share capital:

As at August 31, 2011, the authorized share capital of the Company was 1,000,000,000 common shares without par value. All issued shares are fully paid.

b) Issued share capital:

During the period ended August 31, 2011, the Company:

a) Issued 1,265,000 shares for warrants exercised at $0.10 per warrant for proceeds of $126,500.

b) Issued 6,000,000 common shares valued at $2,280,000 to the owners of the Reforma Property as per agreement (Refer to Note 8).

During the year ended February 28, 2011 the Company:

a) Issued 9,825,000 units pursuant to a private placement for aggregate proceeds of $2,456,250 at a price of $0.25 per unit. Each unit consists of one common share and one half of one share purchase warrant. A full warrant entitles the holder to acquire one common share at a price of $0.40 for 24 months from closing. The Company allocated the entire proceeds of the private placement to common shares and none to warrants.

b) Incurred share issuance costs in the amount of $146,975 which includes cash commissions of $132,500 and legal, closing, listing and filing fees of $14,475.

c) Issued 4,276,557 shares for warrants exercised at $0.10 per warrant, for proceeds of $427,656.

d) Issued 2,000,000 common shares, valued at $400,000, to the owners of the Reforma Property as per agreement. (Refer to Note 8).

c) Escrow:

At August 31, 2011, there are 200,000 (February 28, 2011 - 200,000; March 1, 2010 – 200,000) common shares held in escrow. The release of these shares is subject to the approval of the TSX-V.

d) Stock options:

The Company grants options under the terms of its rolling stock option plan to executive officers, directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding shares of the Company. The exercise price of each option equals the market price of the Company’s stock, less allowable discount, as calculated on the date of grant. The options can be granted for a maximum term of 10 years.

During the period ended August 31, 2011, the company granted 1,102,627 (2010 – 778,000) stock options to officers, directors and consultants of the Company. These options may be exercised at a price of $0.45 and expires from 3 to 5 years.

(Expressed in Canadian Dollars)

11. CAPITAL STOCK AND RESERVES (cont'd…)

A summary of stock options is presented as follows:

	Number of Options		Weighted Average Exercise Price
Balance, February 28, 2010	2,934,812	$	0.20
Cancelled [1]	(250,000)		0.20
Granted	778,000		0.25
Balance, February 28, 2011	3,462,812		0.21
Granted	1,102,627		0.45
Balance, August 31, 2011	4,565,439	$	0.27

[1] 250,000 options granted to a former Director were cancelled as per the terms of the Company's stock option plan.

At August 31, 2011, the following stock options were outstanding:

Expiry Date	Number of Options		Exercise Price
May 17, 2012	200,000		0.25
January 14, 2015	2,684,812		0.20
May 17, 2015	578,000		0.25
February 28, 2014	552,627		0.45
February 29, 2016	550,000		0.45
	4,565,439	$	0.27
Weighted average contractual remaining life (years)			3.33
Weighted average fair value of options granted during the period		$	0.36

The Company recognizes stock-based compensation expense for all stock options granted using the fair value based method of accounting. The fair value of the options vested in the six months ended August 31, 2011 is $393,905 (2010 – $114,234).

The following assumptions were used for the Black-Scholes valuation of stock options granted during the period:

	August 31, 2011	August 31, 2010
Risk-free interest rate	2.37%	2.81%
Expected life of options	3.99 years	5 years
Annualized volatility	131.89%	150.00%
Dividends	-	-

(Expressed in Canadian Dollars)

11. CAPITAL STOCK AND RESERVES (cont'd…)

e) Warrants:

A summary of warrants is presented as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, February 28, 2010	14,576,459	$ 0.10
Exercised	(4,276,557)	0.10
Granted	4,912,500	0.40
Balance, February 28, 2011	15,212,402	0.20
Exercised	(1,265,000)	0.10
Balance, August 31, 2011	13,947,402	$ 0.21

At August 31, 2011, the following warrants were outstanding:

Expiry Date	Number of Warrants Outstanding	Exercise Price
May 17, 2012	2,890,000	$ 0.40
July 20, 2012	122,125	0.10
October 28, 2012	2,022,500	0.40
November 20, 2012	97,777	0.10
December 17, 2012	8,815,000	0.10
	13,947,402	$ 0.21

12. SEGMENT INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration, and development of mineral properties. Geographical information is as follows:

	August 31, 2011	February 28, 2011	March 1, 2010
Equipment			
Canada	$ 129,247	$ 149,461	$ 10,544
United States	13,137	15,076	-
	142,384	164,537	10,544
Mineral properties			
Canada	1,285,158	1,273,223	983,022
Mexico	3,971,990	1,066,704	157,581
	$ 5,257,148	$ 2,339,927	$ 1,140,603

13. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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's financial instruments consist principally of cash and cash equivalents, amounts due related parties and accounts payable and accrued liabilities. Management believes that the recorded values of all cash and cash equivalents, amounts due to related parties and accounts payables and accrued liabilities approximate their current fair values because of their nature, credit worthiness, and respective maturity dates or durations. As at August 31, 2011, the Company's only financial instrument which is measured at fair value on a recurring basis is cash and cash equivalents which have been classified as a "Level 1" financial instrument. Accounts payable and accrued liabilities, and amounts due to related parties have been classified as "Level 2" financial instruments.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at August 31, 2011, the Company is exposed to foreign currency risk to the extent that certain monetary financial instruments and other assets are denominated in United States dollars and Mexican Pesos. The Company is exposed to currency risk arising from fluctuation in foreign exchange rates due to the acquisition of the Reforma Project. Many of the costs of the Reforma Project are in Mexican Pesos and US Dollars. Accordingly, changes in the Mexican Pesos or US Dollars denominated value of the Canadian dollar will impact the Canadian dollar cost of meeting any future obligations under that project. At August 31, 2011, the Company does not believe its overall exposure to currency risk for its obligations denominated in Mexican Pesos or US Dollars is significant.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash, term deposit and receivables are exposed to credit risk. The Company reduces its credit risk on cash and term deposits by placing these instruments with institutions of high credit worthiness. Management believes that the credit risk concentration with respect to receivables is not significant as the receivables mainly consist of harmonized sales tax receivable and IVA tax receivable due from Canadian and Mexican government.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At August 31, 2011, the Company is not exposed to any significant interest rate risk.

13. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd…)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liability. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are current. The Company addresses its liquidity through equity financing obtained through the sale of common shares and the exercise of warrants and options.

Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

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 issue new shares, issue new debt, acquire or dispose of assets.

The Company is dependent on the capital markets as its sole source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements.

The Company's overall strategy remains unchanged from 2011.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

14. SUPPLEMENTARY CASH FLOW INFORMATION

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. The following transactions have been excluded from the statement of cash flows for the period ended August 31, 2011.

a) Included in accounts payable is $100,000 (2010 - $8,761) of mineral property costs.

b) Allocated exploration advances of $350,765 (2010 - $Nil) to mineral property costs.

c) Included in the mineral properties is the fair value of $2,280,000 for 6,000,000 shares issued to the owners of the Reforma property as per agreement.

15. COMMITMENTS

At August 31, 2011, the Company has the following significant commitments:

Management Contracts

On January 1, 2011 the Company entered into a 12 month management contract with the President of the Company for $5,000 per month for management fees and $5,000 per month for project management fees. This contract automatically renews for an additional one year term on January 1, 2012 as per the signed agreement.

16. FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these consolidated financial statements are for the period covered by the Company's first interim condensed consolidated financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the condensed consolidated financial statements for the periods ended August 31, 2011 and 2010, the consolidated financial statements for the year ended February 28, 2011 and the opening IFRS statement of financial position on March 1, 2010, the "Transition Date".

In preparing the opening IFRS statement of financial position and the financial statements for the interim period ended August 31, 2011, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

a) to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date;

b) to apply the requirements of IFRS 2, Share-based payment, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and

c) to transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the Transition Date including those foreign currency differences which arose on adoption of IFRS.

d) Reclassification of share-based reserve

The Company reclassified from equity reserves that were not exercised of $274,431, $285,417 and $322,998 for March 1, 2010, August 31, 2010 and February 28, 2011 respectively to deficit.

Additionally, in accordance with IFRS 1, an entity's estimates under IFRS at the date of IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

(Expressed in Canadian Dollars)

16. FIRST TIME ADOPTION OF IFRS (cont'd….)

Reconciliation between Canadian GAPP and IFRS statements of financial position:

	As at March 1, 2010			As at August 31, 2010			As at February 28, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS									
Current									
Cash and cash equivalents	$ 100,310	$ -	$ 100,310	$ 593,888	$ -	$ 593,888	$ 495,043	$ -	$ 495,043
Receivables	15,439	-	15,439	62,044	-	62,044	22,833	-	22,833
Prepaid expenses	13,259	-	13,259	48,719	-	48,719	30,799	-	30,799
Total current assets	129,008	-	129,008	704,651	-	704,651	548,675	-	548,675
Non-current assets									
Equipment	10,544	-	10,544	136,315	-	136,315	164,537	-	164,537
Exploration advances	74,515	-	74,515	255,610	-	255,610	413,914	-	413,914
Exploration and evaluation assets	1,140,603	-	1,140,603	2,077,650	-	2,077,650	2,737,927	(398,000)	2,339,927
Total non-current assets	1,225,662	-	1,225,662	2,469,575	-	2,469,575	3,316,378	(398,000)	2,918,378
TOTAL ASSETS	$ 1,354,670	$ -	$ 1,354,670	$ 3,174,226	$ -	$ 3,174,226	$ 3,865,053	$ (398,000)	$ 3,467,053
LIABLILITIES AND SHAREHOLDER'S EQUITY									
Current liabilities									
Accounts payable and accrued liabilities	$ 104,222	$ -	$ 104,222	$ 39,198	$ -	$ 39,198	$ 157,413	$ -	$ 157,413
Due to related parties	92,032	-	92,032	26,529	-	26,529	31,260	-	31,260
Total current liabilities	196,254	-	196,254	65,727	-	65,727	188,673	-	188,673
Non-current liabilities									
Future income tax liability	-	-	-	-	-	-	398,000	(398,000)	-
Total liabilities	196,254	-	196,254	65,727	-	65,727	586,673	(398,000)	188,673
Shareholder's equity									
Capital stock	12,233,529	-	12,233,529	14,111,994	-	14,111,994	15,370,459	-	15,370,459
Share subscriptions received in advance	15,000	-	15,000	555,000	-	555,000	-	-	-
Reserves	772,769	(274,431)	498,338	887,006	(285,417)	601,589	929,926	(322,998)	606,928
Deficit	(11,862,882)	274,431	(11,588,451)	(12,445,501)	285,417	(12,160,084)	(13,022,005)	322,998	(12,699,007)
Total shareholders' equity	11,158,416	-	11,158,416	3,108,499	-	3,108,499	3,278,380	-	3,278,380
Total liabilities and shareholders' equity	$ 1,354,670	$ -	$ 1,354,670	$ 3,174,226	$ -	$ 3,174,226	$ 3,865,053	$ (398,000)	$ 3,467,053

(Expressed in Canadian Dollars)

16. FIRST TIME ADOPTION OF IFRS (cont'd….)

Reconciliation between Canadian GAPP and IFRS statements of Comprehensive Loss:

	Six months ended August 31, 2010			Year ended February 28, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
EXPENSES						
Amortization	$ 9,640	$ -	$ 9,640	$ 31,469	$ -	$ 31,469
Management and director fees	41,500	-	41,500	82,000	-	82,000
Office, rent and administration	114,254	-	114,254	193,918	-	193,918
Professional fees	155,455	-	155,455	305,945	-	305,945
Investor relations	16,501	-	16,501	32,387	-	32,387
Share-based compensation	114,237	-	114,237	145,702	-	145,702
Transfer agent and shareholder costs	30,297	-	30,297	51,450	-	51,450
Travel and entertainment expenses	65,275	-	65,275	99,460	-	99,460
Wages and salaries	35,460	-	35,460	211,870	-	211,870
	(582,619)	-	(582,619)	(1,154,201)	-	(1,154,201)
OTHER ITEMS						
Foreign exchange loss	-	-	-	(7,186)	6,116	(1,070)
Interest income	-	-	-	640	-	640
Recovery of loans written off	-	-	-	1,624	-	1,624
	-	-	-	(4,922)	6,116	1,194
Loss and comprehensive loss for the period/year	$ (582,619)	$ -	$ (582,619)	$ (1,159,123)	$ 6,116	$ (1,153,007)

(Expressed in Canadian Dollars)

16. **FIRST TIME ADOPTION OF IFRS** (cont'd….)

Reconciliation between Canadian GAPP and IFRS statements of cash flows:

	Six months ended August 31, 2010			Year ended February 28, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
OPERATING ACTIVITIES						
Loss for the period/year	$ (582,619)	$ -	$ (582,619)	$ (1,159,123)	$ 6,116	$ (1,153,007)
Items not affecting cash:						
Amortization	9,640	-	9,640	31,469	-	31,469
Stock-based compensation	114,237	-	114,237	145,702	-	145,702
Changes in non-cash working capital items:						
Increase in receivables	(31,312)	-	(31,312)	(7,394)	-	(7,394)
Prepaid expenses	(35,460)	-	(35,460)	(17,540)	-	(17,540)
Increase in accounts payables and accrued liabilities	(64,884)	-	(64,884)	54,052	-	54,052
Net cash used in operating activities	(590,398)	-	(590,398)	(952,834)	6,116	(946,718)
INVESTING ACTIVITIES						
Mineral properties	(123,264)	-	(123,264)	(127,740)	-	(127,740)
Acquisition of equipment	(135,411)	-	(135,411)	(228,915)	-	(228,915)
Process from sale of equipment	-	-	-	67,000	-	67,000
Exploration advances	(181,095)	-	(181,095)	(339,399)	-	(339,399)
Deferred exploration costs	(413,923)	-	(413,923)	(684,537)	-	(684,537)
Net cash used in investing activities	(853,693)	-	(853,693)	(1,313,591)	-	(1,313,591)
FINANCING ACTIVITIES						
Obligation to issue common shares	540,000	-	540,000	-	-	-
Issuance of common shares, net of share issue costs	1,478,465	-	1,478,465	2,721,930	-	2,721,930
Amount due to related parties	(80,796)	-	(80,796)	(60,772)	-	(60,772)
Net cash provided by financing activities	1,937,669	-	1,937,669	2,661,158	-	2,661,158
Effect of foreign exchange rate on cash balances	-	-	-	-	(6,116)	(6,116)
Change in cash and cash equivalents for the period/year	493,578	-	493,578	394,733	-	394,733
Cash and cash equivalents, beginning of period/year	97,310	-	97,310	100,310	-	100,310
Cash and cash equivalents, end of period/year	$ 590,888	$ -	$ 590,888	$ 495,043	$ -	$ 495,043