

VICTORY RESOURCES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED FEBRUARY 29, 2012

**CHARTERED
ACCOUNTANTS**

MacKay LLP

1100 – 1177 West Hastings Street
Vancouver, BC V6E 4T5
Tel: 604-687-4511
Fax: 604-687-5805
Toll Free: 1-800-351-0426
www.MacKay.ca

mackay.ca

Independent Auditor's Report

**To the Shareholders of
Victory Resources Corporation**

We have audited the accompanying consolidated financial statements of Victory Resources Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at February 29, 2012, February 28, 2011, and March 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended February 29, 2012 and February 28, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Victory Resources Corporation and its subsidiaries as at February 29, 2012, February 28, 2011, and March 1, 2010 and its financial performance and its cash flows for the years ended February 29, 2012 and February 28, 2011 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Victory Resources Corporation to continue as a going concern.

"MacKay LLP"

**Chartered Accountants
Vancouver, British Columbia
June 27, 2012**

VICTORY RESOURCES CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	February 29, 2012	February 28, 2011 (Note 18)	March 1, 2010 (Note 18)
ASSETS			
Current assets			
Cash and cash equivalents (Note 4)	\$ 481,936	\$ 495,043	\$ 100,310
Receivables (Note 5)	67,238	22,833	15,439
Prepaid expenses (Note 6)	<u>21,462</u>	<u>30,799</u>	<u>13,259</u>
Total current assets	<u>570,636</u>	<u>548,675</u>	<u>129,008</u>
Non-current assets			
Equipment (Note 7)	134,161	164,537	10,544
Exploration advances (Note 6)	-	413,914	74,515
Exploration and evaluation assets (Note 8)	<u>6,093,675</u>	<u>2,339,927</u>	<u>1,140,603</u>
Total non-current assets	<u>6,227,836</u>	<u>2,918,378</u>	<u>1,225,662</u>
Total assets	<u>\$ 6,798,472</u>	<u>\$ 3,467,053</u>	<u>\$ 1,354,670</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (Note 9)	\$ 107,217	\$ 157,413	\$ 104,222
Due to related parties (Note 10)	<u>90,917</u>	<u>31,260</u>	<u>92,032</u>
Total liabilities	<u>198,134</u>	<u>188,673</u>	<u>196,254</u>
Shareholders' equity			
Capital stock (Note 11)	18,947,344	15,370,459	12,233,529
Reserves (Note 11)	1,161,853	595,473	498,338
Share subscriptions received in advance (Note 17)	648,284	-	15,000
Deficit	<u>(14,157,143)</u>	<u>(12,687,552)</u>	<u>(11,588,451)</u>
Total shareholders' equity	<u>6,600,338</u>	<u>3,278,380</u>	<u>1,158,416</u>
Total liabilities and shareholders' equity	<u>\$ 6,798,472</u>	<u>\$ 3,467,053</u>	<u>\$ 1,354,670</u>

Nature and continuance of operations and going concern (Note 1)

Commitments (Note 16)

Segment information (Note 12)

Subsequent events (Note 17)

Approved and authorized by the Board on June 27, 2012.

“Wally Boguski” Director
Wally Boguski

“Paul Lee” Director
Paul Lee

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

VICTORY RESOURCES CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

For the Year Ended	February 29, 2012	February 28, 2011
		(Note 18)
EXPENSES		
Amortization	\$ 41,423	\$ 31,469
Investor relations	3,049	32,387
Management and directors fees (Note 10)	83,500	82,000
Office and administration	72,606	193,918
Professional fees	424,190	305,945
Property investigation	6,821	-
Share-based payments (Note 11)	393,905	145,702
Transfer agent and filing fees	30,676	51,450
Travel	87,312	99,460
Wages and salaries (Note 10)	<u>328,792</u>	<u>211,870</u>
Loss before other items	<u>(1,472,274)</u>	<u>(1,154,201)</u>
OTHER ITEMS		
Interest income	60	640
Loss on foreign exchange	(7,600)	(1,070)
Miscellaneous revenue	-	1,624
Gain on sale of equipment	<u>10,223</u>	<u>11,455</u>
	<u>2,683</u>	<u>12,649</u>
Net loss for the year	<u>(1,469,591)</u>	<u>(1,141,552)</u>
Other comprehensive loss		
Foreign exchange adjustments on translating foreign subsidiaries	(19,290)	(6,116)
Comprehensive loss	<u>\$ 1,488,881</u>	<u>\$ 1,147,668</u>
Basic and diluted loss per common share	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>
Weighted average number of common shares outstanding	<u>52,685,016</u>	<u>38,543,513</u>

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

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

For the Year Ended	February 29, 2012	February 28, 2011
		(Note 18)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (1,469,591)	\$ (1,141,552)
Items not affecting cash:		
Amortization	41,423	31,469
Share-based payment	393,905	145,702
Loss on foreign exchange	7,600	1,070
Gain on sale of equipment	<u>(10,223)</u>	<u>(11,455)</u>
	(1,036,886)	(974,766)
Non-cash working capital item changes:		
Receivables	(4,448)	(7,394)
Prepaid expenses	9,337	(17,540)
Payables and accrued liabilities	<u>(85,154)</u>	<u>54,052</u>
Net cash used in operating activities	<u>(1,117,151)</u>	<u>(945,648)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	(35,645)	(228,915)
Acquisition of exploration and evaluation assets	-	(127,740)
Exploration advances	-	(339,399)
Exploration and evaluation expenditures	(1,019,218)	(684,537)
Proceeds from sale of equipment	34,598	67,000
Amount due from related party	<u>(44,682)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,064,947)</u>	<u>(1,313,591)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares for cash, net of costs	1,488,650	2,721,930
Share subscription received in advance	648,284	-
Amounts due to related parties	<u>39,657</u>	<u>(60,772)</u>
Net cash provided by financing activities	<u>2,176,591</u>	<u>2,661,158</u>
Effect of foreign exchange rate on cash and cash equivalents balances	<u>(7,600)</u>	<u>(7,186)</u>
Change in cash and cash equivalents for the year	(13,107)	394,733
Cash and cash equivalents, beginning of year	<u>495,043</u>	<u>100,310</u>
Cash and cash equivalents, end of year	<u>\$ 481,936</u>	<u>\$ 495,043</u>
Supplemental cash flow information		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 15)

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

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

	Capital Stock		Reserves				Total Reserves	Obligation to issue common shares	Deficit	Total equity
	Number	Amount	Share-based payment	Foreign currency translation	Others					
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	4,276,557	427,655	-	-	-	-	(15,000)	-	412,655	
Private placement	9,825,000	2,456,250	-	-	-	-	-	-	2,456,250	
Acquisition of exploration and evaluation assets	2,000,000	400,000	-	-	-	-	-	-	400,000	
Share issuance costs	-	(146,975)	-	-	-	-	-	-	(146,975)	
Share-based payments	-	-	145,702	-	-	145,702	-	-	145,702	
Options expired	-	-	(42,451)	-	-	(42,451)	-	42,451	-	
Loss for the year	-	-	-	-	-	-	-	(1,141,552)	(1,141,552)	
Foreign currency translation differences	-	-	-	(6,116)	-	(6,116)	-	-	(6,116)	
Balance as at February 28, 2011	46,099,685	\$ 15,370,459	\$ 601,589	\$ (6,116)	\$ -	\$ 595,473	\$ -	\$ (12,687,552)	\$ 3,278,380	
Balance as at March 1, 2011	46,099,685	\$ 15,370,459	\$ 601,589	\$ (6,116)	\$ -	\$ 595,473	\$ -	\$ (12,687,552)	\$ 3,278,380	
Warrants exercise	2,135,000	213,500	-	-	-	-	-	-	213,500	
Private placement	3,835,302	1,150,591	-	-	191,765	191,765	-	-	1,342,356	
Share subscription advances	-	-	-	-	-	-	648,284	-	648,284	
Share issuance costs	-	(67,206)	-	-	-	-	-	-	(67,206)	
Acquisition of exploration and evaluation assets	6,000,000	2,280,000	-	-	-	-	-	-	2,280,000	
Share-based payments	-	-	393,905	-	-	393,905	-	-	393,905	
Foreign currency translation differences	-	-	-	(19,290)	-	(19,290)	-	-	(19,290)	
Loss for the year	-	-	-	-	-	-	-	(1,469,591)	(1,469,591)	
Balance as at February 29, 2012	58,069,987	\$ 18,947,344	\$ 995,494	\$ (25,406)	\$ 191,765	\$ 1,161,853	\$ 648,284	\$ (14,157,143)	\$ 6,600,338	

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 principally engaged in acquisition, exploration and evaluation of resource properties, 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 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 February 29, 2012 the Company has a deficit of \$14,157,143 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. 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

The Company previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) as set in the Handbook of the Canadian Institute of Chartered Accountant (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate IFRS (“International Financial Reporting Standards”) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements.

These are the Company’s first annual consolidated financial statements prepared in accordance with IFRS. In the financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS. These annual consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

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

Statement of compliance (cont'd...)

The policies in these consolidated financial statements are based on IFRS published as at June 27, 2012, the date the Board of Directors approved the statements.

The disclosure in Note 18 provides IFRS information as at March 1, 2010 and February 28, 2011 and for the year ended February 28, 2011 that is material to the understanding of these consolidated financial statements.

The Company's transition date to IFRS is March 1, 2010. 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 GAAP. Historical results and balances have been restated under IFRS.

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 consolidated 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.

Carrying value and recoverability of exploration and evaluation assets

The carrying value and recoverability of exploration and evaluation assets which are included in the consolidated statements of financial position are based on management best estimate.

Share-based payments

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.

Critical accounting judgments

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

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the consolidated 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.

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

Use of estimates and judgments (cont'd...)

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 Peso.

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

The presentation currency of the Company is the Canadian dollar.

The functional currency of each of the parent company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the Statement of Comprehensive Income (loss) in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income (loss) in the Statement of Comprehensive Income (loss) to the extent that gains and losses are arising on those non-monetary items are also recognized in other comprehensive income (loss).

Subsidiary

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Foreign currency translation (cont'd...)

Subsidiary (cont'd...)

Exchange differences arising on translation of foreign operations are transferred directly to the Company's exchange difference on translating foreign operations on the Statement of Comprehensive Income (loss) and are reported as a separate component of shareholders' equity titled "Foreign currency translation". These differences are recognized in the profit or loss in the period in which the operation is disposed of.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in initial carrying amount of the assets.

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 amortized cost using the effective interest method less any provision for impairment.

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 less any provision for impairment.

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 in other comprehensive income (loss). 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 accumulated other comprehensive income (loss) and recognized in profit or loss.

All financial assets except those measured 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 objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

Financial liabilities (cont'd...)

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Transaction costs associated with fair value through profit or loss financial liabilities are expensed as incurred while transaction costs associated with all other financial liabilities are included in initial carrying amount of the liabilities.

Other financial liabilities: This category consists of liabilities carried at amortized cost using the effective interest method. These financial liabilities are initially recognized at fair value less directly attributable transaction costs.

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.

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 expenditures are recognized as repairs and maintenance.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Exploration and evaluation assets

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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment of long-lived assets

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 statement of comprehensive loss/income 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 asset 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 the statement of comprehensive loss/income.

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

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average number of shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income (Loss) over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Share-based payments (cont'd...)

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income (Loss) over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received in the Statement of Comprehensive Income (Loss), unless they are related to the issuance of shares. Amount related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioral considerations.

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. Amounts recorded in reserve for unexercised share options are transferred to deficit upon their expiry.

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 statement of financial position date.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes (cont'd...)

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.

Share capital

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement ("Agreement"), the Warrants are exercisable into additional common shares prior to expiry at a price stipulated by the Agreement. Warrants that are part of units are assigned the residual value after the main component of the equity financing (common shares) is valued. Warrants that are issued as payment for agency fee or other transaction costs are accounted for as share-based payments.

In situations where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received, or given up is not readily determinable, the fair market value (as defined) of the shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate Exchange on the date of the agreement to issue shares as determined by the Board of Directors.

Future accounting changes

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company. The following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2013 unless otherwise stated. Adopting these standards is expected to have minimal or no impact on the consolidated financial statements.

IFRS 9 - Financial Instruments - is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10 - Consolidation replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11 - Joint Arrangements requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas joint operations, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers.

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future accounting changes (cont'd...)

IFRS 12 – Disclosure of Interest in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces additional disclosures addressing the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 – Fair Value Measurement is a comprehensive standard that defines fair value, requires disclosure about fair value measurement and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

IAS 27 – Separate Financial Statement addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements.

IAS 28 – Investments in Associates and Joint Ventures has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

IAS 1 – Presentation of Financial Statements amendment requires components of other comprehensive income (OCI) to be separately presented between those that may be reclassified to income and those that will not. The amendments are effective for annual periods beginning on or after July 1, 2012.

IAS 32 – Financial Instruments: Presentation amendment provides clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after July 1, 2012.

4. CASH AND CASH EQUIVALENTS

	February 29, 2012	February 28, 2011	March 1, 2010
Cash on deposit	\$ 478,886	\$ 492,043	\$ 97,310
Liquid short term deposit	<u>3,050</u>	<u>3,000</u>	<u>3,000</u>
	<u>\$ 481,936</u>	<u>\$ 495,043</u>	<u>\$ 100,310</u>

5. RECEIVABLES

The Company's receivables arise from two main sources: Harmonized Sales Tax ("HST") receivable due from Canadian government taxation authorities and receivable due from a Company with common directors for the use of office resources from Victory. These are broken down as follows:

	February 29, 2012	February 28, 2011	March 1, 2010
HST receivable	\$ 22,556	\$ 22,833	\$ 15,439
Due from Sierra Iron Ore (formerly Naina Capital) ⁽ⁱ⁾	<u>44,682</u>	<u>-</u>	<u>-</u>
	<u>\$ 67,238</u>	<u>\$ 22,833</u>	<u>\$ 15,439</u>

(i) Company controlled by a common director.

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

6. PREPAID EXPENSES, EXPLORATION ADVANCES AND DEPOSITS

	February 29, 2012	February 28, 2011	March 1, 2010
Prepaid expenses and deposits	\$ 21,462	\$ 30,799	\$ 13,259
Exploration advances	\$ -	\$ 413,914	\$ 74,515

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

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	242	-	-	35,403	35,645
Disposals	-	-	-	(30,000)	(30,000)
Foreign exchange adjustment	(231)	-	-	-	(231)
Balance, February 29, 2012	\$ 58,731	\$ 53,165	\$ 45,063	\$ 113,250	\$ 270,209
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 year	3,940	4,108	7,876	25,499	41,423
Disposals	-	-	-	(5,625)	(5,625)
Foreign exchange adjustment	(8)	-	-	-	(8)
Balance, February 29, 2012	\$ 42,854	\$ 43,586	\$ 13,557	\$ 36,051	\$ 136,048
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 at February 29, 2012	\$ 15,877	\$ 9,579	\$ 31,506	\$ 77,199	\$ 134,161

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

8. EXPLORATION AND EVALUATION ASSETS

	Toni Property	Reforma Project	Total
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	<u>(11,444)</u>	<u>-</u>	<u>(11,444)</u>
Balance, February 28, 2011	<u>\$ 1,273,223</u>	<u>\$ 1,066,704</u>	<u>\$ 2,339,927</u>
Balance, March 1, 2011	\$ 1,273,223	\$ 1,066,704	\$ 2,339,927
Additions:			
Acquisition costs	-	2,385,954	2,385,954
Geological and other consulting	34,000	160,009	194,009
Fieldwork, equipment rental and other	1,605	957,943	959,548
Analysis and report preparation	3,603	76,898	80,501
Travel	2,463	1,489	3,952
Drilling	-	9,322	9,322
Project management (Note 10)	30,000	102,368	132,368
Less: BC mineral exploration tax credit received	<u>(8,969)</u>	<u>-</u>	<u>(8,969)</u>
Total additions	62,702	3,693,983	3,756,685
Foreign exchange adjustment	<u>-</u>	<u>(2,937)</u>	<u>(2,937)</u>
Balance, February 29, 2012	<u>\$ 1,335,925</u>	<u>\$ 4,757,750</u>	<u>\$ 6,093,675</u>

Title to exploration and evaluation assets 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 are properly registered and in good standing.

Toni Property, Nicola Division, British Columbia

At February 29, 2012 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.

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

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

- 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.
- 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.

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 owners 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.

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

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

Reforma Project (cont'd...)

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 ⁽²⁾
US\$100,000 due May 20, 2011 (paid)	6,000,000 shares by May 20, 2012 ⁽¹⁾	US\$1,000,000 by May 20, 2013
US\$100,000 due May 20, 2012 ⁽¹⁾		

⁽¹⁾ issued or paid subsequent to year end

⁽²⁾ work program commitment met subsequent to year end

9. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

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

	February 29, 2012	February 28, 2011	March 1, 2010
Trade payables	\$ 49,217	\$ 60,413	\$ 64,622
Accrued liabilities	<u>58,000</u>	<u>97,000</u>	<u>39,600</u>
Total	\$ 107,217	\$ 157,413	\$ 104,222

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

10. RELATED PARTY TRANSACTIONS

Management compensation

Key management personnel compensation comprised:

	2012	2011
Salaries and directors fees	\$ 195,644	\$ 42,480
Management fees	60,000	60,000
Share-based payments (i)	130,497	72,272
Project management fees	60,000	60,000
Exploration expenses	<u>34,000</u>	<u>109,650</u>
	\$ 480,141	\$ 344,402

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

The Company recovered \$73,711 from a Company with common directors from providing office resources.

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

10. RELATED PARTY TRANSACTIONS (cont'd...)

Management compensation (cont'd...)

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 to the related parties are as follows:

	February 29, 2012	February 28, 2011	March 1, 2010
Due to (from) directors and officers	\$ 70,917	\$ (1,126)	\$ 77,032
Due to Sierra Iron Ore (formerly Naina Capital) (i)	-	32,386	15,000
Due to CBR Capital (i)	<u>20,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 90,917</u>	<u>\$ 31,260</u>	<u>\$ 92,032</u>

(i) Company controlled by a common director

The Company received \$34,598 (2011 - \$67,000) from a company with directors in common for a sale of equipment (Note 7).

11. CAPITAL STOCK AND RESERVES

a) Authorized share capital:

As at February 29, 2012, the authorized share capital of the Company was 100,000,000 common shares without par value. All issued shares are fully paid.

b) Issued share capital:

During the year ended February 29, 2012, the Company:

- i) Issued 2,135,000 shares for warrants exercised at \$0.10 per warrant for proceeds of \$213,500.
- ii) Issued 6,000,000 common shares valued at \$2,280,000 to the owners of the Reforma Property as per agreement (Note 8).
- iii) Issued 3,835,302 units pursuant to a private placement for aggregate proceeds of \$1,342,356 at a price of \$0.35 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 \$0.50 for 24 months from closing. An estimated fair value of \$191,765 was allocated to the warrants.

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

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

b) Issued share capital: (cont'd...)

During the year ended February 28, 2011 the Company:

- i) 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.
- ii) 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.
- iii) Issued 4,276,557 shares for warrants exercised at \$0.10 per warrant, for proceeds of \$427,655.
- iv) Issued 2,000,000 common shares, valued at \$400,000, to the owners of the Reforma Property as per agreement. (Note 8).

c) Escrow:

At February 29, 2012, 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 year ended February 29, 2012, the Company granted 1,102,627 (2011 – 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.

A summary of stock options is presented as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable, February 28, 2010	2,934,812	\$ 0.20
Cancelled ⁽¹⁾	(250,000)	0.20
Granted	<u>778,000</u>	<u>0.25</u>
Outstanding and exercisable, February 28, 2011	3,462,812	0.21
Granted	<u>1,102,627</u>	<u>0.45</u>
Outstanding and exercisable, February 29, 2012	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.

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

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

d) Stock options: (cont'd...)

At February 29, 2012, the following stock options were outstanding:

Expiry Date	Number of Options	Exercise Price
May 17, 2012	200,000 ⁽ⁱ⁾	\$ 0.25
January 14, 2015	2,684,812	0.20
May 17, 2015	578,000	0.25
February 29, 2016	552,627	0.45
February 28, 2014	<u>550,000</u>	<u>0.45</u>
	4,565,439	\$ 0.27
Weighted average contractual remaining life (years)	2.83	

(i) exercised subsequent to year end

The Company recognizes stock-based compensation expense for all stock options granted at fair value. The fair value of the options vested in the year ended February 29, 2012 is \$393,905 (2011 – \$145,702).

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

	2012	2011
Risk-free interest rate	2.37 %	2.46%
Expected life of options	3.99 years	4.07 years
Annualized volatility	132 %	152.00%
Dividends	-	-
Forfeiture rate	0%	0%
Weighted average fair value of options granted during the year	\$ 0.36	\$ 0.19

e) Warrants:

A summary of warrants is presented as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, February 28, 2010	14,576,459	\$ 0.10
Exercised	(4,276,557)	0.10
Granted	<u>5,062,500</u>	<u>0.40</u>
Outstanding, February 28, 2011	15,362,402	0.20
Exercised	(2,135,000)	0.10
Granted	<u>1,917,651</u>	<u>0.50</u>
Outstanding, February 29, 2012	15,145,053	\$ 0.18

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

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

e) Warrants: (cont'd...)

At February 29, 2012, the following warrants were outstanding:

Expiry Date	Number of Warrants Outstanding	Exercise Price
May 17, 2012 ⁽⁴⁾	2,890,000 ⁽¹⁾	\$ 0.40
July 20, 2012	122,125	0.10
October 28, 2012	2,022,500	0.40
November 20, 2012	97,777 ⁽³⁾	0.10
December 17, 2012	8,095,000 ⁽²⁾	0.10
December 4, 2013	<u>1,917,651</u>	<u>0.50</u>
	<u>15,145,053</u>	<u>\$ 0.18</u>

(1) 280,000 warrants exercised subsequent to year end.

(2) 10,000 warrants exercised subsequent to year end.

(3) 97,777 warrants exercised subsequent to year end.

(4) expiry date extended to June 15, 2012, 1,525,000 warrants exercised and the remaining warrants expired unexercised subsequent to year end.

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:

	February 29, 2012	February 28, 2011	March 1, 2010
Equipment			
Canada	\$ 122,062	\$ 149,461	\$ 10,544
United States	<u>12,099</u>	<u>15,076</u>	<u>-</u>
	134,161	164,537	10,544
Mineral properties			
Canada	1,335,925	1,273,223	983,022
Mexico	<u>4,757,750</u>	<u>1,066,704</u>	<u>157,581</u>
	6,093,675	2,339,927	1,140,603
Net Loss for the year ended			
Canada	1,194,639	985,318	
Mexico	21,185	147,347	
United States	<u>253,767</u>	<u>8,887</u>	
	<u>\$ 1,469,591</u>	<u>\$ 1,141,552</u>	

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 primary financial instruments consist of cash and cash equivalents (classified as level 1 Fair Value Through Profit or Loss), and accounts payable and accrued liabilities and due to related parties (classified as Other Financial Liabilities).

The fair value of these assets and liabilities approximates their respective carrying amounts due to their short term nature. The Company does not currently hold any financial instruments that would be included in the classification of available for sale.

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

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 February 29, 2012, 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 February 29, 2012, the Company had \$15,003 US Dollars (translated using 0.9966 exchange rate), and \$68,199 Mexican Pesos (translated using 0.0774 exchange rate) in cash and cash equivalents. 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 receivable due from a Company related to Victory.

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 February 29, 2012, the Company is not exposed to any significant interest rate risk.

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

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 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. There were no changes in the Company's approach to capital management during the year ended February 29, 2012.

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.

14. INCOME TAXES

The actual income tax provisions differ from the expected amounts calculated by applying the Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	February 29, 2012	February 28, 2011
Loss before taxes for the year	\$ (1,469,591) 26.25%	\$ (1,141,552) 28.17%
Expected income tax recovery	\$ (385,767)	\$ (321,575)
Non-deductible items	104,141	43,480
Effect of change in tax rate	9,982	15,581
Difference in tax rates in other jurisdictions	(15,061)	(9,035)
Non-capital losses expired	-	94,032
Tax benefit not recognized	<u>286,705</u>	<u>177,517</u>
Deferred income tax recovery	\$ -	\$ -

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

14. INCOME TAXES (cont'd...)

The significant components of the Company's deferred income tax assets are as follows:

	February 29, 2012	February 28, 2011	March 1, 2010
Non-capital losses	\$ 939,000	\$ 642,000	\$ 461,000
Capital losses	752,000	752,000	752,000
Plant and equipment	46,000	37,000	33,000
Mineral properties	378,000	367,000	363,000
Eligible capital expenditures	34,000	34,000	34,000
Share issuance costs	<u>44,000</u>	<u>43,000</u>	<u>18,000</u>
	2,193,000	1,875,000	1,661,000
Unrecognized deferred tax assets	<u>(2,193,000)</u>	<u>(1,875,000)</u>	<u>(1,661,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Company has non-capital losses of approximately \$3,186,000 (2011 - \$2,359,000) which may be available to offset future income for Canadian income tax purposes. Non-capital losses expire as follows:

2015	\$ 216,000
2026	292,000
2027	218,000
2028	226,000
2029	181,000
2030	375,000
2031	850,000
2032	<u>828,000</u>
	<u>\$ 3,186,000</u>

In addition, the Company has approximately \$6,172,000 unclaimed resource expenses and capital loss of approximately \$6,020,000 for Canadian tax purposes which may be carried forward indefinitely.

Future tax benefits, which may arise as a result of these losses, have not been recognized in these financial statements.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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 year ended February 29, 2012.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)

- a) Included in accounts payable and due to related parties is \$62,998 (2011 - \$8,040) of mineral property costs.
- b) Allocated exploration advances of \$413,914 (2011 - \$Nil) to mineral property costs.
- c) Included in the mineral properties is the fair value of \$2,280,000 (2011 - \$400,000) for 6,000,000 (2011 - 2,000,000) shares issued to the owners of the Reforma property as per agreement.

16. COMMITMENTS

At February 29, 2012, 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 renewed for an additional one year term on January 1, 2012 as per the signed agreement.

17. SUBSEQUENT EVENTS

Subsequent to February 29, 2012, the Company:

- a) Issued 3,802,068 units pursuant to a private placement for aggregate proceeds of \$1,330,724 at a price of \$0.35 per unit. Each unit consists of one common share and one half share purchase warrant. A full warrant entitles the holder to acquire one common share at a price of \$0.50 for 24 months from closing.
- b) Granted 1,641,560 options to its directors, officers and consultants exercisable at \$0.45 per share for periods of two and five years.
- c) Extended the expiry date of 2,890,000 warrants from May 17, 2012 to June 15, 2012. The warrants exercise price remains at \$0.40 per purchase warrant.
- d) 200,000 stock options and 1,912,777 warrants were exercised (Note 11).
- e) Issued 6,000,000 shares for Reforma property (Note 8).
- f) Reached an agreement with Minera Copper Canyon S.A. de C.V. ("Minera"), a private Mexican corporation, which will allow the Company to acquire up to a 100% interest in a property known as 'el Boleo'. The Company has paid \$10,000 to Minera (which will be credited to any subsequent cash payments) and been granted a twenty (21) day due diligence (the "Due Diligence Period") period. If the Company determines that it wishes to proceed at the end of the Due Diligence Period, subject to the definitive agreement, it may acquire 80% of Boleo by paying cash of \$200,000 in stages, issuing 15,000,000 shares (10,000,000 of the shares subject to pooling prior to a feasibility study), and by performing \$2,000,000 in work programs over three years.

18. FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these consolidated financial statements are the Company's first consolidated financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the consolidated financial statements for the years ended February 29, 2012 and 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 year ended February 29, 2011, the Company has adjusted amounts reported previously in the financial statements that were prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian 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 revalue the provision for environmental rehabilitation only from Transition Date (March 1, 2010).

Additionally, in accordance with IFRS 1, an entity's estimate under IFRS as the date of transition to 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 March 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Adjustments on transition date (March 1, 2010) and February 28, 2011 include:

- a) transfer of 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.
- b) reclassified from equity reserves stock options that were not exercised of \$274,431, and \$322,998 for March 1, 2010, and February 28, 2011 respectively to deficit.
- c) transfer of gain/loss of sale of equipment to a related party from reserve to deficit.
- d) reversal of deferred income tax liabilities to exploration and evaluation assets at February 28, 2011 of \$398,000.

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

18. FIRST TIME ADOPTION OF IFRS (cont'd....)

Reconciliation between Canadian GAAP and IFRS statements of financial position:

	As at March 1, 2010			As at February 28, 2011		
	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	\$ 495,043	\$ -	\$ 495,043
Receivables	15,439	-	15,439	22,833	-	22,833
Prepaid expenses	13,259	-	13,259	30,799	-	30,799
Total current assets	<u>129,008</u>	<u>-</u>	<u>129,008</u>	<u>548,675</u>	<u>-</u>	<u>548,675</u>
Non-current assets						
Equipment	10,544	-	10,544	164,537	-	164,537
Exploration advances	74,515	-	74,515	413,914	-	413,914
Exploration and evaluation assets	d) <u>1,140,603</u>	<u>-</u>	<u>1,140,603</u>	<u>2,737,927</u>	<u>(398,000)</u>	<u>2,339,927</u>
Total non-current assets	<u>1,225,662</u>	<u>-</u>	<u>1,225,662</u>	<u>3,316,378</u>	<u>(398,000)</u>	<u>2,918,378</u>
TOTAL ASSETS	<u>\$ 1,354,670</u>	<u>\$ -</u>	<u>\$ 1,354,670</u>	<u>\$ 3,865,053</u>	<u>\$ (398,000)</u>	<u>\$ 3,467,053</u>
LIABILITIES AND SHAREHOLDER'S EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	\$ 104,222	\$ -	\$ 104,222	\$ 157,413	\$ -	\$ 157,413
Due to related parties	<u>92,032</u>	<u>-</u>	<u>92,032</u>	<u>31,260</u>	<u>-</u>	<u>31,260</u>
Total current liabilities	<u>196,254</u>	<u>-</u>	<u>196,254</u>	<u>188,673</u>	<u>-</u>	<u>188,673</u>
Non-current liabilities						
Future income tax liability	d) <u>-</u>	<u>-</u>	<u>-</u>	<u>398,000</u>	<u>(398,000)</u>	<u>-</u>
Total liabilities	<u>196,254</u>	<u>-</u>	<u>196,254</u>	<u>586,673</u>	<u>(398,000)</u>	<u>188,673</u>
Shareholders' equity						
Capital stock	12,233,529	-	12,233,529	15,370,459	-	15,370,459
Share subscriptions received in advance	15,000	-	15,000	-	-	-
Reserves	a),b),c) 772,769	(274,431)	498,338	929,926	(334,453)	595,473
Deficit	a),b),c) <u>(11,862,882)</u>	<u>274,431</u>	<u>(11,588,451)</u>	<u>(13,022,005)</u>	<u>334,453</u>	<u>(12,687,552)</u>
Total shareholders' equity	<u>1,158,416</u>	<u>-</u>	<u>1,158,416</u>	<u>3,278,380</u>	<u>-</u>	<u>3,278,380</u>
Total liabilities and shareholders' equity	<u>\$ 1,354,670</u>	<u>\$ -</u>	<u>\$ 1,354,670</u>	<u>\$ 3,865,053</u>	<u>\$ (398,000)</u>	<u>\$ 3,467,053</u>

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

18. FIRST TIME ADOPTION OF IFRS (cont'd....)

Reconciliation between Canadian GAAP and IFRS statements of Comprehensive Loss:

	Year ended February 28, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
EXPENSES			
Amortization	\$ 31,469	\$ -	\$ 31,469
Management and director fees	82,000	-	82,000
Office, rent and administration	193,918	-	193,918
Professional fees	305,945	-	305,945
Investor relations	32,387	-	32,387
Share-based payments	145,702	-	145,702
Transfer agent and shareholder costs	51,450	-	51,450
Travel and entertainment expenses	99,460	-	99,460
Wages and salaries	<u>211,870</u>	<u>-</u>	<u>211,870</u>
	<u>(1,154,201)</u>	<u>-</u>	<u>(1,154,201)</u>
OTHER ITEMS			
Foreign exchange loss	(7,186)	6,116	(1,070)
Interest income	640	-	640
Recovery of loans written off	1,624	-	1,624
Gain on sale of equipment	<u>-</u>	<u>11,455</u>	<u>11,455</u>
	<u>(4,922)</u>	<u>17,571</u>	<u>12,649</u>
Loss and comprehensive loss for the year	<u>\$ (1,159,123)</u>	<u>\$ 17,571</u>	<u>\$ (1,141,552)</u>

VICTORY RESOURCES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FEBRUARY 29, 2012

18. FIRST TIME ADOPTION OF IFRS (cont'd....)

Reconciliation between Canadian GAAP and IFRS statements of cash flows:

	Year ended February 28, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
OPERATING ACTIVITIES			
Loss for the year	\$ (1,159,123)	\$ 17,571	\$ (1,141,552)
Items not affecting cash:			
Amortization	31,469	-	31,469
Share-based payments	145,702	-	145,702
Foreign exchange loss	7,186	(6,116)	1,070
Gain on sale of equipment	-	(11,455)	(11,455)
Changes in non-cash working capital items:			
Increase in receivables	(7,394)	-	(7,394)
Prepaid expenses	(17,540)	-	(17,540)
Increase in accounts payables and accrued liabilities	<u>54,052</u>	<u>-</u>	<u>54,052</u>
Net cash used in operating activities	<u>(945,648)</u>	<u>-</u>	<u>(945,648)</u>
INVESTING ACTIVITIES			
Acquisition of exploration and Evaluation assets	(127,740)	-	(127,740)
Acquisition of equipment	(228,915)	-	(228,915)
Proceeds from sale of equipment	67,000	-	67,000
Exploration advances	(339,399)	-	(339,399)
Exploration and evaluation	<u>(684,537)</u>	<u>-</u>	<u>(684,537)</u>
Net cash used in investing activities	<u>(1,313,591)</u>	<u>-</u>	<u>(1,313,591)</u>
FINANCING ACTIVITIES			
Issuance of common shares, net of share issue costs	2,721,930	-	2,721,930
Amount due to related parties	<u>(60,772)</u>	<u>-</u>	<u>(60,772)</u>
Net cash provided by financing activities	<u>2,661,158</u>	<u>-</u>	<u>2,661,158</u>
Effect of foreign exchange rate on cash balances	<u>(7,186)</u>	<u>-</u>	<u>(7,186)</u>
Change in cash and cash equivalents for the year	394,733	-	394,733
Cash and cash equivalents, beginning of year	<u>100,310</u>	<u>-</u>	<u>100,310</u>
Cash and cash equivalents, end of year	<u>\$ 495,043</u>	<u>\$ -</u>	<u>\$ 495,043</u>