VICTORY RESOURCES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED FEBRUARY 28, 2013

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 28, 2013 and February 29, 2012, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, 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 28, 2013 and February 29, 2012 and its financial performance and its cash flows for the years then ended 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, 2013

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

	February 28, 2013	February 29, 2012
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	$ 142,681	$ 481,936
Receivables (Note 5)	179,980	67,238
Prepaid expenses and deposits (Note 6)	18,921	21,462
Total current assets	341,582	570,636
Non-current assets		
Equipment (Note 7)	103,649	134,161
Exploration and evaluation assets (Note 8)	10,337,775	6,093,675
Total non-current assets	10,441,424	6,227,836
Total assets	$ 10,783,006	$ 6,798,472
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	$ 264,051	$ 107,217
Due to related parties (Note 10)	335,758	90,917
Total liabilities	599,809	198,134
Shareholders' equity		
Capital stock (Note 11)	24,919,928	18,947,344
Reserves (Note 11)	1,041,602	1,161,853
Share subscriptions received in advance	-	648,284
Deficit	(15,778,333)	(14,157,143)
Total shareholders' equity	10,183,197	6,600,338
Total liabilities and shareholders' equity	$ 10,783,006	$ 6,798,472

Nature and continuance of operations and going concern (Note 1)
Segment information (Note 12)
Commitments (Note 16)
Subsequent Event (Note 17)

Approved and authorized by the Board on June 27, 2013.

"Wally Boguski"	Director	*"Paul Lee"*	Director
Wally Boguski		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 28, 2013	February 29, 2012
EXPENSES		
Amortization	$ 36,025	$ 41,423
Consulting	238,095	147,515
Investor relations	32,010	3,049
Management and directors fees (Note 10)	84,000	83,500
Office and administration	148,532	72,606
Professional fees	301,545	276,675
Property investigation	1,827	6,821
Share-based payments (Note 11)	305,539	393,905
Transfer agent and filing fees	61,269	30,676
Travel	128,598	87,312
Wages and salaries (Note 10)	384,592	328,792
Loss before other items	(1,722,032)	(1,472,274)
OTHER ITEMS		
Interest income	362	60
Loss on foreign exchange	(5,936)	(7,600)
Gain on sale of equipment	-	10,223
	(5,574)	2,683
Net loss for the year	$ (1,727,606)	$ (1,469,591)
Other comprehensive loss		
Foreign exchange adjustments on translating foreign subsidiaries	7,285	(19,290)
Comprehensive loss	$ 1,720,321	$ 1,488,881
Basic and diluted loss per common share	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding	70,217,197	52,685,016

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 28, 2013	February 29, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,727,606)	$ (1,469,591)
Items not affecting cash:		
Amortization	36,025	41,423
Share-based payment	305,539	393,905
Loss on foreign exchange	-	7,600
Gain on sale of equipment	-	(10,223)
	(1,386,042)	(1,036,886)
Non-cash working capital item changes:		
Receivables	5,917	(4,448)
Prepaid expenses and deposits	2,541	9,337
Payables and accrued liabilities	41,569	(85,154)
Net cash used in operating activities	(1,336,015)	(1,117,151)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	(5,158)	(35,645)
Exploration and evaluation expenditures	(1,428,180)	(1,019,218)
Proceeds from sale of equipment	-	34,598
Amount due from related party	-	(44,682)
Net cash used in investing activities	(1,433,338)	(1,064,947)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares for cash, net of costs	595,152	1,488,650
Cash from warrants exercised	1,327,490	-
Cash from options exercised	390,000	-
Share subscription received in advance	-	648,284
Amounts due to related parties	110,526	39,657
Net cash provided by financing activities	2,423,168	2,176,591
Effect of foreign exchange rate on cash and cash equivalents balances	6,930	(7,600)
Change in cash and cash equivalents for the year	(339,255)	(13,107)
Cash and cash equivalents, beginning of year	481,936	495,043
Cash and cash equivalents, end of year	$ 142,681	$ 481,936
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						
	Number	**Amount**	**Share-based payment**	**Foreign currency translation**	**Others**	**Total Reserves**	**Share subscriptions received in advance**	**Deficit**	**Total equity**
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
Balance as at March 1, 2012	58,069,987	$ 18,947,344	$ 995,494	$ (25,406)	$ 191,765	$ 1,161,853	$ 648,284	$ (14,157,143)	$ 6,600,338
Warrants exercise	7,859,902	1,327,490	-	-	-	-	-	-	1,327,490
Options exercise	1,900,000	719,933	(329,933)	-	-	(329,933)	-	-	390,000
Private placement	3,802,068	1,330,724	-	-	-	-	-	-	1,330,724
Private placement – flow through	75,000	33,750	-	-	-	-	-	-	33,750
Share subscription advances	-	-	-	-	-	-	(648,284)	-	(648,284)
Agent's warrants (Note 11)	-	(3,274)	-	-	3,274	3,274	-	-	-
Share issuance costs	-	(121,039)	-	-	-	-	-	-	(121,039)
Acquisition of exploration and evaluation assets	6,000,000	2,685,000	-	-	-	-	-	-	2,685,000
Share-based payments	-	-	305,539	-	-	305,539	-	-	305,539
Options expired	-	-	(106,416)	-	-	(106,416)	-	106,416	-
Foreign currency translation differences	-	-	-	7,285	-	7,285	-	-	7,285
Loss for the year	-	-	-	-	-	-	-	(1,727,606)	(1,727,606)
Balance as at February 28, 2013	77,706,957	$ 24,919,928	$ 864,684	$ (18,121)	$ 195,039	$ 1,041,602	$ -	$ (15,778,333)	$ 10,183,197

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 mineral 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 28, 2013 the Company has a deficit of $15,778,333 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. These uncertainties raise substantial doubt upon the Company's ability to continue as a going concern.

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 consolidated 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 consolidated financial statements.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretation Committee ("IFRIC"). These consolidated financial statements have been prepared on the basis of IFRS standards that are effective for the Company's reporting year ended February 28, 2013.

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.

2. BASIS OF PREPARATION (cont'd…)

Basis of consolidation (cont'd...)

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 consolidated 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 the US dollar and the functional currency for VicRes Mining Mexico S.A. de C.V. is the Mexican Peso.

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.

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 include, 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 assessment of the potential impairment of 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.

2. BASIS OF PREPARATION (cont'd…)

Use of estimates and judgments (cont'd…)

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 include, 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 recognized any deferred tax assets.

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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign currency translation (cont'd...)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd...)

Financial assets (cont'd…)

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.

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 has no reasonable prospect of being recovered through use or sale, is 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...)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets (cont'd...)

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 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 Income (Loss).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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.

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. Amounts 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. Amount 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes (cont'd...)

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.

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 fees 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.

New accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the February 28, 2013 reporting period. These standards and interpretations have not been adopted and are yet to be assessed by the Company unless otherwise stated:

- Amendments to IFRS 7, *Financial Instruments: Disclosures*, to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. This standard is effective for years beginning on or after January 1, 2013. The amendments are expected to have minimal impact on the Company's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New accounting pronouncements (cont'd…)

- New standard IFRS 9, *Financial Instruments*, classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement." IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. This standard is effective for years beginning on or after January 1, 2015.

- Amendments to IAS 32, *Financial Instruments*: *Presentation*, to provide clarification on the application of offsetting rules. This standard is effective for years beginning on or after January 1, 2014.

- New standard IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. This standard is effective for years beginning on or after January 1, 2013. The standard is expected to have minimal impact on the Company's consolidated financial statements.

- New standard IFRS 11, *Joint arrangements*, requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for joint operation, the venture will recognize its share of assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionally consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31 – *Interest in Joint Ventures* and SIC 13 – *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This standard is effective for years beginning on or after January 1, 2013. The standard is expected to have minimal impact on the Company's consolidated financial statements.

- New standard IFRS 12, *Disclosure of Interests in Other Entities*. This new standard provides the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and consolidated structured entities. This standard is effective for years beginning on or after January 1, 2013. The standard is expected to have minimal impact on the Company's consolidated financial statements.

- New standard IFRS 13, *Fair Value Measurement*. This standard defines fair value and sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). This standard is effective for years beginning on or after January 1, 2013. The standard is expected to have minimal impact on the Company's consolidated financial statements.

- Reissued IAS 27, *Separate Financial Statements,* requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 *Financial Instruments*. This standard is effective for years beginning on or after January 1, 2013. The reissued standard is expected to have minimal impact on the Company's consolidated financial statements.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New accounting pronouncements (cont'd…)

- Reissued IAS 28, *Investment in Associates and Joint Ventures*, supersedes IAS 28 *Investments in Associates* and defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard is effective for years beginning on or after January 1, 2013. The reissued standard is expected to have minimal impact on the Company's consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

	February 28, 2013	February 29, 2012
Cash on deposit	$ 139,631	$ 478,886
Liquid short term deposit	3,050	3,050
	$ 142,681	$ 481,936

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 28, 2013	February 29, 2012
HST receivable	$ 16,639	$ 22,556
Due from Sierra Iron Ore (formerly Naina Capital)	163,341	44,682
	$ 179,980	$ 67,238

6. PREPAID EXPENSES AND DEPOSITS

	February 28, 2013	February 29, 2012
Prepaid expenses and deposits	$ 18,921	$ 21,462

(Expressed in Canadian Dollars)

7. EQUIPMENT

	Furniture and Fixtures	Computer and Office Equipment	Exploration Equipment	Vehicles	Total
Cost					
Balance, March 1, 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, March 1, 2012	58,731	53,165	45,063	113,250	270,209
Additions	2,645	-	-	2,513	5,158
Foreign exchange adjustment	562	-	-	-	562
Balance, February 28, 2013	$ 61,938	$ 53,165	$ 45,063	$ 115,763	$ 275,929
Accumulated depreciation					
Balance, March 1, 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, March 1, 2012	42,854	43,586	13,557	36,051	136,048
Depreciation for the year	3,312	2,876	6,300	23,537	36,025
Foreign exchange adjustment	207	-	-	-	207
Balance, February 28, 2013	$ 46,373	$ 46,462	$ 19,857	$ 59,588	$ 172,280
Carrying amounts					
As at February 29, 2012	$ 15,877	$ 9,579	$ 31,506	$ 77,199	$ 134,161
As at February 28, 2013	$ 15,565	$ 6,703	$ 25,206	$ 56,175	$ 103,649

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS

	Toni Property	Reforma Project	Total
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	30,000	102,368	132,368
BC mineral exploration tax credit received	(8,969)	-	(8,969)
Foreign exchange adjustment	-	(2,937)	(2,937)
Balance, February 29, 2012	$ 1,335,925	$ 4,757,750	$ 6,093,675

	Toni Property	Reforma Project	El Boleo Property	Total
Balance, March 1, 2012	$ 1,335,925	$4,757,750	$ -	$6,093,675
Additions:				
Acquisition costs	-	2,747,284	10,000	2,757,284
Geological and other consulting	15,500	123,743	-	139,243
Fieldwork, equipment rental and other	5,820	1,001,176	-	1,006,996
Analysis and report preparation	41,000	27,411	9,814	78,225
Travel	4,605	2,153	-	6,758
Drilling	-	18,642	-	18,642
Project management	39,985	205,041	-	245,026
BC mineral exploration tax credit received	(25,360)	-	-	(25,360)
Foreign exchange adjustment	-	17,286	-	17,286
Balance, February 28, 2013	$ 1,417,475	$8,900,486	$ 19,814	$10,337,775

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.

(Expressed in Canadian Dollars)

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

Toni Property, Nicola Division, British Columbia

At February 28, 2013 the Company owns a 100% interest in 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.

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 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.

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

(Expressed in Canadian Dollars)

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

El Boleo Property

On June 15, 2012 the Company executed an agreement (the "El Boleo Agreement") with Minera Copper Canyon S.A. de C.V. ("Minera"), to acquire an undivided 80% interest in a mineral property known as El Boleo. The El Boleo Agreement was still subject to regulatory approval as at February 28, 2013.

In order to meet the terms of the Option agreement and earn its 80% undivided interest in the El Boleo Property, the Company must make cash and share payments and complete work program as detailed below:

Cash payments	Shares to be issued	Work Program commitment
US$10,000 (paid)		
US$50,000 due upon regulatory approval	2,000,000 shares upon regulatory approval	
US$50,000 due 6 months after regulatory approval	3,000,000 shares by 6 months after regulatory approval	US$500,000 by 12 months after regulatory approval
US$50,000 due 12 months after regulatory approval	3,000,000 shares by 12 months after regulatory approval	US$500,000 by 24 months after regulatory approval
US$50,000 due 24 months after regulatory approval	7,000,000 shares by 24 months after regulatory approval	US$1,000,000 by 36 months after regulatory approval

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 on the property.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	February 28, 2013	February 29, 2012
Trade payables	$ 112,251	$ 49,217
Accrued liabilities	151,800	58,000
Total	$ 264,051	$ 107,217

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

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS

Management compensation

Key management personnel compensation during the years ended February 28, 2013 and February 29, 2012 are as follows:

	February 28, 2013	February 29, 2012
Consulting fees	$ 7,680	$ -
Salaries	149,042	172,144
Management and directors fees	84,000	83,500
Share-based payments (i)	18,550	130,497
Project management fees	60,000	60,000
Exploration expenses	49,000	34,000
	$ 368,272	$ 480,141

(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 to the related parties are as follows:

	February 28, 2013	February 29, 2012
Due to directors and officers	$ 295,758	$ 70,917
Due to CBR Capital (i)	-	20,000
Due to KIM-KC Management Corp (i)	40,000	-
	$ 335,758	$ 90,917

(i) Company controlled by a common director

11. CAPITAL STOCK AND RESERVES

a) Authorized share capital:

As at February 28, 2013, the authorized share capital of the Company was 100,000,000 common shares without par value. The shareholders approved the change of authorized share capital to unlimited on March 19, 2013.

b) Issued share capital:

During the year ended February 28, 2013, the Company:

i) Issued 6,000,000 shares, valued at $2,685,000, to the owners of the Reforma property as per the agreement. (Note 8).

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

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

ii) Issued 1,900,000 shares for options exercised between $0.25 and $0.20 per option for proceeds of $390,000. Fair value of $329,933 was allocated from reserves to share capital.

iii) Issued 7,859,902 shares for warrants exercised between $0.10 and $0.40 per warrant for proceeds of $1,327,490.

iv) 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 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. The Company allocated the entire proceeds of the private placement to common shares and none to warrants. The Company paid $121,039 cash share issuance costs and issued 11,429 agents' warrants valued at $3,274 as share issuance costs. The agents' warrants were valued using Black-Scholes valuation model, using assumptions of 1.37% risk-free interest rate, two years expected life, 125% annualized volatility, and 0% dividend and forfeiture rates.

v) Complete a non-brokered private placement of 75,000 flow-through units at $0.45 per unit for $33,750 total proceeds. Each flow-through unit consists of one flow-through 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 $0.55 for 12 months from closing.

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.

c) Escrow:

At February 28, 2013, there are 200,000 (February 29, 2012 - 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 28, 2013, the Company granted 1,641,560 (2012 – 1,102,627) stock options to officers, directors and consultants of the Company. These options may be exercised at a price of $0.45 and expire between 2 to 5 years.

(Expressed in Canadian Dollars)

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

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

A summary of stock options is presented as follows:

	Number of Options		Weighted Average Exercise Price
Outstanding and exercisable, February 28, 2011	3,462,812	$	0.21
Granted	1,102,627		0.45
Outstanding and exercisable, February 29, 2012	4,565,439		0.27
Granted	1,641,560		0.45
Cancelled	(450,000)		0.39
Exercised*	(1,900,000)		0.21
Outstanding, February 28, 2013	3,856,999	$	0.36
Exercisable, February 28, 2013	3,856,999	$	0.36

*During the year, the weighted average market price at the date of the options exercised was $0.21 per share.

At February 28, 2013, the following stock options were outstanding:

Expiry Date	Number of Options		Exercise Price
January 14, 2015	884,812	$	0.20
May 17, 2015	578,000		0.25
February 29, 2016	502,627		0.45
February 28, 2014	1,640,000		0.45
March 27, 2014	200,000		0.45
February 28, 2017	51,560		0.45
	3,856,999	$	0.36
Weighted average contractual remaining life (years)	1.69		

The Company recognizes share-based payment expense for all stock options granted at fair value. The fair value of the options vested in the year ended February 28, 2013 is $305,539 (2012 – $393,905).

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

	February 28, 2013	February 29, 2012
Risk-free interest rate	1.14%	2.37 %
Expected life of options	2.09 years	3.99 years
Annualized volatility	72%	132 %
Dividends	-	-
Forfeiture rate	-	-
Weighted average fair value of options granted during the year	$ 0.19	$ 0.36

(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
Outstanding February 28, 2011	15,362,402	$	0.20
Exercised	(2,135,000)		0.10
Granted	1,917,651		0.50
Outstanding, February 29, 2012	15,145,053		0.18
Expired	(3,345,000)		0.20
Exercised	(7,859,902)		0.17
Granted	1,949,981		0.50
Outstanding, February 28, 2013	5,890,132	$	0.40

At February 28, 2013, the following warrants were outstanding:

Expiry Date	Number of Warrants Outstanding		Exercise Price
April 29, 2013*	2,022,500	$	0.20
December 4, 2013	1,917,651		0.50
April 26, 2014	1,901,052		0.50
April 26, 2014	11,429		0.35
December 23, 2013	37,500		0.55
	5,890,132	$	0.40

* 200,000 warrants exercised and 1,822,500 warrants expired 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 28, 2013		February 29, 2012
Equipment				
Canada	$	91,106	$	122,062
United States		12,543		12,099
	$	103,649	$	134,161
Exploration and evaluation assets				
Canada	$	1,417,475	$	1,335,925
Mexico		8,920,300		4,757,750
	$	10,337,775	$	6,093,675

(Expressed in Canadian Dollars)

12. SEGMENT INFORMATION (cont'd...)

	February 28, 2013	February 29, 2012
Net loss for the year ended		
Canada	$ 1,380,204	$ 1,194,639
Mexico	93,174	21,185
United States	254,228	253,767
	$ 1,727,606	$ 1,469,591

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 and liabilities;

Level 2 – Inputs other than quoted prices that are observable for the assets or liabilities either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company's primary financial instruments are classified as follows:

Financial instrument	Classification
Cash and cash equivalents	FVTPL
Receivables	LAR
Accounts payable and accrued liabilities	OFL
Due to related parties	OFL

The fair value of these assets and liabilities approximates their respective carrying amounts due to their short term nature except as otherwise noted. The fair value of the Company's cash and cash equivalents constitutes a Level 1 fair value measurement. The Company does not currently hold any financial instruments that would be included in the classification of AFS.

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

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. As at February 28, 2013, the Company's receivables consisted of $16,639 in HST receivable from government authorities in Canada and $163,341 receivable from Sierra Iron Ore. (related party). Substantially all cash balances are held at chartered banks in Canada, the United States of America and Mexico.

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

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The Company manages liquidity risk through the management of its capital structure, as outlined below. As at February 28, 2013, the Company had a cash and cash equivalents balance of $142,681 and receivables of $179,980 to settle current liabilities of $599,809. With exception to related party loans (Note 10) all of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company will require financing from lenders, shareholders and other investors to generate sufficient capital to meet its short term business requirements. The Company is planning additional financings in the near term to raise working capital to finance its ongoing operations.

Market risk

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

a) Interest rate risk

The Company has cash balances and interest-bearing debt. The Company is satisfied with the credit ratings of its banks. As of February 28, 2013, the Company did not hold any investments. The Company believes it has no significant interest rate risk.

b) Foreign currency risk

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, exploration and evaluation expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure to foreign currency exchange risk is mitigated by the fact that the Company restricts the amount of Mexican Pesos ("Pesos") kept on hand and sources the majority of its capital projects and expenditures in Pesos. The Company has not entered into any derivative instruments in an effort to mitigate exposure to fluctuations in foreign exchange rates.

At February 28, 2013, the Company had US $34,207 (translated using 1.0257 exchange rate) and 24,654 Mexican Pesos (translated using 0.07990 exchange rate) in cash and cash equivalents and 554,579 Mexican Pesos (translated at 0.07990 exchange rate) in accounts payable and accrued liabilities.

c) Price risk

The recoverability of the Company's exploration and evaluation assets is indirectly related to the market price of commodities. The Company's ability to continue with its exploration program is also indirectly subject to commodity prices. The Company is not currently directly exposed to fluctuations in commodity prices as the Company is currently in the exploration phase and has no production.

(Expressed in Canadian Dollars)

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

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 28, 2013.

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.

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 28, 2013	February 29, 2012
Loss before taxes for the year	$ (1,727,606)	$ (1,469,591)
	25%	26.25%
Expected income tax recovery	$ (431,902)	$ (385,767)
Non-deductible items	77,984	104,141
Effect of change in tax rate	-	9,982
Difference in tax rates in other jurisdictions	(20,932)	(15,061)
Tax benefit not recognized	374,850	286,705
Deferred income tax recovery	$ -	$ -

(Expressed in Canadian Dollars)

14. INCOME TAXES (cont'd…)

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

	February 28, 2013	February 29, 2012
Non-capital losses	$ 1,307,000	$ 939,000
Capital losses	752,000	752,000
Plant and equipment	54,000	46,000
Mineral properties	377,000	378,000
Eligible capital expenditures	34,000	34,000
Share issuance costs	52,000	44,000
	2,576,000	2,193,000
Unrecognized deferred tax assets	(2,576,000)	(2,193,000)
Net deferred tax assets	$ -	$ -

The Company has non-capital losses of approximately $4,308,000 (2012 - $3,186,000) 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	828,000
2033	1,122,000
	$ 4,308,000

In addition, the Company has approximately $10,368,000 of 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 consolidated 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 28, 2013.

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

a) Included in accounts payable and due to related parties is $193,918 (February 29, 2012 - $62,998) of exploration and evaluation assets costs.

b) Allocated exploration advances of $Nil (February 29, 2012 - $413,914) to exploration and evaluation assets costs.

c) Included in exploration and evaluation assets is the fair value of $2,685,000 (February 29, 2012 - $2,280,000) for 6,000,000 (2012 – 6,000,000) shares issued to the owners of the Reforma property as per agreement.

d) Included in share capital is $648,284 share subscription received in advance in the prior year.

16. COMMITMENTS

At February 28, 2013, 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, 2013 as per the signed agreement.

17. SUBSEQUENT EVENT

Subsequent to February 28, 2013, 200,000 warrants were exercised.