VICTORY RESOURCES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

For The Nine Months Ended November 30, 2010

Unaudited – prepared by management

VICTORY RESOURCES CORPORATION
(A Development Stage Company)
Consolidated Balance Sheets

	November 30, 2010 (Unaudited)	February 28, 2010 (Audited)
ASSETS		
Current		
Cash	$ 607,715	$ 97,310
Term deposit	3,000	3,000
Taxes recoverable	27,734	15,439
Prepaid expenses, exploration advances and deposits (Note 5)	346,524	87,774
Amounts due from related parties (Note 7)	24,777	-
	1,009,750	203,523
Equipment (Note 6)	164,380	10,544
Mineral properties (Note 4 , 7 and 9)	2,242,183	1,140,603
	$ 3,416,313	$ 1,354,670
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 94,528	$ 104,222
Amounts due to related parties (Note 7)	52,745	92,032
	147,273	196,254
Shareholders' equity		
Capital stock (Note 8)	15,085,880	12,233,529
Contributed surplus (Note 8)	900,835	772,769
Share subscriptions received in advance	-	15,000
Deficit	(12,717,675)	(11,862,882)
	3,269,040	1,158,416
	$ 3,416,313	$ 1,354,670

Nature of operations and ability to continue as a going concern (Note 1)
Commitments (Note 9)
Subsequent event (Note 12)

"*Wally Boguski*"
Wally Boguski, Director

"*Paul Lee*"
Paul Lee, Director

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

VICTORY RESOURCES CORPORATION
(A Development Stage Company)
Consolidated Statement of Operations, Comprehensive Loss and Deficit

	Three months ended November 30, 2010 (Unaudited)	Three months ended November 30, 2009 (Unaudited)	Nine months ended November 30, 2010 (Unaudited)	Nine months ended November 30, 2009 (Unaudited)
Administrative Expenses				
Amortization	**$ 13,307**	$ 129	**$ 22,947**	$ 2,282
Management and director fees (Note 7)	**21,000**	12,500	**62,500**	22,500
Wages and benefits	**72,881**	-	**108,341**	-
Office rent and miscellaneous	**51,676**	18,169	**165,373**	37,331
Professional fees	**66,232**	45,705	**221,686**	87,307
Investor relations	**15,886**	-	**32,387**	-
Stock-based compensation (Note 8)	**13,829**	-	**128,066**	-
Transfer agent and filing fees	**4,745**	9,099	**35,042**	18,906
Travel and entertainment expenses	**22,736**	4,802	**88,011**	5,845
Loss before other income (expenses)	**(282,292)**	(90,404)	**(864,353)**	(174,171)
Other Income and (Expenses)				
Foreign exchange gain (loss)	**(1,312)**	-	**(1,870)**	-
Interest income	**382**	-	**382**	121
Miscellaneous Revenue (Note 7)	**7,500**	-	**7,500**	-
Gain on sale of equipment (Note 6 and 7)	**3,548**	-	**3,548**	-
	10,118	**-**	**9,560**	**121**
Loss and comprehensive loss for the period	**(272,174)**	**(90,404)**	**(854,793)**	**(174,050)**
Deficit, beginning of period	**(12,445,501)**	(11,070,165)	**(11,862,882)**	(10,986,519)
Deficit, end of period	**$ (12,717,675)**	$ (11,160,569)	**$ (12,717,675)**	$ (11,160,569)
Basic and diluted loss per common share	**$ (0.01)**	$ (0.01)	**$ (0.02)**	$ (0.01)
Weighted average number of common shares outstanding	**40,318,689**	15,842,414	**36,615,145**	13,645,507

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

VICTORY RESOURCES CORPORATION
(A Development Stage Company)
Consolidated Statement of Cash Flows

	Three months ended November 30,		Nine months ended November 30,	
	2010 (Unaudited)	**2009 (Unaudited)**	**2010 (Unaudited)**	**2009 (Unaudited)**
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	**$ (272,174)**	$ (90,404)	**$ (854,793)**	$ (174,050)
Items not affecting cash:				
Amortization	**13,307**	129	**22,947**	2,282
Gain on sale of equipment (Note 7)	**(3,548)**	-	**(3,548)**	-
Stock based compensation (Note 8)	**13,829**		**128,066**	
	(248,586)	(90,275)	**(707,328)**	(171,768)
Changes in non-cash working capital items:				
(Increase) decrease in taxes recoverable	**19,017**	(2,150)	**(12,296)**	1,856
(Increase) decrease in prepaid expenses	**17,311**	-	**(18,149)**	1,071
Increase (decrease) in accounts payable and accrued liabilities	**47,021**	6,236	**(17,863)**	(101,406)
Net cash flows used in operating activities	**(165,237)**	(86,189)	**(755,636)**	(270,247)
CASH FLOWS FROM INVESTING ACTIVITIES				
Mineral property costs	**(4,476)**	(4,507)	**(127,740)**	(4,507)
Acquisition of equipment	**(37,824)**	(1,605)	**(173,235)**	(1,605)
Mineral property exploration advances	**(59,506)**	-	**(240,601)**	-
Refund of mining exploration tax credits	**11,444**	-	**11,444**	-
Deferred exploration costs	**(163,190)**	(19,742)	**(577,113)**	(43,256)
Net cash flows used in investing activities	**(253,552)**	(25,854)	**(1,107,245)**	(49,368)
CASH FLOWS FROM FINANCING ACTIVITIES				
Obligation to issue common shares	**-**	191,500	**-**	225,750
Issuance of common shares for cash	**418,885**	18,904	**2,437,350**	196,207
Amounts due from related parties	**(9,485)**	-	**(24,778)**	-
Amounts due to related parties	**26,216**	30,766	**(39,286)**	40,200
Net cash flows provided by financing activities	**435,616**	241,170	**2,373,286**	462,157
Change in cash position during the period	**16,827**	129,127	**510,405**	142,542
Cash, beginning of period	**590,888**	19,206	**97,310**	5,791
Cash, end of period	**$ 607,715**	$ 148,333	**$ 607,715**	$ 148,333

Supplemental disclosure of cash flow information Note 10

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

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

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 Sa De Cv, incorporated under the laws of Sonora, Mexico in April 2010.

The Company is in the process of exploring and developing its mineral properties and has not yet determined whether the 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 financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realized values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

At November 30, 2010, the Company had not yet achieved profitable operations, has accumulated losses of $12,717,675 since its inception, has working capital of $862,477 and expects to incur further losses in the development of its business.

At November 30, 2010, the Company will require additional financing in order to conduct its planned work programs on its mineral properties, meet exploration commitments, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due.

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 have been obtained in the past. 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

The Company was incorporated in British Columbia on February 8, 1984. On February 28, 2005, the Company changed its name to Victory Resources Corporation.

2. CHANGES IN ACCOUNTING POLICIES

Basis of presentation

These financial statements include, on a consolidated basis, the accounts of Victory Resources Corporation and its wholly-owned subsidiaries: Victory Resources Corporation U.S.A., incorporated under the laws of Arizona, U.S.A.; and Vicres Mining Mexico Sa De Cv, incorporated under the laws of Sonora, Mexico. All inter-company transactions and balances have been eliminated on consolidation. Victory Resources Corporation and its subsidiaries are collectively referred to in these financial statements as "the Company".

The unaudited interim financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. These interim financial statements have been prepared using the same accounting policies and method of application as the audited financial statements of the Company.

2. CHANGES IN ACCOUNTING POLICIES (cont'd…)

Basis of presentation (cont'd…)
These unaudited interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended February 28, 2010. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire year. The interim financial statements have not been reviewed or audited by the Company's Auditors.

Certain comparative figures have been reclassified, where applicable, to conform with the current quarter's presentation. The company's significant accounting policies are as outlined in the audited financial statements for the year ended February 28, 2010.

Changes in accounting policy

New accounting standards were required to be adopted by the Company during the nine months ended November 30, 2010 as below:

Foreign Currency Translation

The Company follows the temporal method of foreign currency translation. Monetary assets and liabilities are translated at the foreign exchange rate observed at the balance sheet date. Non-monetary items are translated at the historical exchange rates, unless such items are carried at market in which case they are translated at the exchange rate in effect at the balance sheet date. Revenues and expense items are translated at the exchange rate in effect on the dates they occurred.

Recent Canadian accounting developments

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1582, "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The adoption of this standard is not expected to have a material effect on the Company's financial statements.

In January 2009, the CICA issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The adoption of this standard is not expected to have a material effect on the Company's financial statements.

International financial reporting standards

The Canadian Accounting Standards Board ("AcSB") has published a strategic plan that calls for the convergence of Canadian GAAP (Generally Accepted Accounting Principles) with IFRS over an expected five year transitional period commencing 2006. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. As the Company has a non-calendar fiscal year it will be required to produce the first IFRS financial statements in the first quarter of its 2013 fiscal year (the quarter ending May 31, 2012). The transition date of March 1, 2012 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2012. While the Company has begun assessing the adoption of IFRS for fiscal 2013, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

2. CHANGES IN ACCOUNTING POLICIES (cont'd…)
Recent Canadian accounting developments (cont'd…)

International financial reporting standards(cont'd…)

In particular the Company is studying the impact of applying the following IFRS standards: IFRS 1 First-time Adoption of IFRS, IFRS 2 Share-based Payment, IFRS 7 Financial Instruments: Disclosures, IAS 8 Accounting Policies, and Changes in Accounting Estimates and Errors, IAS 16 Property, Plant and Equipment, and IAS 24 Related Party Disclosures.

Management is currently developing its plans for the transition to IFRS. Key elements include analyzing IFRS accounting policy alternatives, business activities impacted by accounting processes and information system changes. The Company's IFRS implementation project will be completed by a combination of in-house resources and external consultants.

3. 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.

4. MINERAL PROPERTIES

Nine months ended November 30, 2010	Toni Property	Reforma Project	Total
Acquisition costs:			
Balance, beginning of the period	$ 202,244	$ 26,798	$ 229,042
Additions	21,704	506,036	527,740
Balance, end of the period	223,948	532,834	756,782
Deferred exploration costs:			
Balance, beginning of the period	780,778	130,783	911,561
Additions:			
Geological and other consulting	75,750	122,872	198,622
Field work, equipment rental and other	15,831	91,388	107,219
Analysis and report preparation	13,809	23,644	37,453
Travel	8,509	52,466	60,975
Drilling	106,522	-	106,522
Project Management	25,500	48,992	74,492
Less: BC mineral exploration tax credits received	(11,443)	-	(11,443)
Balance, end of the period	1,015,256	470,145	1,485,401
Total mineral property costs	$ 1,239,204	$ 1,002,979	$ 2,242,183

4. MINERAL PROPERTIES (cont'd….)

Year ended February 28, 2010	Toni Property	Reforma Project	Total
Acquisition costs:			
Balance, beginning of the period	$ 158,102	$ -	$ 158,102
Additions	44,142	26,798	$ 70,940
Balance, end of the period	202,244	26,798	229,042
Deferred exploration costs:			
Balance, beginning of the period	703,655	-	703,655
Additions:			-
Geological and other consulting	(500)	63,313	62,813
Field work, equipment rental and other	2,096	3,190	5,286
Analysis and report preparation	32,166	18,145	50,311
Travel	3,361	25,101	28,462
Project Management	40,000	21,034	61,034
Balance, end of the period	780,778	130,783	911,561
Total mineral property costs	$ 983,022	$ 157,581	$ 1,140,603

Toni Property, Nicola Division, British Columbia (formerly Au/Wen Claims)

At November 30, 2010 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.

1) 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).

2) 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.

3) 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.

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

5) During the year ended February 28, 2010 the Company amalgamated 15 of the Toni properties, forfeited 23 Toni property leases and 54 Cody property leases.

6) During the nine months ended November 30, 2010 the Company paid $21,704 in cash and filed an Aris report valued at $125,000 and applied $49,800 from the Payment Instead of Work account in order to extend 50 mineral tenures into the years 2011, 2012, 2013 and 2014 . The Company also chose to forfeit 8 eastern tenures in August 2010. All but 8 of the 59 mineral tenures are good to at least November 30, 2011.

4. MINERAL PROPERTIES (cont'd….)

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 exploitation of the property with the Owner to retain a carried interest for the first US$15,000,000 of JV expenditures. Thereafter, the parties will fund their further participation in the JV in accordance with their 30/70 respective interest and will be subject to standard penalties.

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

Cash payments	**Shares to be issued**	**Work Program commitment**
US$50,000 due June 10, 2010 (paid)	2,000,000 shares by June 10, 2010 (issued)	US$500,000 by May 20, 2011 (US$457,000 spent to date)
US$50,000 due November 20, 2010 (paid)	6,000,000 shares by May 20, 2011	US$1,000,000 by May 20, 2012
US$100,000 due May 20, 2011	6,000,000 shares by May 20, 2012	US$1,000,000 by May 20, 2013
US$ 100,000 due May 20, 2012		

Note: The above due dates have been corrected upon a review of the executed agreement by management in Q3-2011.

5. PREPAID EXPENSES & EXPLORATION DEPOSITS

	November 30, 2010 $	February 28, 2010 $
Prepaid expenses and deposits	31,408	13,259
Exploration advances	315,116	74,515
	346,524	87,774

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

6. EQUIPMENT

	Nine months ended November 30, 2010			Year ended Feb. 28, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 53,166	$ 38,670	$ 14,496	$ 40,887	$ 36,244	$ 4,643
Furniture, fixtures and equipment	50,040	37,552	12,488	41,969	36,068	5,901
Vehicles	107,847	12,133	95,714	-	-	-
Exploration equipment-Reforma Project	45,062	3,380	41,682	-	-	-
	$ 256,115	$ 91,735	$ 164,380	$ 82,856	$ 72,312	$ 10,544

In Q1-2011 the Company purchased two pick-up trucks for its exploration properties totalling $52,000. In Q2-2011 the Company purchased a backhoe and loader for its Reforma Project for a total of $57,520 as well as a site trailer and miscellaneous equipment. In Q3-2011 the Company purchased an additional three pick-up trucks for a total cost of $55,847, a Hydracore Geopher Portable Drill for $20,000 for its Reforma Project as well as miscellaneous equipment for the Reforma project and the head office. During Q3-2011 the Company sold the backhoe loader purchased in Q2-2011 and miscellaneous equipment for a total of $90,000 to a related party resulting in a net gain to the Company of $3,548.

Equipment is recorded at cost less accumulated amortization. Amortization is recorded at the following annual rates and methods:

Computer equipment	30% declining balance
Furniture, fixtures and equipment	20% declining balance
Vehicles	30% declining balance
Exploration equipment	20% declining balance

7. RELATED PARTY TRANSACTIONS

During the nine months ended November 30, 2010, the Company entered into transactions with related parties as follows:

a) Paid or accrued $45,000 (2009 - $22,500) in management fees to a company controlled by the President of the company for his services as per a contract dated January 1, 2010 for twelve months..

b) Paid or accrued $45,000 (2009: $22,500) in project management fees to a company controlled by a director of the Company. This amount is classified as deferred exploration expenditure, a component of mineral properties.

c) Paid or accrued $86,150 (2009 - $17,000) in exploration expenses to a private company controlled by a director of the Company. These amounts are included in deferred exploration expenditures, a component of mineral properties.

7. RELATED PARTY TRANSACTIONS (cont'd…)

d) Paid or accrued $9,000 (2009 – nil) in consulting fees to a Director of the Company, a component of professional fees.

e) During the period ended November 30, 2010, the Company paid or accrued $17,500 (2009: $Nil) in directors' fees.

f) Paid or accrued $Nil (2009 - $1,800) in office rental charges to a Company related through a common director.

g) Paid or accrued $29,120 (2009 – nil) in wages to a Director of the Company.

h) Victory received $97,500 in cash from a company with directors in common. Included in this amount is $90,000 in proceeds from the sale of equipment, and $7,500 for miscellaneous billings.

These charges are measured by the exchange amount which is the amount agreed upon by the transacting parties.

The amounts due from/to related parties, which are non-interest bearing, unsecured and due on demand, are comprised of the following:

	November 30, 2010	February 28, 2010
Receivable		
Due from a company controlled by a Director	**$24,777**	$ -
Payable		
Due to director(s) or companies controlled by Director(s)	**$52,745**	$92,032

The amount due from a related party relates to exploration advances received by a private company controlled by a Director of Victory which are expected to be applied against exploration work in the current year.

The amounts due to related parties are due to directors and their private companies, and/or a public company controlled by Directors of Victory . They are unsecured, non-interest bearing and have no specific terms of repayment. Included in these amounts are unpaid director fees, management fees and mineral property costs.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized: 100,000,000 common shares without par value

Issued:

	Number of Shares	Capital Stock	Contributed Surplus
Balance, February 28, 2010	29,973,128	$ 12,233,529	$ 772,769
Private placement (a)	9,825,000	2,456,250	-
Share issue costs (b)	-	(146,975)	-
Warrants exercised (c)	1,430,757	143,076	-
Acquisition of Mineral properties	2,000,000	400,000	
Stock-based compensation	-	-	128,066
Balance, November 30, 2010	43,228,885	$ 15,085,880	$ 900,835

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

a) In Q1-2011 the Company issued 5,780,000 units pursuant to a private placement for aggregate proceeds of $1,445,000 at a price of $0.25 per unit. In Q3- 2011 the Company issued 4,045,000 units pursuant to a private placement for aggregate proceeds of $1,011,250 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 placements to common shares and none to warrants.

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

c) Issued 1,430,757 shares for warrants exercised at a value of $0.10 per warrant, for proceeds of $143,076. $15,000 for the exercise of warrants was received in FY-2010.

d) Issued 2,000,000 common shares to the owners of the Reforma Property as per agreement. (Refer to Note 4).

Escrow

At November 30, 2010, there are 200,000 (2009: 200,000) common shares held in escrow. The release of these shares is subject to the approval of the TSX-V.

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 nine month period ended November 30, 2010, the company granted 778,000 stock options exercisable for 5 years at a price of $0.25 to officers, directors, employees and consultants of the Company. Included in this option award, there were 200,000 investor relations stock options exercisable for 2 years at a price of $0.25 as per contract.

A summary of the stock option activities 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	778,000	0.25
Outstanding, November 30, 2010	3,462,812	$ 0.21
Exercisable, November 30, 2010(2)	3,362,812	

(1) 250,000 options granted to a former Director were cancelled as per the terms of the Company's stock option plan.
(2) Of the 200,000 investor relations options granted for Investor Relations in Q1-2010, 100,000 are unvested at November 30, 2010 as per regulatory rules.

The following options to acquire common shares of the Company are outstanding at November 30, 2010:

Number of Shares	Exercise Price	Expiry Date
2,684,812	$0.20	January 14, 2015
578,000	$0.25	May 17, 2015
200,000	$0.25	May 17, 2012
3,462,812		

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Stock options outstanding at November 30, 2010 have a weighted average outstanding life of 4.03 years (February 28, 2010 – 4.88 years).

The following weighted average assumptions were used for the Black-Scholes option pricing model:

	November 30, 2010	February 28, 2010
Risk-free interest rate	2.81	2.57
Expected life of options	5 years	5 years
Annualized volatility	150%	170%
Dividend rate	0.00%	0.00%

The weighted average fair value of the options granted was $0.18 per share (February, 28, 2010 - $$0.17 per share).

The company recorded stock based compensation expense of $128,066 (February 28, 2010: $498,338) for the issuance of the stock options.

Warrants

A summary of the warrant activities is presented as follows:

	Number of Warrants		Weighted Average Exercise Price
Outstanding, February 28, 2010	14,576,459	$	0.10
Issued under private placement	4,912,500	$	0.40
Exercised	(1,430,757)	$	0.10
Outstanding, November 30, 2010	18,058,202	$	0.18

The following warrants to acquire common shares of the Company are outstanding at November 30, 2010:

Number of Shares		Exercise Price	Expiry Date
262,500	$	0.10	December 17, 2010
660,125	$	0.10	July 20, 2012
353,077	$	0.10	November 20, 2012
11,870,000	$	0.10	December 17, 2012
2,890,000	$	0.40	May 14, 2012
2,022,500	$	0.40	October 27, 2012
18,058,202			

9. COMMITMENTS

Flow-through eligible Canadian exploration expenditures

Pursuant to the terms of the subscription agreements of the private placement equity financing conducted during the year ended February 28, 2010, the Company must incur Canadian exploration expenditures totaling approximately $56,750 by December 31, 2010, or face penalties and liabilities to its flow-through subscribers. At November 30, 2010, the Company has incurred all required expenditures.

9. COMMITMENTS (cont'd…)

Mineral Property commitments

In order to keep its mineral properties in good standing to November 30, 2011, the Company must make property payments to the Province of British Columbia totaling approximately $251 in cash and file exploration work totaling $2,510 between September and November of 2011.

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$100,000 due May 20, 2011	6,000,000 shares by May 20, 2011	US$1,000,000 by May 20, 2012
US$ 100,000 due May 20, 2012	6,000,000 shares by May 20, 2012	US$1,000,000 by May 20, 2013

10. 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 nine months ended November 30, 2010.

- Included in accounts payable $17,072 (2009: $21,573) of mineral property costs.
- Recorded, using the Black-Scholes option pricing model, stock-based compensation with a fair value of $128,066 (2009: $Nil) for stock options granted during the year.
- In Q2-2010 the Company issued 2,000,000 common shares to the owners of the Reforma Property as per agreement. The shares issued had a fair value of $400,000 at the date of issue. This amount was included in mineral property acquisition costs during the period.

11. FINANCIAL INSTRUMENTS

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at November 30, 2010, 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 the acquisition of the Reforma Project. Many of the costs of the Reforma Project are in Mexican Pesos and United States Dollars (USD). Accordingly, changes in the Peso or USD denominated value of the Canadian dollar will impact the Canadian dollar cost of meeting any future obligations under that project.

At November 30, 2010, the Company does not believe its overall exposure to currency risk for its obligations denominated in Mexican Pesos or USD 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.

11. FINANCIAL INSTRUMENTS (cont'd…)

The Company is exposed to risk arising from a concentration of credit, as an exploration advance to a single party comprises 79% of total loans and receivables at November 30, 2010. Default by that party would constitute a material loss.

Based on management's assessment and on-going monitoring of the receivable amount, management does not believe the Company is exposed to material credit default risk from its exploration advance. Management expects that the exploration advance will be realized in full by the application of the advance against exploration and prospecting services to be delivered to the Company in the current fiscal year.

As the Company's loans and receivables are neither secured nor hedged, the Company's exposure to loss due to credit risk equals the face value of the balance of loans and receivables.

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 November 30 2010, the Company is not exposed to any significant interest rate risk.

Liquidity Risk

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

12. SUBSEQUENT EVENTS

In December 2010, warrant holders exercised 712,500 warrants to purchase common shares at a price $0.10 per share for proceeds of $71,250.

In January 2011, warrant holders exercised 450,000 warrants to purchase common shares at a price $0.10 per share for proceeds of $45,000.