

**VICTORY RESOURCES CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**FOR THE YEAR ENDED FEBRUARY 28, 2014**



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## **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, 2014 and February 28, 2013, 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, 2014 and February 28, 2013 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.

**"Crowe MacKay LLP"**

**Chartered Accountants  
Vancouver, British Columbia  
June 26, 2014**

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

	February 28, 2014	February 28, 2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 28,053	\$ 139,631
Receivables (Note 4)	10,887	179,980
Prepaid expenses and deposits	<u>16,835</u>	<u>18,921</u>
<b>Total current assets</b>	<u>55,775</u>	<u>338,532</u>
<b>Non-current assets</b>		
Reclamation deposit	3,050	3,050
Equipment (Note 5)	77,488	103,649
Exploration and evaluation assets (Note 6)	<u>1,508,139</u>	<u>10,337,775</u>
<b>Total non-current assets</b>	<u>1,588,677</u>	<u>10,444,474</u>
<b>Total assets</b>	<u>\$ 1,644,452</u>	<u>\$ 10,783,006</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 1,035,260	\$ 264,051
Due to related parties (Note 8)	<u>751,713</u>	<u>335,758</u>
<b>Total liabilities</b>	<u>1,786,973</u>	<u>599,809</u>
<b>Shareholders' equity (deficit)</b>		
Capital stock (Note 9)	24,959,928	24,919,928
Reserves (Note 9)	1,018,405	1,041,602
Deficit	<u>(26,120,854)</u>	<u>(15,778,333)</u>
<b>Total shareholders' equity (deficit)</b>	<u>(142,521)</u>	<u>10,183,197</u>
<b>Total liabilities and shareholders' equity (deficit)</b>	<u>\$ 1,644,452</u>	<u>\$ 10,783,006</u>

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

**Segmented information** (Note 10)

**Commitments** (Note 14)

Approved and authorized on behalf of the Board of Directors on June 26, 2014.

<u>“Wally Boguski”</u> Wally Boguski	Director	<u>“Roger Frost”</u> Roger Frost	Director
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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, 2014	February 28, 2013
<b>EXPENSES</b>		
Consulting (Note 8)	\$ 49,007	\$ 238,095
Depreciation	27,064	36,025
Investor relations	15,473	32,010
Management and directors fees (Note 8)	72,000	84,000
Office and administration	68,452	148,532
Professional fees	151,001	301,545
Property investigations costs	13,888	1,827
Share-based payments (Note 8 and 9)	-	305,539
Transfer agent and filing fees	28,167	61,269
Travel	46,637	128,598
Wages and salaries (Note 8)	<u>262,903</u>	<u>384,592</u>
<b>Loss before other items</b>	(734,592)	(1,722,032)
<b>OTHER ITEMS</b>		
Interest income	295	362
Loss on foreign exchange	(5,905)	(5,936)
Mineral property impairment (Note 6)	<u>(9,965,558)</u>	<u>-</u>
<b>Net loss for the year</b>	(10,705,760)	(1,727,606)
<b>Other comprehensive income</b>		
Foreign exchange adjustments on translating foreign subsidiaries	<u>340,042</u>	<u>7,285</u>
<b>Comprehensive loss</b>	<u>\$ (10,365,718)</u>	<u>\$ (1,720,321)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.14)</u>	<u>\$ (0.02)</u>
<b>Weighted average number of common shares outstanding</b>	<u>77,884,765</u>	<u>70,217,197</u>

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

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

For the Year Ended	February 28, 2014	February 28, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (10,705,760)	\$ (1,727,606)
Items not affecting cash:		
Depreciation	27,064	36,025
Share-based payments	-	305,539
Mineral property impairment	<u>9,965,558</u>	<u>-</u>
	(713,138)	(1,386,042)
Non-cash working capital item changes:		
Receivables	5,752	5,917
Prepaid expenses and deposits	2,086	2,541
Accounts payable and accrued liabilities	<u>297,790</u>	<u>41,569</u>
Net cash used in operating activities	<u>(407,510)</u>	<u>(1,336,015)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of equipment	-	(5,158)
Exploration and evaluation expenditures	<u>(42,570)</u>	<u>(1,428,180)</u>
Net cash used in investing activities	<u>(42,570)</u>	<u>(1,433,338)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of shares for cash, net of costs	-	595,152
Cash from warrants exercised	20,000	1,327,490
Cash from options exercised	-	390,000
Amounts due to related parties	<u>405,346</u>	<u>110,526</u>
Net cash provided by financing activities	<u>425,346</u>	<u>2,423,168</u>
<b>Effect of foreign exchange rate on cash</b>	<u>(86,844)</u>	<u>6,930</u>
<b>Change in cash for the year</b>	(111,578)	(339,255)
<b>Cash, beginning of the year</b>	<u>139,631</u>	<u>478,886</u>
<b>Cash, end of the year</b>	<u>\$ 28,053</u>	<u>\$ 139,631</u>
<b>Supplemental cash flow information</b>		
<b>Interest paid</b>	\$ -	\$ -
<b>Income taxes paid</b>	\$ -	\$ -

**Supplemental disclosure with respect to cash flows (Note 13)**

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

**VICTORY RESOURCES CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**  
(Expressed in Canadian Dollars)

	Capital Stock		Reserves				Obligation to issue common shares	Deficit	Total Equity (Deficit)
	Number	Amount	Share-based payment	Foreign currency translation	Others	Total Reserves			
<b>Balance as at February 29, 2012</b>	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	-	(3,274)	-	-	3,274	3,274	-	-	-
Share issuance costs	-	(121,039)	-	-	-	-	-	-	(121,039)
Acquisition of mineral properties	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)
<b>Balance as at February 28, 2013</b>	<b>77,706,957</b>	<b>\$ 24,919,928</b>	<b>\$ 864,684</b>	<b>\$ (18,121)</b>	<b>\$ 195,039</b>	<b>\$ 1,041,602</b>	<b>\$ -</b>	<b>\$ (15,778,333)</b>	<b>\$ 10,183,197</b>
<b>Balance as at February 28, 2013</b>	77,706,957	\$ 24,919,928	\$ 864,684	\$ (18,121)	\$ 195,039	\$ 1,041,602	\$ -	\$ (15,778,333)	\$ 10,183,197
Warrants exercise	200,000	40,000	-	-	-	-	-	-	40,000
Options expired	-	-	(363,239)	-	-	(363,239)	-	363,239	-
Foreign currency translation differences	-	-	-	340,042	-	340,042	-	-	340,042
Loss for year	-	-	-	-	-	-	-	(10,705,760)	(10,705,760)
<b>Balance as at February 28, 2014</b>	<b>77,906,957</b>	<b>\$ 24,959,928</b>	<b>\$ 501,445</b>	<b>\$ 321,921</b>	<b>\$ 195,039</b>	<b>\$ 1,018,405</b>	<b>\$ -</b>	<b>\$ (26,120,854)</b>	<b>\$ (142,521)</b>

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 the 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, 2014 the Company has a deficit of \$26,120,854 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, 2014.

### **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.

**VICTORY RESOURCES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
FEBRUARY 28, 2014

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**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.

**2. BASIS OF PREPARATION** (cont'd...)

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

*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.

*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 consolidated 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, 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.

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

**Foreign currency translation**

The presentation currency of the Company is the Canadian dollar.

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

Transactions and balances

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

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

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

Subsidiary

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

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

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.

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

**Financial instruments (cont'd...)**

Financial assets (cont'd...)

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 the initial carrying amount of the assets.

*Loans and receivables ("LAR")* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment.

*Held-to-maturity investments ("HTM")* - 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 ("AFS")* - 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 ("FVTPL")* - 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 ("OFL")*: 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	30%
Exploration equipment	20%
Furniture and fixtures and office equipment	20%
Vehicles	30%

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

**Equipment (cont'd...)**

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.

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 Income (Loss).

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.

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

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

*Exploration and evaluation expenditures (cont'd...)*

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

Mineral exploration and evaluation expenditures are classified as intangible assets.

*Reclamation deposits*

Cash and cash equivalents 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 income (loss) for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the 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.

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

**Loss per share**

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

**Share-based payments**

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

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

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

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

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

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

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

**Income taxes**

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

Deferred tax is recorded using the consolidated 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 consolidated 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.

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.

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

**New accounting pronouncements**

*Accounting Standards adopted during the year*

Effective March 1, 2013, the following standards were adopted but have had no material impact on the financial statements:

- IFRS 10: New standard to establish principles for the presentation and preparation of consolidated financial statements, effective for annual periods beginning on or after January 1, 2013
- IFRS 11: New standard to account for the rights and obligations in accordance with a joint agreement, effective for annual periods beginning on or after January 1, 2013
- IFRS 12: New standard for the disclosure of interests in other entities not within the scope of IFRS 9 / IAS 39, effective for annual periods beginning on or after January 1, 2013
- IFRS 13: New standard on the measurement and disclosure of fair value, effective for annual periods beginning on or after January 1, 2013
- IAS 27 (Amendment): As a result of the issue of IFRS 10, IFRS 11 and IFRS 12. IAS 27 deals solely with separate financial statements, effective for annual periods beginning on or after January 1, 2013
- IAS 28 (Amendment): New standard issued that supersedes IAS 28 (2003) to prescribe the application of the equity method to investments in associates and joint ventures, effective for annual periods beginning on or after January 1, 2013

*Accounting Standards issued but not yet adopted*

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after March 1, 2014. Updates which are not applicable or are not consequential to the Company have been excluded thereof. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IAS 32 Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 with earlier adoption permitted.
- IFRS 9 Financial Instruments (“IFRS 9”) was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is tentatively to be applied for accounting periods beginning on or after January 1, 2018, with early adoption permitted.

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**4. RECEIVABLES**

The Company's receivables arise from two main sources: Goods and Services Tax ("GST") 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, 2014	February 28, 2013
GST/HST receivable	\$ 10,887	\$ 16,639
Due from Sierra Iron Ore (formerly Naina Capital)	<u>-</u>	<u>163,341</u>
	<u>\$ 10,887</u>	<u>\$ 179,980</u>

**5. EQUIPMENT**

	Furniture and Fixtures and Office Equipment	Computer	Exploration Equipment	Vehicles	Total
<b>Cost</b>					
Balance, February 29, 2012	\$ 58,731	\$ 53,165	\$ 45,063	\$ 113,250	\$ 270,209
Additions	2,645	-	-	2,513	5,158
Foreign exchange adjustment	<u>562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>562</u>
Balance, February 28, 2013	61,938	53,165	45,063	115,763	275,929
Additions	-	-	-	-	-
Foreign exchange adjustment	<u>1,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,706</u>
<b>Balance, February 28, 2014</b>	<u>\$ 63,644</u>	<u>\$ 53,165</u>	<u>\$ 45,063</u>	<u>\$ 115,763</u>	<u>\$ 277,635</u>
<b>Accumulated depreciation</b>					
Balance, February 29, 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	<u>207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207</u>
Balance, February 28, 2013	46,373	46,462	19,857	59,588	172,280
Depreciation for the year	3,160	2,011	5,041	16,852	27,064
Foreign exchange adjustment	<u>803</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>803</u>
<b>Balance, February 28, 2014</b>	<u>\$ 50,336</u>	<u>\$ 48,473</u>	<u>\$ 24,898</u>	<u>\$ 76,440</u>	<u>\$ 200,147</u>
<b>Carrying amounts</b>					
As at February 28, 2013	\$ 15,565	\$ 6,703	\$ 25,206	\$ 56,175	\$ 103,649
As at February 28, 2014	<u>\$ 13,308</u>	<u>\$ 4,692</u>	<u>\$ 20,165</u>	<u>\$ 39,323</u>	<u>\$ 77,488</u>

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**6. EXPLORATION AND EVALUATION ASSETS**

	Toni Property	Reforma Project	EI Boleo Property	Total
Balance, February 29, 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
<b>Balance, February 28, 2013</b>	<b>\$ 1,417,475</b>	<b>\$ 8,900,486</b>	<b>\$ 19,814</b>	<b>\$ 10,337,775</b>

	Toni Property	Reforma Project	EI Boleo Property	Total
Balance, February 28, 2013	\$ 1,417,475	\$ 8,900,486	\$ 19,814	\$10,337,775
Additions:				
Geological and other consulting	-	498,563	-	498,563
Fieldwork, equipment rental and other	1,466	56,700	-	58,166
Analysis and report preparation	65,000	-	3,313	68,313
Travel	6,698	-	-	6,698
Project management	30,000	60,700	-	90,700
Foreign exchange adjustment	-	427,103	(1,120)	425,983
Recovery	(12,501)	-	-	(12,501)
Impairment	-	(9,943,551)	(22,007)	(9,965,558)
<b>Balance, February 28, 2014</b>	<b>\$ 1,508,138</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ 1,508,139</b>

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.

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**6. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

**Toni Property, Nicola Division, British Columbia**

At February 28, 2014 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:

<b>Cash payments</b>	<b>Shares to be issued</b>	<b>Work Program commitment</b>
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)		

During the year ended February 28, 2014 the Company determined the Reforma Project to be impaired and wrote down the carrying value of the Reforma Project to \$1.

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**6. 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, 2014.

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:

<b>Cash payments</b>	<b>Shares to be issued</b>	<b>Work Program commitment</b>
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 further development and exploration on the property.

During the year ended February 28, 2014 the Company determined the El Boleo Property to be impaired and wrote-off the entire carrying amount of the property to the consolidated statement of comprehensive loss.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	February 28, 2014	February 28, 2013
Trade payables	\$ 965,260	\$ 112,251
Accrued liabilities	<u>70,000</u>	<u>151,800</u>
<b>Total</b>	<b>\$ 1,035,260</b>	<b>\$ 264,051</b>

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

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**8. RELATED PARTY TRANSACTIONS**

**Management compensation**

Key management personnel compensation during the years ended February 28, 2014 and 2013 are as follows:

	February 28, 2014	February 28, 2013
Salaries and directors fees (iii)	\$ 129,831	\$ 156,722
Management fees	60,000	84,000
Share-based payments (i)	-	18,550
Project management fees (ii)	60,000	60,000
Exploration expenses (ii)	<u>65,000</u>	<u>49,000</u>
	<u>\$ 314,831</u>	<u>\$ 368,272</u>

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

(ii) Capitalized in exploration and evaluation assets.

(iii) Includes \$26,000 USD of consulting fees paid to a director for additional services. This amount is included in consulting fees on the statement of comprehensive loss.

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, 2014	February 28, 2013
Due to directors and officers	\$ 446,732	\$ 295,758
Due to KIM-KC Management Corp (i)	100,000	40,000
Due to Sierra Iron Ore (formerly Naina Capital) (ii)	<u>204,981</u>	<u>-</u>
	<u>\$ 751,713</u>	<u>\$ 335,758</u>

(i) Company controlled by a common director

(ii) Company with common directors

**9. CAPITAL STOCK AND RESERVES**

a) Authorized share capital:

As at February 28, 2014, the Company has unlimited authorized share capital.

b) Issued share capital:

During the year ended February 28, 2014, the Company:

i) Issued 200,000 shares for warrants exercised at \$0.20 per warrant for proceeds of \$20,000 and the settlement of \$20,000 due to related parties.

**9. CAPITAL STOCK AND RESERVES (cont'd...)**

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

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 project as per agreement. (Note 6).
- 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 consisted 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, 0% dividend and forfeiture rates.
- v) Completed 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 consisted 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.

c) Escrow:

At February 28, 2014, there are 200,000 (February 28, 2013 - 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, 2014, the Company granted Nil (2013 - 1,641,560) stock options to officers, directors and consultants of the Company.

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**9. 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 29, 2012	4,565,439	\$ 0.27
Granted	1,641,560	0.45
Cancelled	(450,000)	0.39
Exercised*	<u>(1,900,000)</u>	<u>0.21</u>
Outstanding and exercisable, February 28, 2013	3,856,999	0.36
Expired	<u>(1,590,000)</u>	<u>0.45</u>
<u>Outstanding and exercisable, February 28, 2014</u>	<u>2,266,999</u>	<u>\$ 0.30</u>

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

At February 28, 2014, the following stock options were outstanding and exercisable:

Expiry Date	Number of Options	Exercise Price
January 14, 2015	884,812	\$ 0.20
May 17, 2015	578,000	0.25
February 29, 2016	552,627	0.45
March 27, 2014 <sup>(1)</sup>	200,000	0.45
February 28, 2017	<u>51,560</u>	<u>0.45</u>
	<u>2,266,999</u>	<u>\$ 0.30</u>
<u>Weighted average contractual remaining life (years)</u>		<u>1.20</u>

<sup>(1)</sup> Expired unexercised subsequent to year end.

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, 2014 is \$Nil (2013 – \$305,539).

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**9. CAPITAL STOCK AND RESERVES (cont'd...)**

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

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

	February 28, 2014	February 28, 2013
Risk-free interest rate	-	1.14 %
Expected life of options	-	2.09 years
Annualized volatility	-	72 %
Dividends	-	-
Forfeiture rate	-	-
Weighted average exercise price	-	\$ 0.45
Weighted average share price	-	\$ 0.45

The weighted average fair value of options granted during the year ended February 28, 2014 was \$Nil (2013 - \$0.19).

e) Warrants:

A summary of warrants is presented as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, February 29, 2012	15,145,053	\$ 0.18
Expired	(3,345,000)	0.20
Exercised	(7,859,902)	0.17
Granted	<u>1,949,981</u>	<u>0.50</u>
Outstanding, February 28, 2013	5,890,132	0.40
Expired	(1,860,000)	0.21
Exercised	<u>(200,000)</u>	<u>0.20</u>
Outstanding, February 28, 2014	3,830,132	\$ 0.40

At February 28, 2014, the following warrants were outstanding:

	Number of Warrants Outstanding	Exercise Price
April 26, 2014 <sup>(1)</sup>	1,901,052	\$ 0.50
April 26, 2014 <sup>(1)</sup>	11,429	0.35
December 4, 2014	<u>1,917,651</u>	<u>0.30</u>
	3,830,132	\$ 0.40

(1) expired subsequent to the year-end.

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**10. SEGMENTED 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, 2014	February 28, 2013
Equipment		
Canada	\$ 66,598	\$ 91,106
United States	<u>10,890</u>	<u>12,543</u>
	<u>\$ 77,488</u>	<u>\$ 103,649</u>
Exploration and evaluation assets		
Canada	\$ 1,508,138	\$ 1,417,475
Mexico	<u>1</u>	<u>8,920,300</u>
	<u>\$ 1,508,139</u>	<u>\$ 10,337,775</u>
Net loss for the year		
Canada	\$ 492,583	\$ 1,380,204
Mexico	9,980,552	93,174
United States	<u>232,625</u>	<u>254,228</u>
	<u>\$ 10,705,760</u>	<u>\$ 1,727,606</u>

**11. 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 asset 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:

<u>Financial instruments</u>	<u>Classifications</u>
Cash	FVTPL
Receivables	LAR
Reclamation deposit	FVTPL
Accounts payable and accrued liabilities	OFL
Due to related parties	OFL

**11. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

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 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, 2014, the Company's receivables consisted of \$10,887 in GST receivable from government authorities in Canada. Substantially all cash balances are held at chartered banks in Canada, the United States of America and Mexico.

*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, 2014, the Company had a cash balance of \$28,053 and receivables of \$10,887 to settle current liabilities of \$1,786,973. 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

As of February 28, 2014, the Company did not hold any investments and 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, 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, 2014, the Company had US \$3,199 and an immaterial balance of Mexican Pesos in cash and \$7,225,431 Mexican Pesos in accounts payable.

A 10% fluctuation in the USD/CAD exchange would result in an immaterial affect to these consolidated financial statements.

A 10% fluctuation in the MXP/CAD exchange would have resulted in a \$64,000 change to the net loss for the year.

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**11. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

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.

*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, 2014.

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.

**12. 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, 2014	February 28, 2013
Loss before taxes for the year	\$ (10,705,760)	\$ (1,727,606)
Expected income tax recovery	\$ (2,774,933)	\$ (431,902)
Non-deductible items	112,135	80,195
Effect of change in tax rate	(82,409)	-
Difference in tax rates in other jurisdictions	(46,880)	(20,932)
Tax benefit not recognized	<u>2,792,087</u>	<u>372,639</u>
Deferred income tax recovery	\$ -	\$ -

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**12. INCOME TAXES (cont'd...)**

The significant components of the Company's deferred income tax assets not set up are as follows:

	February 28, 2014	February 28, 2013
Non-capital losses	\$ 2,077,000	\$ 1,622,000
Capital losses	369,000	355,000
Plant and equipment	65,000	54,000
Mineral properties	2,311,000	1,000
Eligible capital expenditures	35,000	34,000
Share issuance costs	<u>34,000</u>	<u>52,000</u>
	4,891,000	2,118,000
Unrecognized deferred tax assets	<u>(4,891,000)</u>	<u>(2,118,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has non-capital losses of approximately \$6,855,000 (2013 - \$5,568,000) 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	227,000
2029	183,000
2030	378,000
2031	854,000
2032	1,273,000
2033	1,927,000
2034	<u>1,287,000</u>
	<u>\$ 6,855,000</u>

In addition, the Company has approximately \$9,423,000 of unclaimed resource expenses and capital loss of approximately \$2,842,000 for Canadian tax purposes which may be carried forward indefinitely.

**13. 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 consolidated statement of cash flows for the years ended February 28, 2014 and 2013.

- a) Included in accounts payable and due to related parties is \$861,287 (February 28, 2013 - \$193,918) of exploration and evaluation asset costs.
- b) Included in the exploration and evaluation assets is the fair value of \$Nil (February 28, 2013 - \$2,685,000) for Nil (2013 - 6,000,000) shares issued to the owners of the Reforma project as per agreement.

**14. COMMITMENTS**

At February 28, 2014, 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, 2014 as per the signed agreement.