VICTORY RESOURCES CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MAY 31, 2015

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

VICTORY RESOURCES CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	May 31, 2015	February 28, 2015
ASSETS		
Current assets		
Cash	$ 16,848	$ 16,785
Receivables	-	10,369
Prepaid expenses and deposits	3,809	4,568
Total current assets	20,657	31,722
Non-current assets		
Reclamation deposit	3,050	3,050
Equipment (Note 4)	21,080	27,780
Exploration and evaluation assets (Note 5)	1,597,762	1,583,036
Total non-current assets	1,621,892	1,613,866
Total assets	$ 1,642,549	$ 1,645,588
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	$ 745,578	$ 787,925
Due to related parties (Note 7)	461,355	429,284
Total liabilities	1,206,933	1,217,209
Shareholders' equity (deficit)		
Capital stock (Note 8)	25,773,295	25,709,880
Reserves (Note 8)	550,836	608,383
Deficit	(25,888,515)	(25,889,884)
Total shareholders' equity (deficit)	435,616	428,379
Total liabilities and shareholders' equity (deficit)	$ 1,642,549	$ 1,645,588

Nature of operations and going concern (Note 1)
Segmented information (Note 9)

Approved and authorized on behalf of the Board of Directors on July 29, 2015.

"Wally Boguski"	Director	*"Roger Frost"*	Director
Wally Boguski		Roger Frost	

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

VICTORY RESOURCES CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
FOR THE THREE MONTHS ENDED MAY 31,

	2015	2014
EXPENSES		
Consulting (Note 7)	$ 750	$ -
Depreciation	6,659	4,336
Gain on disposition of equipment (Note 4)	-	(13,189)
Foreign exchange loss	321	-
Investor relations	1,596	8,934
Loss on foreign exchange	-	674
Management and directors fees (Note 7)	22,500	18,000
Office and administration (Note 7)	3,863	910
Other income	-	(2,249)
Professional fees (Note 7)	12,236	43,257
Transfer agent and filing fees	2,233	3,637
Travel	10,098	542
Wages and salaries (Note 7)	15,164	-
Loss for the period	(75,420)	(64,852)
Other comprehensive income (loss)		
Foreign exchange adjustments on translating foreign subsidiaries	19,242	(4,069)
Comprehensive loss for the period	$ (56,178)	$ (68,921)
Basic and diluted loss per common share	$ (0.00)	$ (0.00)
Weighted average number of common shares outstanding – basic and diluted	92,339,878	77,906,957

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

VICTORY RESOURCES CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
FOR THE THREE MONTHS ENDED MAY 31,

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ (75,420)	$ (64,852)
Items not affecting cash:		
Depreciation	6,659	4,336
Foreign exchange gain	19,283	-
Gain on disposition of equipment	-	13,189
Non-cash working capital item changes:		
Receivables	11,205	7,563
Prepaid expenses and deposits	759	4,173
Accounts payable and accrued liabilities	(43,183)	32,544
Net cash used in operating activities	(80,697)	(3,047)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(14,726)	(19,589)
Net cash used in investing activities	(14,726)	(19,589)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of share capital	63,660	-
Share issuance cost	(245)	-
Amounts due to related parties	32,071	-
Net cash provided by financing activities	95,486	-
Effect of foreign exchange rate on cash	-	1,984
Change in cash for the period	63	(20,652)
Cash, beginning of the period	16,785	28,053
Cash, end of the period	$ 16,848	$ 7,401
Supplemental cash flow information		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 11)

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

VICTORY RESOURCES CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Capital Stock		Reserves					
	Number	Amount	Share-based payment	Foreign currency translation	Others	Total Reserves	Deficit	Total equity (deficit)
Balance as at February 28, 2014	77,906,957	$ 24,959,928	$ 501,445	$ 321,921	$ 195,039	$ 1,018,405	$ (26,120,854)	$ (142,521)
Warrants exercise	-	-	(3,274)	-	-	(3,274)	3,274	-
Options expired	-	-	(42,212)	-	-	(42,212)	42,212	-
Foreign currency translation differences	-	-	-	(4,069)	-	(4,069)	-	(4,069)
Loss for period	-	-	-	-	-	-	(64,852)	(64,852)
Balance as at May 31, 2014	77,906,957	24,959,928	455,959	317,852	195,039	968,850	(26,140,220)	(211,442)
Private placement	3,735,001	224,100	-	-	-	-	-	224,100
Shares for debt	10,586,540	529,327	-	-	-	-	-	529,327
Warrants expired	-	-	3,274	-	(195,039)	(191,765)	191,765	-
Options expired	-	-	(177,887)	-	-	(177,887)	177,887	-
Escrow shares cancelled	(200,000)	-	-	-	-	-	-	-
Share issuance cost	-	(3,475)	-	-	-	-	-	(3,475)
Foreign currency translation differences	-	-	-	9,185	-	9,185	-	9,185
Loss for period	-	-	-	-	-	-	(119,316)	(119,316)
Balance as at February 28, 2015	92,028,498	25,709,880	281,346	327,037	-	608,383	(25,889,884)	428,379
Private placement	1,061,000	63,660	-	-	-	-	-	63,660
Share issuance cost	-	(245)	-	-	-	-	-	(245)
Options expired	-	-	(76,789)	-	-	(76,789)	76,789	-
Foreign currency translation differences	-	-	-	19,242	-	19,242	-	19,242
Loss for period	-	-	-	-	-	-	(75,420)	(75,420)
Balance as at May 31, 2015	93,089,498	$ 25,773,295	$ 204,557	$ 346,279	$ -	$ 550,836	$ (25,888,515)	$ 435,616

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

1. NATURE 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 Canadian 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 13236 Cliffstone Court, Lake Country, BC, V4V 2R1.

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

These condensed consolidated interim 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 May 31, 2015 the Company has a deficit of $25,888,515 (February 28, 2015 - $25,889,884) 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 exploration and evaluation assets 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 condensed consolidated interim 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 condensed consolidated interim financial statements.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The accounting policies and methods of computation followed in these condensed consolidated interim financial statements are the same as those applied in the Company`s most recent annual financial statements for the year ended February 28, 2015.

Basis of consolidation

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

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

Basis of consolidation (cont'd...)

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

The condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim statements of financial position will impact the amount and timing of the related depreciation included in profit or loss.

Carrying value and recoverability of exploration and evaluation assets

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

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

Use of estimates and judgments (cont'd…)

Share-based payments

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

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 based on the primary economic environment in which each entity operates.

Going concern

The assessment of the Company's ability to continue as a going concern is a significant judgment. See Note 1.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid short-term interest bearing variable rate investments, which are readily convertible into a known amount of cash.

Foreign currency translation

The presentation currency of the Company is the Canadian dollar.

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

Foreign currency translation (cont'd...)

Transactions and balances

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

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

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

Subsidiary

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

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

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

Financial instruments

Financial assets

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

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

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

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

Financial instruments (cont'd...)

Financial assets (cont'd…)

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.

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%

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.

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

Exploration and evaluation assets

Pre-exploration costs

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

Exploration and evaluation expenditures

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

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

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

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.

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

Impairment of long-lived assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss 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 profit or loss in the Statement of Comprehensive Income (Loss).

Provision for environmental rehabilitation

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

Loss per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average number of shares outstanding is 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. In a loss period, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

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 profit or loss in 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 profit or loss in the Statement of Comprehensive Income (Loss) over the remaining vesting period.

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

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

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received in profit or loss 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 or cancellation.

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 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 condensed consolidated interim 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.

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

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.

Newly adopted accounting policies

IAS 32 Financial Instruments: Presentation

This amendment provides clarification on the application of offsetting rules.

IAS 36 Impairment of Assets

On May 29, 2013, the IASB made amendments to the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed.

Amendments to IFRS 10, IFRS 12, and IAS 27

The amendment provides for the definition of an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity. The amendments also deal with the disclosures required and preparation of separate financial statements of an investment entity.

IFRIC 21 Levies

The interpretation clarifies that an entity recognizes a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in condensed consolidated interim financial statements.

The adoption of the above accounting policies did not have an effect on the condensed consolidated interim financial statements for the three months ended May 31, 2015.

Future accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

(Expressed in Canadian Dollars)

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

Future accounting pronouncements (cont'd...)

IFRS 9 Financial Instruments replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. This standard has an effective date of January 1, 2018.

The amendments to IAS 24 clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

The amendments to IFRS 2 clarify vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition. The amendment is effective for share based payment transactions for which the grant date is on or after July 1, 2014.

4. EQUIPMENT

	Furniture and Fixtures and Office Equipment	Computer	Exploration Equipment	Vehicles	Total
Cost					
Balance, February 28, 2014	$ 63,644	$ 53,165	$ 45,063	$ 115,763	$ 277,635
Additions	-	-	-	6,494	6,494
Disposals	-	-	(45,063)	(41,897)	(86,960)
Foreign exchange adjustment	2,651	-	-	-	2,651
Balance, February 28, 2015	66,295	53,165	-	80,360	199,820
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Foreign exchange adjustment	(92)	-	-	-	(92)
Balance, May 31, 2015	$ 66,203	$ 53,165	$ -	$ 80,360	$ 199,728
Accumulated depreciation					
Balance, February 28, 2014	$ 50,336	$ 48,473	$ 24,898	$ 76,440	$ 200,147
Depreciation for the year	2,685	1,408	354	11,797	16,244
Disposals	-	-	(25,252)	(20,658)	(45,910)
Foreign exchange adjustment	1,559	-	-	-	1,559
Balance, February 28, 2015	54,580	49,881	-	67,579	172,040
Depreciation for the period	2,417	3,284	-	958	6,659
Foreign exchange adjustment	(51)	-	-	-	(51)
Balance, May 31, 2015	$ 56,946	$ 53,165	$ -	$ 68,537	$ 178,648
Carrying amounts					
As at February 28, 2015	$ 11,715	$ 3,284	$ -	$ 12,781	$ 27,780
As at May 31, 2015	$ 9,257	$ -	$ -	$ 11,823	$ 21,080

(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS

	Toni Property	Reforma Project	Total
Balance, February 28, 2015	$ 1,583,035	$ 1	$ 1,583,036
Additions:			
Property costs	4,579	-	4,579
Analysis and report preparation	9,195	-	9,195
Drilling	952	-	952
Balance, May 31, 2015	$ 1,597,761	$ 1	$ 1,597,762

	Toni Property	Reforma Project	Total
Balance, February 28, 2014	$ 1,508,138	$ 1	$ 1,508,139
Additions:			
Fieldwork, equipment rental and other	400	-	400
Analysis and report preparation	51,000	-	51,000
Project management	45,000	-	45,000
Recovery	(31,903)	-	(31,903)
Survey	10,400	-	10,400
Balance, February 28, 2015	$ 1,583,035	$ 1	$ 1,583,036

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

Toni Property, Nicola Division, British Columbia

At February 28, 2015 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.

(Expressed in Canadian Dollars)

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

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

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

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. The Company has earned 70% interest in the Reforma property and is currently in discussions to joint venture or sell the property outright.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	May 31, 2015	February 28, 2015
Trade payables	$ 720,703	$ 767,925
Accrued liabilities	24,875	20,000
Total	$ 745,578	$ 787,925

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

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS

Management compensation

Key management personnel compensation during the period ended May 31, 2015 and 2014 are as follows:

	May 31, 2015	May 31, 2014
Salaries and directors fees	$ 7,500	$ 3,000
Management fees	15,000	15,000
Project management fees (i)	-	15,000
Exploration expenses (i)	-	15,000
Accounting fees	6,195	-
Rent expense	1,500	-
	$ 30,195	$ 48,000

(i) Capitalized in exploration and evaluation assets.

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.

Included in the 10,586,540 shares issued during the year ended February 28, 2015 to settle debts, 3,037,489 shares were issued to directors and officers, 2,314,489 shares were issued to a company with common directors, and 375,000 shares were issued to the spouse of a director and officer to settle debts aggregating $458,158.

The amounts due to the related parties are as follows:

	May 31, 2015	February 28, 2015
Due to directors and officers	$ 356,058	$ 305,615
Due to KIM-KC Management Corp (i)	120,000	120,000
Due to Sierra Iron Ore (ii)	3,669	3,669
	$ 479,727	$ 429,284

(i) Company controlled by a common director
(ii) Company with common directors

8. CAPITAL STOCK AND RESERVES

a) Authorized share capital:

As at May 31, 2015, the Company has unlimited authorized share capital without par value.

b) Issued share capital:

During the three months ended May 31, 2015, the Company:

i) completed a non-brokered private placement of 1,061,000 units proceeds of $63,660. Each unit consists of one common share issued at $0.06 per share, and one share purchase warrant. Each common share purchase warrant may be exercised by the holder to purchase one common share at a price of $0.15 for 24 months from closing. The Company paid $245 cash for share issuance costs.

(Expressed in Canadian Dollars)

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

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

During the year ended February 28, 2015, the Company:

i) issued 10,586,540 shares to creditors, at a fair value of $0.05 per share, to settle debts aggregating $846,923.

ii) received and cancelled 200,000 shares (Note 8c).

iii) completed a non-brokered private placement of 2,651,668 units proceeds of $159,100. Each unit consists of one common share issued at $0.06 per share, and one share purchase warrant. Each common share purchase warrant may be exercised by the holder to purchase one common share at a price of $0.15 for 24 months from closing. The Company paid $1,075 cash for share issuance costs.

iv) completed a non-brokered private placement of 1,083,333 units proceeds of $65,000. Each unit consists of one common share issued at $0.06 per share, and one share purchase warrant. Each common share purchase warrant may be exercised by the holder to purchase one common share at a price of $0.15 for 24 months from closing. The Company paid $2,400 cash for share issuance costs.

c) Escrow:

During the year ended February 28, 2015, 200,000 shares held in escrow were cancelled. At 31, 2015, there are Nil (February 28, 2015 – Nil) common shares held in escrow.

d) Stock options:

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

During the period ended May 31, 2015 and 2014, the Company granted Nil stock options to officers, directors and consultants of the Company.

A summary of stock options is presented as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable, February 28, 2014	$ 2,266,999	$ 0.30
Expired	(1,084,812)	0.25
Cancelled	(203,000)	0.30
Outstanding and exercisable, February 28, 2015	979,187	0.36
Expired	(425,000)	0.25
Outstanding and exercisable, May 31, 2015	$ 554,187	$ 0.45

(Expressed in Canadian Dollars)

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

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

At May 31, 2015, the following stock options were outstanding and exercisable:

Expiry Date	Number of Options		Exercise Price
February 29, 2016	502,627	$	0.45
February 28, 2017	51,560		0.45
	554,187	$	0.36
Weighted average contractual remaining life (years)	0.84		

e) Warrants:

A summary of warrants is presented as follows:

		Number of Warrants		Weighted Average Exercise Price
Outstanding, February 28, 2014	$	3,830,132	$	0.40
Issued		3,735,001		0.15
Expired		(3,830,132)		0.40
Outstanding, February 28, 2015		3,735,001		0.15
Issued		1,061,000		0.15
Outstanding, May 31, 2015	$	4,796,001	$	0.15

A summary of stock options is presented as follows:

At May 31, 2015, the following warrants were outstanding and exercisable:

	Number of Warrants Outstanding		Exercise Price
December 15, 2016	2,651,668	$	0.15
February 25, 2017	1,083,333		0.15
May 4, 2017	1,061,000		0.15
	4,796,001	$	0.15

(Expressed in Canadian Dollars)

9. SEGMENTED INFORMATION

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

	May 31, 2015	February 28, 2015
Equipment		
Canada	$ 11,823	$ 18,000
United States	9,257	9,780
	$ 21,080	$ 27,780
Exploration and evaluation assets		
Canada	$ 1,597,761	$ 1,583,035
Mexico	1	1
	$ 1,597,762	$ 1,583,036

	May 31, 2015	May 31, 2014
Net loss for the period		
Canada	$ 74,615	$ 63,919
Mexico	-	-
United States	805	933
	$ 75,420	$ 64,852

10. 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 financial instruments are classified as follows:

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

10. 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 May 31, 2015, the Company's receivables consisted of $10,369 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 May 31, 2015, the Company had a cash balance of $16,848 and receivables of $Nil to settle current liabilities of $1,206,933. 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 May 31, 2015, 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 has not entered into any derivative instruments in an effort to mitigate exposure to fluctuations in foreign exchange rates.

At May 31, 2015, the Company had US $916 and 25,357 Mexican Pesos in cash, and US $5,199 and 7,803,635 Mexican Pesos in accounts payable.

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

A 10% fluctuation in the MXP/CAD exchange would have resulted in a $75,420 change to the net loss for the period.

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.

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

Capital management

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

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets.

The Company is dependent on the capital markets as its sole source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period ended May 31, 2015.

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.

11. 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 transaction has been excluded from the condensed consolidated interim statement of cash flows for the period ended May 31, 2015.

a) Included in accounts payable and due to related parties is $804,201 (February 28, 2015 - $804,201) of exploration and evaluation asset costs.