VisualVault Corporation (Formerly Manuweb Software Systems, Inc.)

Condensed Interim Consolidated Financial Statements

9 Months Period Ending February 28, 2013 and 2012

NOTICE TO READER

NO Auditor Review of the Interim Financial Statements

The accompanying unaudited interim financial statements of Visual Vault Corporation ("the Company"), for the nine month period ended February 28, 2013 have been prepared by management and have not been the subject of a review by the Company's external independent auditor.

Visual Vault Corporation

Vancouver, British Columbia
April 28, 2013

VISUALVAULT CORPORATION

(Formerly Manuweb Software Systems, Inc.)

Condensed Interim Statements of Financial Position

(Expressed in Canadian dollars)

ASSETS	**February 28 2013**	May 31, 2012
CURRENT		
Cash	**8,167**	99,661
Due from related party *(Note 12)*	**140,589**	52,787
HST receivable	**11,318**	9,323
	160,074	161,771
Goodwill *(Note 4)*	**4,222,190**	4,222,190
Investment in software license and non-refundable deposit *(Note 5)*	**5,021,250**	4,946,250
	9,403,514	9,330,211

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	**482,193**	159,112
Convertible debt *(Note 13)*	**372,580**	-
Due to related party *(Note 12)*	**53,820**	48,800
Short term loan *(Note 6)*	**144,828**	73,328
	1,053,421	281,240
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*	**9,470,281**	9,470,281
Equity portion of convertible debt *(Note 13)*	**193,010**	-
Subscription receivable	**-**	(20,000)
Contributed surplus	**445,933**	445,933
Deficit	**(1,759,131)**	(847,243)
	8,350,093	9,048,971
	9,403,514	9,330,211

Note 7 - Commitment
Note 16 – Subsequent events

On behalf of the Board:

Van Potter

Brian Cameron

VISUALVAULT CORPORATION

(Formerly Manuweb Software Systems, Inc.)

Condensed Interim Statements of Comprehensive Loss/Income

(Expressed in Canadian dollars)

	3 months ended February 28 2013	3 months ended February 28 2012	**9 months ended February 28 2013**	9 months ended February 28 2012
EXPENSES				
Advertising and promotion	-	-	48	-
Accounting	600	-	64,280	-
Amortization of license	41,667		125,000	
Consulting - *Note 12*	11,088	-	200,918	-
Foreign exchange loss	(423)	-	8,105	-
General and administrative	960	36	20,719	110
Interest expense	25,201	266	29,320	266
Legal	1,000	-	44,490	-
Maintenance fee	60,000	-	160,000	-
Professional fees	34,175	-	130,536	-
Rent	5,141	-	15,742	-
Shares issued as bonus (recovery)	-	-	-	-
Transfer agent	6,222	8,705	22,323	14,297
Travel and promotion	21,883	-	90,407	-
TOTAL EXPENSES	207,514	9,007	- 911,888	14,673
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$ 207,514	9,007	911,888	14,673
Basic and diluted loss per share	$ 0.01	0.00	0.03	0.00
Weighted average number of shares outstanding	28,133,455	17,936,667	28,133,455	17,936,667

VISUALVAULT CORPORATION

(Formerly Manuweb Software Systems, Inc.)

Condensed Interim Statements of Changes in Equity

(Expressed in Canadian dollars)

	Number of Shares	Capital Stock	Contributed surplus	Equity portion of convertible debt	Deficit	Total Equity
Balance as at June 1, 2011	17,936,667	341,160	289,857	-	(135,851)	495,166
Net loss for the period	-	-	-	-	(14,673)	(14,673)
Record value of convertible debt	-	-	20,000	-	-	20,000
Balance as at February 28, 2012	**17,936,667**	**341,160**	**309,857**	**-**	**(150,524)**	**500,493**
Balance as at June 1, 2012	28,133,854	9,450,281	445,933	-	(847,243)	9,048,971
Net loss for the period	-	-	-	-	(911,888)	(911,888)
Subscription receivable	-	20,000	-	-	-	20,000
Equity portion of convertible note	-	-	-	193,010	-	193,010
Balance as at February 28, 2013	**28,133,854**	**9,470,281**	**445,933**	**193,010**	**(1,759,131)**	**8,350,093**

VISUALVAULT CORPORATION
(Formerly Manuweb Software Systems, Inc.)
Condensed Interim Statements of Cash Flows
(Expressed in Canadian dollars)

		9 months ended February 28 2013	9 months ended February 28 2012
OPERATING ACTIVITIES			
Net loss for the period	$	**(911,888)**	(14,673)
Items not involving cash:			
Amortization of license		**125,000**	
Changes in non-cash working capital			
Due from related party		**(87,802)**	-
Due to related party		**5,020**	(155,327)
Short term loan		**71,500**	-
HST receivable		**(1,995)**	-
Accounts payable		**323,081**	(20)
Cash flow from (used) by operating activities		**(477,084)**	(170,020)
FINANCING ACTIVITIES			
Subscriptions received		**20,000**	-
Issuance of convertible notes - net of issue costs		**565,590**	216,560
Cash flow from financing activities		**585,590**	216,560
INVESTING ACTIVITIES			
Purchase of software license		**(200,000)**	-
Cash flow from (used by) investing activities		**(200,000)**	-
INCREASE IN CASH FLOW		**(91,494)**	46,540
CASH - Beginning of period		**99,661**	26,735
CASH - End of period	$	**8,167**	73,275
Cash paid for:			
Interest paid	$	**-**	-
Income taxes	$	**-**	-

1. GENERAL BUSINESS DESCRIPTION

VisualVault Corporation, (Vancouver, BC and Scottsdale, Arizona) provides secure document management software as a service (SaaS) and compliance cloud services used where security and integrity of unstructured data is needed and compliance requirements are high. VisualVault Corporation markets the VisualVault™ platform under its Advantive Information Management (AIM) brand. The product is unique in its ability to meet the needs of a wide range of vertical markets including health care, securities regulation, manufacturing and government.

These consolidated financial statements include the accounts of the Company and its Wholly-owned subsidiaries, Advantive Information Management Inc. and Visual Vault Technologies Inc. All inter-company accounts have been eliminated.

On December 21, 2011 the Company changed its name from Manuweb Software Systems, Inc to VisualVault Corporation.

2. GOING CONCERN

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations over the next year. The Company will require additional financing in order to conduct its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due.

The Company will require additional financing in order to conduct its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Accordingly these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not valid then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended May 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim financial statements follow the same accounting policies and methods of application as the annual financial statements for the year ended May 31, 2012.

a) Foreign Currency Translation

The Company's presentation currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which they operate.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

b) Cash

Cash includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and subject to an insignificant risk of change value.

c) License

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

d) Depreciation/Amortization

The License is recorded at cost and amortization is calculated based on the term of the license agreement which is 3 years.

The asset's residual values, useful lives and methods of depreciation/amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

a) Impairment of Non-Financial Assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any 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 profit or 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.

When 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.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Financial Instruments

Financial assets

Financial assets are classified as into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized a fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

f) Financial Instruments

Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss/income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment) the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

Impairment on financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if and only if there is objective evidence of impairment as a result of one or more events, that has occurred after the 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.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding accounts receivable, is directly reduced by the impairment loss. The carrying amount of trade receivable is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

f) Financial Instruments

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within days of recognition.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Interest-Bearing Loans and Other Borrowings

Interest-bearing loans and other borrowings are recognized initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of borrowings on an effective interest basis.

h) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

i) Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

j) Earnings (Loss) Per Share

The Company presents basic and diluted earnings/loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share does not adjust the loss attributable to common shareholders or the weight average number of common shares outstanding when the effect is anti-dilutive.

k) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) 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 year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet 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 nor taxable profit, nor differences relating to investments in subsidiaries, and associates 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 financial position reporting date applicable to the period of expected realization or settlement.

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 Group intends to settle its current tax assets and liabilities on a net basis.

m) Revenue recognition

Contract revenue is recognized when goods are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

4. GOODWILL

The goodwill arises as follows:

Acquisition of Advantive Information Management Inc.

Purchase price - 9,735,143 shares	3,407,300
Book value of net liabilities acquired	366,990
10% of Advantive purchase	447,900
Goodwill upon acquisition	**4,222,190**

The Company issued 9,735,143 shares at $0.35 for the remaining 90% interest in Advantive Information Management Inc. There were no identifiable assets acquired upon acquisition, therefore the total balance was put to Goodwill.

5. INVESTMENT IN SOFTWARE LICENSE AND NON-REFUNDABLE DEPOSIT

Acquisition of VisualVault Technologies Inc.

Purchase price - 13,275,500 shares at $0.35	4,646,250
Book value of net assets/liabilities acquired	-
Software upon acquisition	4,646,250
Add: Payment for license	500,000
Less: Accumulated amortization	(125,000)
Grand total	**5,021,250**

The Company issued 13,275,500 shares at $0.35 for a 100% interest in VisualVault Technologies Inc.

VVT executed three material agreements on May 1, 2012:

a) *Platform license and service agreement:*
VVT signed a Platform License and Services Agreement with Auersoft LLC of Mesa Arizona, wherein VVT has been granted certain rights of use with respect to the VVT products and services developed by Auersoft LLC.

b) *Amended and restated purchase and sale agreement:*
VVT and Auersoft LLC reached an agreement with respect to amending the original agreement executed in October 2011. The purchase price of the assets remain the same, however the terms of payment and closing of the transaction have been amended by mutual agreement. The terms of the purchase are now as follows:

- ii) $300,000USD upon signing the amended agreement (paid)
- iii) $200,000USD on or before June 30, 2012 (paid)
- iiii) $4,500,000USD on or before November 30, 2012
- iiv) $586,250USD on or before December 14, 2014. The final payment is convertible into 11,725,000 common shares of the Company based upon an assumption of the obligation to pay this amount by the Company. The conversion can take effect at any time after December 31, 2013.
- iv) The purchase price may be increased by up to $750,000USD if Auersoft LLC delivers specified software upgrades on or before November 30, 2012

c) *Trademark license agreement:*
The Company, separate from its wholly-owned subsidiary, VVT, has been granted a trademark license agreement to use the VVT trademarks on a worldwide, perpetual, royalty free basis. This enables the Company to present itself corporately under the VisualVault brand from now to closing.

In accordance with the PaaS license granted by Auersoft LLC to the Company, the Company is required to make monthly payments of $20,000 per month to maintain the license at such time as Auersoft LLC has delivered a version of the Software that will enable full internet SaaS sign up by customers. As of the audit report date, the Company has not paid the license fee as Auersoft LLC has not completed the software development.

The date of closing for the above agreement has been extended indefinitely by mutual consent. If the payment above of $4,500,000 is not made on this date then the software will revert back to Auersoft LLC.

6. SHORT TERM LOAN

	Feb.28, 2013	May 31, 2012
Short term loan	$ 144,828	$ 73,928

Interest is charged at 8%. The loan is payable on demand and is unsecured.

7. COMMITMENT

The Company agreed to pay a bonus to certain investors of the convertible debt ($635,000) in the amount of 2,000 common shares for every increment of one $5,000 promissory note. The total amounts of shares to be issued are 254,000 with a value of $43,180 as at February 28, 2013. This amount was deducted from convertible debt as a share issue cost (note 13).

8. SHARE CAPITAL

Authorized, issued and outstanding common shares

Unlimited common shares without par value
Unlimited Class A Preferred shares without par value, dividend at 12% of profits or surplus, redeemable at any time
Unlimited Class B Preferred shares without par value, dividend at 13% of profits or surplus, redeemable at any time.

During the year ended May 31, 2012, the Company:

i) On December 21, 2011, the Company consolidated its share capital on a 7:1 basis, consolidating its 17,796,667 shares to 2,542,381 shares following the consolidation.

ii) On May 29, 2012, the Company issued 9,735,143 common shares with a value of $3,407,300 for the remaining 90% interest in Advantive Information Management Inc.

iii) On May 29, 2012, the Company issued 13,275,500 common shares with a value of $4,646,425 for a 100% interest in VisualVault Technologies Inc.

iv) On May 29, 2012, the Company issued 2,560,830 common shares with at $0.42 in the amount of $1,075,396. Each unit consisted of two share purchase warrants exercisable at $1.00 per shares expiring in two years.

During the year ended May 31, 2011, the Company:

i) On November 12, 2010, the Company issued 6,038,667 common shares with a value of $15,000 pursuant to a plan of arrangement;

ii) On April 29, 2011, the Company issued 1,940,000 common shares at $0.05 in the amount of $97,000. Each unit consisted of two share purchase warrants exercisable at $0.23 per share expiring in two years;

iii) On May 5, 2011, the Company issued 8,958,000 common shares at $0.02 for the purpose of acquiring a 10% interest in a related Company in the amount of $179,160.

8. SHARE CAPITAL (Continued)

iv) On May 26, 2011, the Company issue 1,000,000 common shares at $0.05 in the amount of $50,000. These shares were issued in relation to the exercise of stock options.

9. STOCK OPTIONS

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price $	Weighted average remaining contractual life (years)	Aggregate intrinsic value $
Outstanding, June 11, 2010	-	-		
Granted	1,000,000	0.05		
Exercised	(1,000,000)	0.05		
Outstanding and exercisable, May 31, 2011	-	-	-	-
Granted	400,000	0.60	-	-
Outstanding and exercisable, May 31, 2012 & Feb. 28, 2013	400,000	0.60	2 years	-

The fair values for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	Year ended May, 2012	Year ended May, 2011
Risk-free Interest rate	1.00%	1.50%
Expected life (in years)	2.0	1.0
Expected volatility	223.43	111.36

The weighted average fair value of the stock options granted during the year ended May 31, 2012 was $0.60 per option.

As at February 28, 2013, the following stock options were outstanding:

Number of Warrants	Exercise Price $	Expiry Date
400,000	0.60	April 10, 2014

10. SHARE PURCHASE WARRANTS

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted Average Exercise Price $
Balance, June 11, 2010	-	-
Issued	3,880,000	0.23
Expired	-	-
Balance, May 31, 2011	3,880,000	0.23
Issued	2,556,069	0.54
Expired	(3,880,000)	1.00
Balance, May 31, 2012 & Feb. 28, 2013	2,556,069	1.00

As at February 28, 2013, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price $	Expiry Date
2,556,069	1.00	March 24, 2014

11. BASIC AND DILUTED EARNING (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the quarter ended February 28, 2013 was based on the net loss attributable to common shareholders of $207,514 (2012 – $14,673) and the weighted average number of common shares outstanding of (28,133,854) (2011 – 17,936,667) respectively.

The Company's convertible debt does give rise to a dilution effect which is reflected on the statement of financial position.

12. RELATED PARTY TRANSACTIONS

a) During the period ended February 28, 2013, there was $53,820 owing to a director (2012: $Nil).

b) During the period ended February 28, 2013, there was $140,589 owing from a Company controlled by a common director (2012: 189,043).

c) During the period ending February 28, 2013, the Company paid consulting fees to its directors and officers totalling $11,088 (2012: $Nil).

13. CONVERTIBLE DEBT

The Company issued Convertible notes during the period in the amount of $635,000 less finder's fees of $26,230 and share issue costs of $43,180. The debt bears interest at 6% and is due in 5 years. Each $5,000 note can be converted into 10,000 units; each unit consists of one common share and one warrant exercisable at $0.55 per share for a period of 1 year.

This debt includes bonus shares to be issued to certain investors in the amount of 2,000 common shares for every increment of one $5,000 promissory note. This amount was deducted from proceeds above as share issue costs.

On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at the time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. Therefore, we have derecognized the liability component of $193,010 and recognized this as equity in accordance with IAS 32. The market rate for similar debt was determined to be 15%.

14. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises all 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 the capital structure, the Company may attempt to issue new shares.

The Company's investment policy is to invest its cash in financial instruments of high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

15. FINANCIAL INSTRUMENTS AND RISKS

Fair Value

As at February 28, 2013, the Company's financial instruments consisted of cash, and accounts payable. The fair values of cash, amounts receivable and accounts payable approximate their carrying values because of their current nature.

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
Level 3 – Inputs that are not based on observable market date

15. FINANCIAL INSTRUMENTS AND RISKS (Continued)

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Feb. 28, 2013
Cash	$ 8,167	-	-	$ 8,167
	$ 8,167	-	-	$ 8,167

	Level 1	Level 2	Level 3	Feb 28, 2012
Cash	$ -	-	-	-
	$ -	-	-	$ -

The Company's financial instruments are exposed to a number of risks that are summarized below:

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk on cash the Company places the instrument with a high credit quality financial institution.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.
The Company manages liquidity risk through the management of its capital structure as described in Note 14.

There is a risk that the Company may not be able to meet its financial obligation when they are due. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. As at February 28, 2013 the Company has no financial assets that are past due or impaired due to credit risk defaults.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading, available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables and other financial liabilities. The Company is exposed to market risk in trading its investments, and unfavorable market conditions could result in dispositions of investments at less than favorable prices. The Company's investments are accounted for at estimated fair values and are sensitive to changes in market prices, such that changes in market prices result in a proportionate change in the carrying value of the Company's investments. The Company is not exposed to significant interest rate risk as the Company's has no interest bearing debt. The Company's ability to raise capital to fund operations is subject to risks associated with fluctuations in the market prices. Management closely monitors the stock market to determine the appropriate course of action to be taken by the Company.

15. FINANCIAL INSTRUMENTS AND RISKS (Continued)

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar as the Company's head office and operations are in Canada. All of the Company's financial instruments are denominated in Canadian dollars.

In management's opinion there is no significant foreign exchange risk to the Company.

Transaction Costs

Transaction costs attributable to the acquisition or issue of financial assets or financial liabilities, other than those classified as held-for-trading, are added to the initial fair value amount to match the costs with the related transactions. Purchases and sales of securities are accounted for on the settlement date basis.