# VVC EXPLORATION CORPORATION

Consolidated Financial Statements
Years ended January 31, 2012 and 2011

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## Independent Auditors' Report

To the Shareholders of
VVC Exploration Corporation

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of VVC Exploration Corporation, which comprise the consolidated statements of financial position as at January 31, 2012 and 2011, and February 1, 2010, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended January 31, 2012 and 2011, 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.

**Auditors' 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial positions of VVC Exploration Corporation as at January 31, 2012 and 2011, and February 1, 2010 and its performance and its cash flows for years ended January 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

**Emphasis of matter**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has yet to generate revenues. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these factors are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Signed: ***"MSCM LLP"***

**Chartered Accountants**
**Licensed Public Accountants**

Toronto, Ontario
May 30, 2012

# VVC Exploration Corporation
## Consolidated Statements of Financial Position

| | | **January 31, 2012** | | January 31, 2011 | | February 1, 2010 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Current assets** | | | | | | |
| Cash and cash equivalents | **$** | **92,925** | $ | 6,812 | $ | 1,845,308 |
| Short-term investments (Note 4) | | **-** | | 158,900 | | 207,149 |
| Accounts receivable | | **13,799** | | 187,813 | | 228,207 |
| | | **106,724** | | 353,525 | | 2,280,664 |
| Equipment (Note 5) | | **8,004** | | 11,708 | | 17,136 |
| Mineral properties (Note 6) | | **943,610** | | 536,796 | | 1,070,300 |
| | **$** | **1,058,338** | $ | 902,029 | $ | 3,368,100 |
| **Liabilities** | | | | | | |
| **Current liabilities** | | | | | | |
| Accounts payable and accrued liabilities (Notes 7 and 15) | **$** | **80,358** | $ | 216,716 | $ | 132,762 |
| Due to related party (Note 7) | | **267,735** | | - | | - |
| | | **348,093** | | 216,716 | | 132,762 |
| **Shareholders' equity** | | | | | | |
| Share capital (Note 8(b)) | | **22,468,883** | | 21,659,158 | | 21,237,758 |
| Contributed surplus (Note 8(c) and 8(d) and 9) | | **5,305,431** | | 4,972,568 | | 4,828,699 |
| Accumulated other comprehensive income | | **-** | | 144,350 | | 67,251 |
| Deficit | | **(27,064,069)** | | (26,090,763) | | (22,898,370) |
| | | **710,245** | | 685,313 | | 3,235,338 |
| | **$** | **1,058,338** | $ | 902,029 | $ | 3,368,100 |

**Going Concern** (note 1)

Approved by the Board

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Director Director

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

# VVC Exploration Corporation

## Consolidated Statements of Loss and Comprehensive Loss

*For The Years Ended January 31,*

| For the Year Ended December 31, | **2012** | 2011 |
|---|---|---|
| **Expenses** | | |
| Management and consulting fees | **$ 298,114** | $ 239,123 |
| Stock-based compensation (Note 8(c)) | **204,610** | 143,869 |
| Professional fees | **111,301** | 169,876 |
| Investor relations | **105,773** | 234,487 |
| Office and sundry | **60,793** | 67,230 |
| Travel and promotion | **35,646** | 31,304 |
| Rent and utilities | **32,643** | 42,630 |
| Telephone | **9,649** | 14,869 |
| Listing and transfer fees | **7,784** | 18,556 |
| Bank charges | **7,170** | 877 |
| Depreciation | **3,704** | 5,428 |
| Investment counselling fees | **-** | 28,500 |
| | **877,187** | 996,749 |
| Other income (expenses): | | |
| Gain on sale of investments | **118,031** | 218,114 |
| Foreign exchange loss | **(987)** | (5,431) |
| Write-down of exploration costs (Note 6) | **-** | (1,733,327) |
| Write-down of short-term investments (Note 17) | **-** | (675,000) |
| Write-down of accounts receivable | **(213,163)** | - |
| Net loss | **$ (973,306)** | $ (3,192,393) |
| Basic and diluted loss per share (Note 10) | **$ (0.02)** | $ (0.06) |

| **Consolidated Statements of Comprehensive Loss** | | |
|---|---|---|
| Net loss | **$ (973,306)** | $ (3,192,393) |
| Reclassification adjustment for short-term investments sold in the year | **(144,350)** | (35,601) |
| Unrealized loss on short-term investments | **-** | 112,700 |
| Comprehensive loss for the year | **$ (1,117,656)** | $ (3,115,294) |

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

# VVC Exploration Corporation

## Consolidated Statements of Changes in Shareholders' Equity

*For The Years Ended January 31,*

| | **2012** | 2011 |
|---|---|---|
| **Share Capital** | | |
| Beginning balance | **$ 21,659,158** | $ 21,237,758 |
| Funds from the exercise of warrants | **177,428** | - |
| Fair value of warrants exercised | **19,917** | - |
| Funds from private placements | **770,000** | - |
| Shares issued to acquire mineral properties | **-** | 421,400 |
| Shares issued as share issue costs | **38,500** | - |
| Share issue costs | **(47,950)** | - |
| Fair value of warrants issued | **(148,170)** | - |
| Balance January 31, | **22,468,883** | 21,659,158 |
| **Contributed Surplus** | | |
| Beginning balance | **4,972,568** | 4,828,699 |
| Stock-based compensation | **204,610** | 143,869 |
| Fair value of warrants issued on private placement | **148,170** | - |
| Fair value of warrants exercised | **(19,917)** | - |
| Balance January 31, | **5,305,431** | 4,972,568 |
| **Accumulated Other Comprehensive Income (Loss)** | | |
| Beginning balance | **144,350** | 67,251 |
| Reclassification adjustment for investment sold in the year | **(144,350)** | (35,601) |
| Unrealized loss on short-term investment | **-** | 112,700 |
| Balance January 31, | **-** | 144,350 |
| **Deficit** | | |
| Beginning balance | **(26,090,763)** | (22,898,370) |
| Net loss for the year | **(973,306)** | (3,192,393) |
| Balance January 31, | **(27,064,069)** | (26,090,763) |
| **Total shareholders' equity** | **$ 710,245** | $ 685,313 |

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

# VVC Exploration Corporation
## Consolidated Statements of Cash Flows
*For The Years Ended January 31,*

| | 2012 | 2011 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net loss for the year | **$ (973,306)** | $ (3,192,393) |
| Items not affecting cash: | | |
| Depreciation | **3,704** | 5,428 |
| Stock-based compensation | **204,610** | 143,869 |
| Gain on sale of short-term investments | **(118,031)** | (218,114) |
| Write-down of exploration costs | **-** | 1,733,327 |
| Write-down of accounts receivable | **213,163** | - |
| | **(669,860)** | (1,527,883) |
| Other uses of cash from operations: | | |
| Accounts receivable | **(39,149)** | 40,393 |
| Accounts payable and accrued liabilities | **(136,358)** | 83,953 |
| | **(845,367)** | (1,403,537) |
| **Cash flow from investing activities** | | |
| Proceeds from the sale of short-term investments | **132,581** | 343,463 |
| Additions to mineral properties | **(406,814)** | (778,422) |
| | **(274,233)** | (434,959) |
| **Cash flow from financing activities** | | |
| Common shares issued for cash | **947,428** | - |
| Share issue costs paid in cash | **(9,450)** | - |
| Funds advanced from related party | **267,735** | - |
| | **1,205,713** | - |
| **Increase (decrease) in cash and cash equivalents** | **86,113** | (1,838,496) |
| **Cash and cash equivalents, beginning of year** | **6,812** | 1,845,308 |
| **Cash and cash equivalents, end of year** | **$ 92,925** | $ 6,812 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

VVC Exploration Corporation (the "Company") was incorporated on April 11, 1983 under the Company Act (British Columbia) and in August 2003, was continued federally under the Canada Business Corporations Act. The Company's principal business activities include the exploration and development of precious metals mineral properties in Canada and Mexico.

For the Company's exploration stage mineral properties, the Company is in the process of exploration and has not yet determined whether they contain economically recoverable reserves. The recoverability of amounts shown for exploration stage mineral properties (note 6) is dependent upon the discovery of economically recoverable ore reserves in its mineral properties, the ability of the Company to obtain the necessary financing to complete development, maintenance of the Company's interest in the underlying mineral claims and leases and upon future profitable production from or the proceeds from the disposition of its mineral properties.

These consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The ability of the Company to continue as a going concern is dependent on the successful completion of the actions taken or planned. In order to meet future expenditures and cover administrative costs, the Company will need to raise additional financing. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Company. As at January 31, 2012, the Company has accumulated losses of $27,064,069.

These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Board of Directors approved these consolidated financial statements on May 30, 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements represent the first annual financial statements of the Company and its subsidiary prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and have been prepared in accordance with IFRS 1, First-time Adoption of IFRS. The policies set out below were consistently applied to all the years presented.

Prior to February 1, 2011, the Company’s consolidated financial statements were prepared in accordance with GAAP, which differ in certain respects from IFRS. Accordingly, the Company commenced reporting on an IFRS basis in these consolidated financial statements.

An explanation of how the transition from Canadian GAAP ("GAAP") to IFRS has affected the reported consolidated statements of financial position, consolidated statement of loss and comprehensive loss and consolidated statements of cash flows of the Company is provided in note 14. This note includes information on the provisions of IFRS 1 and the exemptions that the Company elected to apply, reconciliations of equity, net loss and comprehensive loss for comparable years and equity at the date of transition to IFRS, February 1, 2010.

**Basis of presentation and consolidation**
These consolidated financial statements have been prepared in accordance with IFRS and include the accounts of the Company and its wholly-owned subsidiary, VVC Exploracion de Mexico, S. de R.L. de C.V., incorporated under the laws of Mexico in 2010. All intercompany transactions and balances have been eliminated upon consolidation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments**
Financial instruments are required to be classified as one of the following: held-to-maturity; loans and receivables, fair value through profit or loss; available-for-sale or other financial liabilities.

The Company's financial instruments include cash and cash equivalents, accounts receivable, short-term investments, accounts payable and accrued liabilities and due from related party. The Company designated its cash and cash equivalents as fair value through profit or loss, short-term investments as available-for-sale, its accounts receivable as loans and receivables, and its account payable and accrued liabilities and due from related party as other financial liabilities.

Fair value through profit or loss financial assets are measured at fair value with gains and losses recognized in operations. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss).

Fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of a financial instrument that is quoted in active markets is based on the bid price for a financial asset held and the offer price for a financial liability. When an independent price is not available, fair value is determined by using a valuation which refers to observable market data. Such a valuation technique includes comparisons with a similar financial instrument where an observable market price, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants exist. If no reliable estimate can be made, and the Company is permitted to measure the financial instrument at cost less impairment.

**Cash and cash equivalents**
Cash and cash equivalents includes short-term and money market investments that are readily convertible to known amounts of cash and have an original maturity of less than or equal to 90 days.

**Short-term investments**
The Company classifies its short-term investments in public companies as available-for-sale which are reported at the fair market value based on bid prices. Unrealized gains or losses are excluded from earnings and reported as other comprehensive income or loss.

**Equipment**
Equipment is recorded at cost. Depreciation is provided over the expected useful life of the equipment as follows:

| | |
|---|---|
| Computer equipment | 30% declining balance |
| Automobile | Straight line of three years |

**Mineral properties**
Mineral property acquisition costs and related direct exploration and development expenditures, net of recoveries, are deferred until the properties are placed into production. These net costs will be amortized against income using the unit of production method based on estimated recoverable reserves if the properties are brought into commercial production, or written off if the properties are abandoned or the carrying value is determined to be in excess of possible recoverable amounts. The cost of mineral properties includes any cash consideration paid, and the fair market value of shares issued, if any, on the acquisition of property interests. The recorded amounts of property acquisition costs and their related deferred pre-production exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The recoverability of amounts shown for mineral properties and deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future profitable production or proceeds from the disposition thereof.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of long-lived assets**
The Company's tangible and intangible assets are reviewed for indications of impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. An assessment is made at each reporting date whether there is any indication that an asset may be impaired.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. There were no significant indicators of impairment of the carrying values of long-lived assets at January 31, 2012, January 31, 2011 or February 1, 2010.

**Stock-based compensation**
The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. The fair value of the stock options granted is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At the end of each reporting period, the amount recognized as an expense for unvested options is adjusted to reflect the actual number of share options that are expected to vest.

**Loss per share**
Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the year after giving effect to potentially dilutive financial instruments. The dilutive effect of stock options and warrants is determined using the treasury stock method.

**Income taxes**
The Company uses the asset and liability method of accounting for deferred taxes, under which deferred income tax assets and liabilities are recognized for the estimated deferred income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred income tax assets and liabilities are measured using income tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in income tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

Deferred income tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is more likely than not.

**Foreign exchange**
The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar.

The Company recognizes transactions in currencies other than the Canadian dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the consolidated statements of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement uncertainty**

The preparation of financial statements, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those reported.

The preparation of financial statements in accordance with IAS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to the estimated net realizable value of mineral properties, stock-based compensation and composition of future income tax assets and liabilities.

The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimates, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants granted during the year. Deferred income taxes are based on estimates as to timing of the reversal of temporary differences and tax rates currently substantively enacted. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

## 3. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2015 and has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 7, Financial Instruments Disclosures, was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company is currently assessing the impact on the consolidated financial statements.

IFRS 10, Consolidated Financial Statements and IFRS 12, Disclosure of Interests in Other Entities: In May 2011, IASB issued IFRS 10 and IFRS 12. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity’s consolidated financial statements. IFRS 10 sets out three elements of control: a) power over the investee; b) exposure, or rights, to variable returns from involvement with the investee; and c) the ability to use power over the investee to affect the amount of the investors return. IFRS 10 sets out the requirements on how to apply the control principle. IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity’s financial position, financial performance and cash flows. IFRS 10 and IFRS 12 supersede IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities.

IFRS 10 and IFRS 12 are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if adopted along with IFRS 11, IFRS 12, IAS 27 (revised) and IAS 28 (revised). The Company is currently assessing the impact of these standards on the consolidated financial statements.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 11, Joint Arrangements: In May 2011, the IASB issued IFRS 11, which provides guidance on accounting for joint arrangements. If an arrangement has joint control, IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved.

A joint operation is an arrangement where the jointly controlling parties have rights to the assets and obligations in respect of the liabilities relating to the arrangement. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is an arrangement where the jointly controlling parties have rights to the net assets of the arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company is currently assessing the impact that IFRS 11 will have on the consolidated financial statements.

IFRS 13, Fair Value Measurement: In May 2011, the IASB issued IFRS 13. This standard defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement so assumptions that market participants would use should be applied in measuring fair value.

IFRS 13 is effective for annual periods on or after January 1, 2013, with earlier application permitted. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied and the disclosure requirements do not need to be applied in comparative periods before initial application. The Company is currently assessing the impact of this standard on the consolidated financial statements.

Other Comprehensive Income - In June 2011, the IASB and the Financial Accounting Standards Board ("FASB") issued amendments to standards to align the presentation requirements for other comprehensive income ("OCI"). The IASB issued amendments to IAS 1, Presentation of Financial Statements ("IAS 1") to require companies preparing financial statements under IFRS to separately group items within OCI that may be reclassified to profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

The amendments to IAS 1 set out in Presentation of Items of Other Comprehensive Income are effective for fiscal years beginning on or after July 1, 2012. The Company is currently assessing the impact of these amendments on the consolidated financial statements.

### 4. SHORT-TERM INVESTMENTS

The following table presents a breakdown of the Company's short-term investments in common shares:

| | **January 31, 2012** | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| Richmond Minerals Inc. | **$ -** | $ - | $ 20,625 |
| GFK Resources Inc. | **-** | - | 24,890 |
| Sulliden Exploration Inc. | **-** | 158,900 | 161,634 |
| Balance | **$ -** | $ 158,900 | $ 207,149 |

## 5. EQUIPMENT

| | Computer Equipment | Automobile | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance, February 1, 2010 | $ 41,913 | $ 12,929 | $ 54,842 |
| Balance, January 31, 2011 | $ 41,913 | $ 12,929 | $ 54,842 |
| Balance, January 31, 2012 | $ 41,913 | $ 12,929 | $ 54,842 |
| **Accumulated Depreciation** | | | |
| Balance, February 1, 2010 | $ 33,396 | $ 4,310 | $ 37,706 |
| Depreciation for the year | 2,556 | 2,872 | 5,428 |
| Balance, January 31, 2011 | 35,952 | 7,182 | 43,134 |
| Depreciation for the year | 1,788 | 1,916 | 3,704 |
| Balance, January 31, 2012 | $ 37,740 | $ 9,098 | $ 46,838 |
| **Net Book Value** | | | |
| At February 1, 2010 | $ 8,517 | $ 8,619 | $ 17,136 |
| At January 31, 2011 | $ 5,961 | $ 5,747 | $ 11,708 |
| At January 31, 2012 | $ 4,173 | $ 3,831 | $ 8,004 |

## 6. MINERAL PROPERTIES AND DEFERRED PROPERTY ACQUISITION COSTS

| | Balance January 31, 2011 | Additions/ (Recoveries) | Write-downs/ Disposals | Balance January 31, 2012 |
|---|---|---|---|---|
| **Mineral properties:** | | | | |
| *Cumeral and La Tuna mineral properties (Mexico):* | | | | |
| Administration | $ 41,923 | $ 106,509 | $ - | **$ 148,432** |
| Drilling and exploration | 69,266 | 10,137 | - | **79,403** |
| Consulting | 20,846 | - | - | **20,846** |
| Geologist | 21,509 | 12,245 | - | **33,754** |
| Camp and travel | 21,756 | 11,250 | - | **33,006** |
| Acquisition | 344,528 | 234,848 | - | **579,376** |
| Supervision | 1,000 | - | - | **1,000** |
| Assaying and analysis | 12,479 | 10,695 | - | **23,174** |
| General expenses | 2,432 | 310 | - | **2,742** |
| Claims | 1,055 | 20,820 | - | **21,875** |
| | 536,794 | 406,814 | - | **943,608** |
| *Ontario and Quebec area properties (Canada):* | | | | |
| Acquisition costs | 2 | - | - | **2** |
| | 2 | - | - | **2** |
| Total development stage properties | $ 536,796 | $ 406,814 | $ - | **$ 943,610** |

**6. MINERAL PROPERTIES AND DEFERRED PROPERTY ACQUISITION COSTS (continued)**

| | Balance February 1, 2010 | Additions/ (Recoveries) | Write-downs/ Disposals | Balance January 31, 2011 |
|---|---|---|---|---|
| **Mineral properties:** | | | | |
| *Santa Valeria, Santa Cristina, Cumeral and La Tuna mineral properties (Mexico):* | | | | |
| Administration | $ 77,560 | $ 20,498 | $ (56,135) | **$ 41,923** |
| Drilling and exploration | 196,073 | 84,408 | (211,215) | **69,266** |
| Consulting | 25,318 | 10,477 | (14,949) | **20,846** |
| Geologist | 72,832 | 18,911 | (70,234) | **21,509** |
| Camp and travel | 113,829 | - | (92,073) | **21,756** |
| Acquisition | 302,740 | 726,289 | (684,501) | **344,528** |
| Supervision | 22,784 | 58,238 | (80,022) | **1,000** |
| Assaying and analysis | 23,012 | 13,123 | (23,656) | **12,479** |
| General expenses | 21,585 | 7,960 | (27,113) | **2,432** |
| Claims | - | 15,757 | (14,702) | **1,055** |
| | 855,733 | 955,661 | (1,274,600) | **536,794** |
| *Ontario and Quebec area properties (Canada):* | | | | |
| Acquisition costs | 144,000 | 221,001 | (364,999) | **2** |
| Claims and staking | 11,699 | - | (11,699) | **-** |
| Camp travel and general | 895 | 1,561 | (2,456) | **-** |
| Geological and geochemical consulting | 51,563 | - | (51,563) | **-** |
| Consulting | 6,910 | 21,100 | (28,010) | **-** |
| | 215,067 | 243,662 | (458,727) | **2** |
| Total development stage properties | $ 1,070,800 | $ 1,199,323 | $ (1,733,327) | **$ 536,796** |

| | Balance February 1, 2009 | Additions/ (Recoveries) | Write-downs/ Disposals | Balance February 1, 2010 |
|---|---|---|---|---|
| **Mineral properties:** | | | | |
| *Santa Valeria and Santa Cristina mineral properties (Mexico):* | | | | |
| Administration | $ - | $ 77,560 | $ - | **$ 77,560** |
| Drilling | - | 196,073 | - | **196,073** |
| Consulting | - | 25,318 | - | **25,318** |
| Geologist | - | 72,832 | - | **72,832** |
| Camp and travel | - | 113,829 | - | **113,829** |
| Acquisition | - | 302,740 | - | **302,740** |
| Supervision | - | 22,284 | - | **22,284** |
| Assaying and analysis | - | 23,012 | - | **23,012** |
| General expenses | - | 21,585 | - | **21,585** |
| | $ - | $ 855,233 | $ - | $ **855,233** |

## 6. MINERAL PROPERTIES AND DEFERRED PROPERTY ACQUISITION COSTS (continued)

**Mineral properties:**
*Santa Valeria and Santa Cristina mineral properties (Mexico): (continued)*

| | Balance February 1, 2009 | Additions/ (Recoveries) | Write-downs/ Disposals | Balance February 1, 2010 |
|---|---|---|---|---|
| *Ontario and Quebec area properties (Canada):* | | | | |
| Acquisition costs | $ 144,000 | $ - | $ - | $ **144,000** |
| Claims and staking | 11,699 | - | - | **11,699** |
| Camp travel and general | 895 | - | - | **895** |
| Geological and geochemical consulting | 51,563 | - | - | **51,563** |
| Consulting | 6,910 | - | - | **6,910** |
| | 215,067 | - | - | **215,067** |
| Total development stage properties | $ 215,067 | $ 855,233 | $ - | **$ 1,070,300** |

**Cumeral, Mexico**
In March 2010, the Company finalized an agreement which provides an option to acquire a 100% interest in the 665 hectare gold mining project known as Cumeral (the "Cumeral Property"), consisting of three mining concessions in the State of Senora, Mexico. The 100% interest in the Cumeral Property can be acquired for cash consideration of US$800,000 plus applicable taxes ("VAT"), payable over a period of three years and the issuance of 200,000 common shares of the Company. The Cumeral Property is subject to the reservation of a 2% Net Smelter Return ("NSR"). A finder’s fee of US$5,000 and 130,000 common shares of the Company was paid to third parties who were instrumental in arranging the transaction.

Payments to the optionor will be as follows:

$120,000 USD on April 15, 2010 (paid)
$100,000 USD on October 15, 2010 (paid in December 2010)
$100,000 USD on April 15, 2011 (paid)
$125,000 USD on October 15, 2011 (paid)
$150,000 USD on April 15, 2012 (paid after Year End)
$175,000 USD on October 15, 2012

**La Tuna, Mexico**
In March 2010, the Company completed the acquisition of a 3,533 hectare gold mining project known as La Tuna, located in the municipality of Alamos in the State of Sinaloa, Mexico. The Company acquired a 100% interest in La Tuna for cash consideration of US$40,000 plus VAT and 300,000 common shares of the Company. La Tuna is subject to the reservation of a 2% NSR with a buy-back option.

**Canadian properties**
Due to the lack of continuous work on these properties and units, they were written-down to a minimal value. The Company intends to sell or option its interest in these properties.

**7. RELATED PARTY TRANSACTIONS AND BALANCES**

(a) Related Party Balances:

On September 14, 2011, October 11, 2011 and January 13, 2012, the Company obtained financing of 600,000 Mexican Pesos, 1,400,000 Mexican Pesos and 1,250,000 Mexican Pesos, respectively, via loans from a company in which the President and CEO of the Company is an officer, a director and a minority shareholder. These loans are due by December 31, 2014, unless the Company obtains sufficient financing earlier to repay the principal and interest balances. The loans charge interest an annual rate of 12% and are secured by promissory notes issued by the borrower in favour of the lender. The loans payable outstanding balance at January 31, 2012 was $267,735 (3,250,000 Mexican Pesos).

Included in accounts payable and accrued liabilities is $12,068 due to a company a company in which the President and CEO of the Company is an officer, a director and a minority shareholder.

(b) Related Party Transactions:

Compensation to key management personnel were as follows:

| | | **2012** | | 2011 |
|---|---|---|---|---|
| Compensation | **$** | **235,000** | $ | 287,134 |
| Share-based payments (1) | | **54,594** | | 13,569 |
| Total | **$** | **289,594** | $ | 300,703 |

(1) Share-based payments are the fair value of options granted to key management personnel and the vesting portion expensed during the period.

**8. SHARE CAPITAL**

(a) Authorized
Unlimited common shares without par value

(b) Issued:

| | Number of shares | | Amount |
|---|---|---|---|
| Balance, February 1, 2010 | 47,942,390 | $ | 21,237,758 |
| Shares issued for mineral property | 2,330,000 | | 421,400 |
| Balance, January 31, 2011 | 50,272,390 | | 21,659,158 |
| Shares issued on private placement | 11,000,000 | | 770,000 |
| Shares issued as share issue costs | 550,000 | | 38,500 |
| Shares issued on warrant exercise | 1,478,571 | | 177,428 |
| Fair value of warrants exercised | - | | 19,917 |
| Share issue costs | - | | (47,950) |
| Valuation of share purchase warrants | - | | (148,170) |
| Balance, January 31, 2012 | 63,300,961 | $ | 22,468,883 |

**8. SHARE CAPITAL (continued)**

(b) Issued (continued)

On April 11, 2011, the Company closed a brokered private placement of 11,000,000 units at a price of $0.07 per unit amounting for gross proceeds of $770,000. Each unit comprises one common share and one share-purchase warrant to purchase an additional share at $0.12 until April 11, 2012. Palos Merchant Bank L.P. ("Palos"), through its sole general partner, Palos Management Inc., of Montreal, Quebec, acted as agent and received a fee of $47,950 plus applicable taxes, of which $9,450 was paid in cash and the balance settled by the issuance of an additional 550,000 common shares of the Company.

The fair value assigned to the 11,000,000 share purchase warrants was $148,170. The share purchase warrants were valued using the Black-Scholes option pricing model with the following assumptions; dividend yield - 0%, volatility - 89.73%, risk-free interest rate - 1.92%, and expected life - 1 year.

(c) Stock Options

The Company grants options pursuant to the policies of the TSX Venture Exchange with respect to eligible persons, exercise price, maximum options per person and termination of eligible person status. Options granted vest as determined by the Company's Board of Directors for each respective option grant.

Stock option transactions and the number of stock options outstanding were as follows:

| | Number of Options | Weighted average Exercise Price |
|---|---|---|
| Balance, February 1, 2010 | 4,461,000 | $ 0.32 |
| Expired/cancelled | (154,000) | 0.50 |
| Granted | 200,000 | 0.28 |
| Balance, January 31, 2011 | 4,507,000 | 0.31 |
| Expired/cancelled | (2,036,000) | 0.33 |
| Granted | 2,250,000 | 0.20 |
| Balance, January 31, 2012 | 4,721,000 | $ 0.25 |

**8. SHARE CAPITAL (continued)**

(c) Stock Options (continued)

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at January 31, 2012 are as follows:

| Options Outstanding | | | | | Options Exercisable | | |
|---|---|---|---|---|---|---|---|
| Exercise Range | Number Outstanding | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) | Number Exercisable | | Weighted Average Exercise Price |
| $0.15 - $0.20 | 2,250,000 | $ | 0.20 | 6.53 | 1,012,500 | $ | 0.19 |
| $0.28 - $0.29 | 1,625,000 | $ | 0.28 | 1.51 | 1,575,000 | $ | 0.28 |
| $0.30 - $0.30 | 586,000 | $ | 0.30 | 2.77 | 586,000 | $ | 0.30 |
| $0.36 - $0.36 | 260,000 | $ | 0.36 | 2.44 | 260,000 | $ | 0.36 |
| | 4,721,000 | $ | 0.25 | 4.11 | 3,433,500 | $ | 0.26 |

During the year, the Company granted 2,250,000 stock options to purchase common shares at a weighted average price of $0.20 per share with an average life of 6.8 years.

The fair value of the 2,250,000 stock options granted was estimated at $310,699 using the Black-Scholes model for pricing stock options. The $310,699 is being expensed over the vesting period of the respective options.

The following weighted average assumptions were used for the options granted:

| | **2012** | 2011 |
|---|---|---|
| Risk free interest rate | 1.99 % | 2.06% |
| Dividend yield | NIL | NIL |
| Expected stock volatility | 105 % | 72.81% |
| Expected life | 6.8 years | 5 years |

**8. SHARE CAPITAL (continued)**

(d) Warrants

The following table reflects the continuity of warrants:

**2012**

| Expiry Date | Exercise Price | Balance January 31, 2011 | Warrants Issued | Warrants Exercised | Expired/ Cancelled | Balance January 31, 2012 |
|---|---|---|---|---|---|---|
| February 27, 2012 | $0.50 | 1,440,000 | - | - | - | 1,440,000 |
| January 9, 2011 | $0.42 | 2,857,500 | - | - | (2,857,500) | - |
| April 11, 2012 | $0.12 | - | 11,000,000 | (1,478,570) | - | 9,521,430 |
| | $0.17 | 4,297,500 | 11,000,000 | (1,478,570) | (2,857,500) | 10,961,430 |

2011

| Expiry Date | Exercise Price | Balance February 1, 2010 | Warrants Issued | Warrants Exercised | Expired/ Cancelled | Balance January 31, 2011 |
|---|---|---|---|---|---|---|
| February 27, 2012 | $0.50 | 1,440,000 | - | - | - | 1,440,000 |
| January 9, 2011 | $0.42 | 2,857,500 | - | - | - | 2,857,500 |
| | $0.45 | 4,297,500 | - | - | - | 4,297,500 |

**9. CONTRIBUTED SURPLUS**

The following table reflects the continuity of contributed surplus:

| | Amount |
|---|---|
| Balance, February 1, 2010 | $ 4,828,699 |
| Stock-based compensation | 143,869 |
| Balance, January 31, 2011 | 4,972,568 |
| Stock-based compensation | 204,610 |
| Fair value of stock options exercised | 148,170 |
| Fair value of warrants exercised | (19,917) |
| Balance, January 31, 2012 | $ 5,305,431 |

## 10. LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

| | **2012** | 2011 |
|---|---|---|
| Numerator | | |
| Net loss | **$ (973,306)** | $ (3,192,393) |
| Denominator | | |
| Weighted average number of common shares outstanding, basic and diluted | **59,950,825** | 49,120,526 |
| Basic and diluted loss per share | **$ (0.02)** | $ (0.06) |

As a result of losses incurred, the potential effect of the exercise of stock options and warrants was anti-dilutive.

## 11. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being mineral exploration. As at January 31, 2012, the Company's mineral resource properties are located in Mexico and Canada and its corporate assets are located in Canada. The Company is in the exploration stage and, accordingly, has no reportable segment revenues.

A summary of total assets by geographic region is as follows:

| **January 31, 2012** | **Canada** | **Mexico** | **Total** |
|---|---|---|---|
| Current assets | **$ 70,145** | $ **36,579** | **$ 106,724** |
| Mineral properties | **2** | **943,608** | **943,610** |
| Equipment | **8,004** | **-** | **8,004** |
| | **$ 78,151** | **$ 980,187** | **$ 1,058,338** |

| January 31, 2011 | Canada | Mexico | Total |
|---|---|---|---|
| Current assets | $ 203,566 | $ 149,959 | $ 353,525 |
| Mineral properties | 2 | 536,794 | 536,796 |
| Equipment | 11,708 | - | 11,708 |
| | $ 215,276 | $ 686,753 | $ 902,029 |

## 12. CAPITAL MANAGEMENT

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income). The Company's objective in managing capital is to ensure that financial flexibility is present to increase shareholder value and respond to changes in economic and/or market conditions; to retain a strong capital base so as to maintain investor, creditor and market confidence and to safeguard the Company's ability to obtain financing should the need arise.

In maintaining its capital, the Company has a strict investment policy which includes investing its surplus capital only in highly liquid and highly rated financial instruments. The Company's investments are all short-term in nature.

The Company reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the year.

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's consolidated financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities and notes payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

The fair value of financial assets and liabilities together with the carrying amounts in the consolidated statements of financial position are as follows:

| | **January 31, 2012** | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| Fair value through profit or loss, measured at fair value: | | | |
| Cash and cash equivalents | **$ 92,925** | $ 6,812 | $ 1,845,308 |
| Available-for-sale, measured at fair value: | | | |
| Short-term investments | **$ -** | $ 158,900 | $ 207,149 |
| Loans and receivable, measured at amortized cost: | | | |
| Accounts receivable | **$ 13,799** | $ 187,813 | $ 228,207 |
| Other liabilities, measured at amortized cost: | | | |
| Accounts payable and accrued liabilities | **$ 80,358** | $ 216,716 | $ 132,762 |
| Due from related party | **$ 267,735** | $ - | $ - |

The fair value of the Company's financial assets and liabilities approximates their respective carrying values because of the short-term maturity of these instruments. The fair value of the financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.
Level 3 - valuation techniques based on inputs for the asset or liability that are not based on observable market data.

As at January 31, 2012, cash and cash equivalents have been measured using level 1 inputs.

**Credit Risk**
Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The Company invests its excess cash on a daily basis in highly liquid and highly rated financial instruments. A change in the credit worthiness of the companies invested in could have an impact on the value of the Company's daily investments. Management believes this risk of loss is remote.

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Liquidity Risk**
The Company has no income and relies on equity financing to support its exploration programs. Management prepares budgets and ensures funds are available prior to commencement of any such program. As at January 31, 2012, the Company does not have sufficient capital to fund its operations over the next twelve months. As at January 31, 2012, the Company had a cash and cash equivalents balance of $92,925, $6,812 on January 31, 2011 and $1,845,308 on February 1, 2010 to settle current liabilities of $348,093 at January 31, 2012, $216,716 at January 31, 2011 and $132,762 at February 1, 2010.

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

(a) Interest rate risk
Excess cash and cash equivalents are invested on a daily basis in highly liquid and highly rated financial instruments. Due to the nature of these investments, fluctuations in interest rates may affect the carrying value of these investments. However, such changes in interest rate would have limited impact on the Company over the short term.

(b) Price risk
The Company is exposed to price risk with respect to commodity and equity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Commodity price risk is remote since the Company is not a producing entity.

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

The Company's short-term investments consist mainly of equity investments in various publicly listed entities. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period:

**Foreign exchange risk**
The Company does engage in significant transactions and activities in currencies other than its reported currency. The Company's exploration activities are primarily in Mexico; accordingly, the resulting assets and liabilities are exposed to foreign exchange fluctuations.

The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities that are denominated in Mexican Pesos. Sensitivity of closing balances to a plus or minus 10% change in foreign exchange rates, with all other variables held constant, would affect accumulated other comprehensive income by approximately $2,147.

**14. TRANSITION TO IFRS**

In preparing its opening IFRS Statement of Financial Position and comparative information for 2011, the Company adjusted amounts reported previously in financial statements prepared in accordance with GAAP. A reconciliation and explanation of how the transition from GAAP to IFRS has affected the Company's financial position, performance and cash flows is presented below. Under IFRS 1, the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities taken to shareholders' equity unless certain exemptions are applied.

The accounting policies in note 2 have been applied in preparing:

(i) the consolidated financial statements for the years ended January 31, 2012 and January 31, 2011;

(ii) its opening balance sheet on the transition date, February 1, 2010.

**14. TRANSITION TO IFRS (continued)**

In preparing these consolidated financial statements, comparative financial results for the year ended January 31, 2011 and the consolidated statements of financial position as of January 31, 2011 and February 1, 2010 have been adjusted to comply with IFRS from amounts previously reported in accordance with GAAP.

The guidance for first-time adopters of IFRS is set out in IFRS 1, which provides for certain mandatory exceptions and optional exemptions. In preparing these consolidated financial statements, the Company applied the following:

**Optional Exemptions**

**Business combinations**
IFRS 1 allows a first-time adopter to elect not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to exercise this election.

**Share-based payment transactions**
IFRS 1 encourages but does not require first-time adopters to apply IFRS 2, *Share-based Payment*, to equity instruments that were granted on or before November 7, 2002 and vested before the transition date. The Company has elected not to apply IFRS 2 to awards that were issued after November 7, 2002 and had not vested by the Transition Date.

**Mandatory Exceptions**

**Estimates**
Hindsight is not used to create or revise estimates. The estimates previously made by the Company under GAAP were not revised upon adoption of IFRS except where necessary to reflect any differences in accounting policies.

**Explanation of effect of transition from GAAP to IFRS**

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical GAAP accounting policies and the current IFRS polices applied by the Company.

**(a) Share-based Payments**
IFRS 2 is effective for the Company as of February 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Stock options and share grants prior to November 7, 2002 are not taken into account for IFRS 2;
- Stock options and share grants subsequent to November 7, 2002 are only taken into account if they have not vested as at February 1, 2010; and,
- From February 1, 2010, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in note 1.

*Recognition of Expense*
GAAP - For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS - Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Company adjusted its expense for share-based awards to reflect this difference in recognition.

This change had a recognition, measurement and disclosure impact on the Company, accordingly, contributed surplus increased by $4,195 with a corresponding increase to deficit as at February 1, 2010 and $27,943 as at January 31, 2011. Net loss and comprehensive loss for the year ended January 31, 2011 increased by $23,748 as a result of this adjustment.

**14. TRANSITION TO IFRS (continued)**

**(b) Exploration and Evaluation Expenditures**

*Capitalizing vs. Expensing Exploration and Evaluation Costs:*

Under IFRS 6, upon transition to IFRS, the Company may continue to follow its current accounting policies, whereby exploration and evaluation costs are capitalized, or the Company may elect to expense all exploration and evaluation costs. Current industry practice varies by company. The Company has elected to continue to capitalize its exploration and evaluation expenditures that are directly related to the discovery, acquisition or development of exploration and evaluation activities upon transition to IFRS.

Once a company has legal right to explore a property, costs directly related to exploration and evaluation expenditures are recognized and capitalized in addition to the acquisition costs. A company is not allowed to capitalize exploration type expenses incurred while assessing the quality of property prior to having legal rights to explore the property.

The Company performed a detail review of its exploration and evaluation expenditures that were capitalized and has determined that it includes "pre-legal title" expenditures as at February 1, 2010. The Company decreased its capitalized exploration and evaluation expenditures by $436,022 with a corresponding increase to deficit as at February 1, 2010. These costs were included in the write-down of mineral properties expense of $2,169,348 in fiscal 2011. As a result of the adjustment above the net loss and comprehensive loss for the year ended January 31, 2011 has decreased by $436,022. There were no additional pre-legal title expenditures capitalized in fiscal 2011.

**Reconciliations of Canadian GAAP to IFRS**

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods:

**Reconciliation of Equity**

| | January 31, 2011 | February 1, 2010 |
|---|---|---|
| Total equity under GAAP | $ 685,313 | $ 3,671,360 |
| Differences increasing (decreasing) reported shareholders' equity | | |
| Contributed surplus | 27,943 | 4,195 |
| Deficit | (27,943) | (440,217) |
| | - | (436,022) |
| Total equity under IFRS | $ 685,313 | $ 3,235,338 |

**14. TRANSITION TO IFRS (continued)**

**Reconciliation of Consolidated Statements of Financial Position as of February 1, 2010**

| | Notes | GAAP Balance | IFRS Adjustments | IFRS Balance |
|---|---|---|---|---|
| **Assets** | | | | |
| Current | | | | |
| Cash and cash equivalents | | $ 1,845,308 | $ - | $ 1,845,308 |
| Short-term investments | | 207,149 | - | 207,149 |
| Accounts receivable | | 228,207 | - | 228,207 |
| | | 2,280,664 | - | 2,280,664 |
| Equipment | | 17,136 | - | 17,136 |
| Mineral properties | b | 1,400,751 | (330,451) | 1,070,300 |
| Deferred property acquisition costs | b | 105,571 | (105,571) | - |
| | | $ 3,804,122 | $ (436,022) | $ 3,368,100 |
| **Liabilities** | | | | |
| Current | | | | |
| Accounts payable and accrued liabilities | | $ 132,762 | $ - | $ 132,762 |
| **Shareholders' Equity** | | | | |
| Share capital | | 21,237,758 | - | 21,237,758 |
| Contributed surplus | a | 4,824,504 | 4,195 | 4,828,699 |
| Accumulated other comprehensive income | | 67,251 | - | 67,251 |
| Deficit | a/b | (22,458,153) | (440,217) | (22,898,370) |
| | | 3,671,360 | (436,022) | 3,235,338 |
| | | $ 3,804,122 | $ (436,022) | $ 3,368,100 |

**14. TRANSITION TO IFRS (continued)**

**Reconciliation of Consolidated Statements of Financial Position as of January 31, 2011**

| | Notes | GAAP Balance | IFRS Adjustments | IFRS Balance |
|---|---|---|---|---|
| **Assets** | | | | |
| Current | | | | |
| Cash and cash equivalents | | $ 6,812 | $ - | $ 6,812 |
| Short-term investments | | 158,900 | - | 158,900 |
| Accounts receivable | | 187,813 | - | 187,813 |
| | | 353,525 | - | 353,525 |
| Equipment | | 11,708 | - | 11,708 |
| Mineral properties | | 536,796 | - | 536,796 |
| Deferred property acquisition costs | | - | - | - |
| | | $ 902,029 | $ - | $ 902,029 |
| **Liabilities** | | | | |
| Current | | | | |
| Accounts payable and accrued liabilities | | $ 216,716 | $ - | $ 216,716 |
| **Shareholders' Equity** | | | | |
| Share capital | | 21,659,158 | - | 21,659,158 |
| Contributed surplus | a | 4,944,625 | 27,943 | 4,972,568 |
| Accumulated other comprehensive income | | 144,350 | - | 144,350 |
| Deficit | a | (26,062,820) | (27,943) | (26,090,763) |
| | | 685,313 | - | 685,313 |
| | | $ 902,029 | $ - | $ 902,029 |

**14. TRANSITION TO IFRS (continued)**

**Reconciliation of Consolidated Statement of Loss and Comprehensive Loss for the Year Ended January 31, 2011**

| | Notes | GAAP Balance | IFRS Adjustment | IFRS Balance |
|---|---|---|---|---|
| Expenses | | | | |
| Management and consulting | | $ 239,123 | $ - | $ 239,123 |
| Investor relations | | 234,487 | - | 234,487 |
| Professional fees | | 169,876 | - | 169,876 |
| Stock-based compensation | a | 120,121 | 23,748 | 143,869 |
| Office and sundry | | 67,230 | - | 67,230 |
| Rent and utilities | | 42,630 | - | 42,630 |
| Travel and promotion | | 31,304 | - | 31,304 |
| Investment counselling fees | | 28,500 | - | 28,500 |
| Listing and transfer fees | | 18,556 | - | 18,556 |
| Telephone | | 14,869 | - | 14,869 |
| Depreciation | | 5,428 | - | 5,428 |
| Bank charges | | 877 | - | 877 |
| | | - | - | - |
| | | 973,001 | 23,748 | 996,749 |
| Other (income) expense | | | | |
| Gain on sale of investments | | (218,114) | - | (218,114) |
| Write down of exploration costs | b | 2,169,348 | (436,022) | 1,733,326 |
| Write down of investments | | 675,000 | - | 675,000 |
| Foreign exchange gain (loss) | | 5,432 | - | 5,432 |
| Net loss | | $ 3,604,667 | $ (412,274) | $ 3,192,393 |

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
For The Year Ended January 31, 2011

| | | | |
|---|---|---|---|
| Net loss | $ (3,604,667) | $ 412,274 | $ (3,192,393) |
| Reclassification adjustment for investment sold in the year | (35,601) | - | (35,601) |
| Unrealized loss on short-term investments | 112,700 | - | 112,700 |
| Net loss | $ (3,527,568) | $ 412,274 | $ (3,115,294) |

**Reconciliation of Consolidated Statement of Cash Flows**

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the consolidated statements of financial position and consolidated statements of loss and comprehensive loss have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

## 15. ACCOUNTS PAYABLE

| | **January 31, 2012** | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| Related parties | **$ -** | $ 80,000 | $ 19,000 |
| Other trade payables | **49,832** | 121,577 | 49,566 |
| Payables related to mineral properties | **30,526** | 15,139 | 64,196 |
| Accounts payable and accrued liabilities | **$ 80,358** | $ 216,716 | $ 132,762 |

## 16. INCOME TAXES

*a) Provision for income taxes, current and deferred*

The following table reconciles the expected income tax recovery at the Canadian Federal and Provincial statutory rate of 28% (2011 - 30%) to the amount recognized in the statement of operations:

| | **2012** | 2011 |
|---|---|---|
| Loss before provision for income taxes | **$ (973,306)** | $ (3,192,393) |
| Income tax recoverable based on statutory rates: | **(274,500)** | (957,700) |
| Increase (decrease) resulting from: | | |
| Permanent differences | **(8,300)** | 379,700 |
| Tax rate changes and other adjustments | **(92,300)** | 346.200 |
| Deductible temporary differences not recognized | **375,100** | 231,800 |
| Income tax recovery | **$ -** | $ - |

*b) Unrecognized deferred tax assets*

Deferred income taxes are provided as a result of temporary differences that arise due to the difference between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following items:

| | **2012** | 2011 |
|---|---|---|
| Future income tax assets: | | |
| Capital Losses | **$ 1,050,900** | $ 1,050,900 |
| Non-capital losses - Canada | **7,048,500** | 6,416,000 |
| Non-capital losses - Mexico | **227,800** | - |
| Deductible temporary differences | **1,678,800** | 1,528,700 |

The deductible temporary differences noted above do not expire under current tax legislation. The capital loss carry forward may be carried forward indefinitely. The Mexico non-capital loss expires in 2022. The Canadian non-capital losses expire as noted below. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

**16. INCOME TAXES (continued)**

*c) Tax loss carry-forwards*

At January 31, 2012, the Company had non-capital losses carried forward of approximately $7,048,500 which have not been recognized in these consolidated financial statements. The right to use these losses expires as follows:

| | |
|---|---|
| 2015 | **$ 718,400** |
| 2026 | **859,300** |
| 2027 | **898,200** |
| 2028 | **670,600** |
| 2029 | **863,500** |
| 2030 | **979,000** |
| 2031 | **1,368,000** |
| 2032 | **632,400** |
| | **$ 7,048,500** |

**17. WRITE DOWN OF INVESTMENTS**

In 2007, the Company invested $1,800,000 with Bull Market Trading ("BMT"), a company carrying on the business as an investment firm in the province of Quebec. The Company received investments returns in excess of $585,000 over a four year period. The Company withdrew $1,125,000 of its principal along with the $585,000 of investment returns for working capital purposes. Total withdrawal from the investment account amounted to $1,710,000. During the 2011 fiscal year, the Company was advised that BMT no longer qualified to operate as an investment firm and as a result $675,000 of principal was at risk. The Company sought actions to mitigate the possible loss and was provided a debenture in the amount of $675,000 plus interest. Collectability of the debenture is uncertain. The Company therefore wrote down the $675,000 principal balance to nil in fiscal 2011.

**18. SUBSEQUENT EVENTS**

On March 27, 2012 and May 1, 2012, the Company obtained financing of $60,000 and $35,000, respectively, via promissory notes from a company in which the president and CEO of the Company is an officer, a director and a minority shareholder. These promissory notes are due four months from their date of issuance, unless the Company obtains sufficient financing earlier to repay the principal and interest balances. The promissory notes charge interest an annual rate of 15% and are secured by promissory notes issued by the borrower in favour of the lender.

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