**VATIC VENTURES CORP.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE MONTHS ENDED**

**MAY 31, 2013**

**EXPRESSED IN CANADIAN DOLLARS**

(Unaudited – Prepared by Management)

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

July 30, 2013

**VATIC VENTURES CORP.**

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars - unaudited)

| | | May 31, 2013 | | February 29, 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash and cash equivalents (Note 4) | $ | - | $ | 43,649 |
| Amounts receivable | | 57,998 | | 53,656 |
| Deposit and prepaid expenses | | 10,728 | | 10,728 |
| | | 68,726 | | 108,033 |
| **Non-current** | | | | |
| Equipment (Note 5) | | 5,907 | | 6,224 |
| Exploration and evaluation assets (Note 6) | | 417,265 | | 417,265 |
| **Total assets** | $ | 491,898 | $ | 531,522 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Cheques issued in excess of funds on deposit (Note 4) | $ | 4,033 | $ | - |
| Accounts payable and accrued liabilities (Note 7) | | 232,630 | | 235,031 |
| Loan payable (Note 8) | | 196,607 | | 188,477 |
| Due to related parties (Note 12) | | 101,759 | | 64,489 |
| **Total liabilities** | | 535,029 | | 487,997 |
| **EQUITY** | | | | |
| Share capital (Note 9) | | 2,511,696 | | 2,511,696 |
| Share-based payment reserve (Note 9) | | 119,292 | | 119,292 |
| Warrant reserve | | 11,658 | | 11,658 |
| Deficit | | (2,685,777) | | (2,599,121) |
| **Total equity** | | (43,131) | | 43,525 |
| **Total liabilities and equity** | $ | 491,898 | $ | 531,522 |

**Nature of operations and going concern (Note 1)**
**Commitments (Note 16)**
**Subsequent events (Note 17)**

Approved by the Board of Directors and authorized for issue on July 30, 2013

| | |
|---|---|
| *"Nasim Tyab"* | "*Matt Mikulic"* |
| Director | Director |

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

**VATIC VENTURES CORP.**

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars - unaudited)

| | | Three months ended | | |
|---|---|---|---|---|
| | | May 31, 2013 | | May 31, 2012 |
| **Expenses** | | | | |
| Amortization (Note 5) | $ | 317 | $ | 396 |
| Business development | | 625 | | 23,440 |
| Consulting fees | | 1,000 | | 51,753 |
| Management fees (Note 12) | | 44,250 | | 30,750 |
| Office and miscellaneous | | 8,183 | | 5,837 |
| Professional fees | | 11,142 | | 13,514 |
| Rent | | 2,700 | | 5,400 |
| Salaries and wages | | 3,212 | | 13,728 |
| Share-based payments (Note 9 and 12) | | - | | 6,193 |
| Transfer agent and filing fees | | 9,396 | | 8,378 |
| Travel | | - | | 5,446 |
| Total expenses | | (80,825) | | (164,835) |
| Interest expense | | (5,831) | | - |
| | | (5,831) | | - |
| Net and comprehensive loss for the year | $ | (86,656) | $ | (164,835) |
| Weighted average number of common shares outstanding (basic and diluted) | | 26,859,725 | | 15,587,000 |
| Basic and diluted net loss per share | $ | (0.003) | $ | (0.011) |

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

**VATIC VENTURES CORP.**

Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian Dollars - unaudited)

| | Number of shares issued | Share Capital | Warrant reserve | Share-based payment reserve | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance, February 29, 2012** | 16,037,000 | $ 1,618,414 | $ 14,915 | $ 29,843 | $ (857,018) | $ 806,154 |
| Net loss for the period | - | - | - | - | (164,835) | (164,835) |
| Share-based payment | - | - | - | 6,193 | - | 6,193 |
| **Balance, May 31, 2012** | **16,037,000** | **1,618,414** | **14,915** | **36,036** | **(1,021,853)** | **647,512** |
| | | | | | | |
| **Balance, February 28, 2013** | **26,859,725** | **$ 2,511,696** | **$ 11,658** | **$ 119,292** | **$ (2,599,121)** | **$ 43,525** |
| Net loss for the period | - | - | - | - | (86,656) | (86,656) |
| **Balance, May 31, 2013** | **26,859,725** | **$ 2,511,696** | **$ 11,658** | **$ 119,292** | **$ (2,685,777)** | **$ (43,131)** |

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

**VATIC VENTURES CORP.**

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars - unaudited)

| | Three months ended May 31, 2013 | May 31, 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss for the period | $ (86,656) | $ (164,835) |
| Adjustments for: | | |
| Amortization | 317 | 396 |
| Share-based payments | - | 6,193 |
| Changes in non-cash working capital items: | | |
| Increase in amounts receivable | (4,341) | (9,617) |
| Decrease in prepaid expenses | - | 1,619 |
| Increase in due to related parties | 10,760 | 17,818 |
| Increase (decrease) in accounts payable and accrued liabilities | 24,108 | (8,843) |
| Net cash used in operating activities | (55,812) | (157,269) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Evaluation and exploration assets | - | 5,209 |
| Net cash used in investing activities | - | 5,209 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Loan payable | 8,130 | - |
| Net cash used in financing activities | 8,130 | - |
| **Decrease in cash and cash equivalents** | (47,682) | (152,060) |
| **Cash and cash equivalents, beginning of the period** | 43,649 | 208,385 |
| **Cash and cash equivalents (deficiency), end of the period** | $ (4,033) | $ 56,325 |

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

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Vatic Ventures Corp. ("the Company") was incorporated under the Business Corporations Act (British Columbia) on October 30, 2007 and was classified as a Capital Pool Company as defined in the TSX Venture Exchange ("Exchange") Policy 2.4 until January 26, 2011. On January 26, 2011, the Company completed its Qualifying Transaction (the "Transaction") and received the final exchange bulletin for the Transaction from the Exchange. As a result, the Company's shares are listed for trading on the Exchange under the trading symbol "VCV".

Following the completion of the Transaction, the Company is listed as a Tier 2 mining exploration issuer. The Company operates in a single business segment focusing on mineral exploration in British Columbia, Canada and Sinaloa, Mexico. To date, the Company has not generated any revenue from its mineral exploration activities and has met its cash requirements primarily through share issuances and interest income. Until the Company attains profitability, it will be necessary to raise additional financings for general working capital and for exploration costs on its property. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the future success of the business could be adversely affected. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

The head office, principal address, registered address and records office of the Company are located at 1008 Homer Street, Suite 318, Vancouver, British Columbia, Canada, V6B 2X1.

On June 20, 2012, the Company incorporated two wholly owned subsidiaries VV Mining Exploration Services Mexico S. DE. R. I. and VV Mining Mexico S. DE R. I. C. V. to carry out the exploration activities of the La Silla West claims in the State of Sinaloa, Mexico. As at February 28, 2013, the two subsidiaries were inactive. These financial statements present the consolidated operations of the Company and its subsidiaries.

As at May 31, 2013, the Company had a cumulative deficit of $2,685,777 (February 28, 2013 - $2,599,121) and a working capital deficiency of $466,303 (February 28, 2013 - $379,964). The Company expects to incur further losses in the development of its business, all of which indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were primarily funded by the issuance of share capital. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. However, the Company's future capital requirements will depend on many factors, including operating costs, the current capital market environment and global market conditions.

These condensed consolidated interim financial statements ("consolidated financial statement") do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

## 2. BASIS OF PRESENTATION

### Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The consolidated financial statements of the Company should be read in conjunction with the Company's 2013 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

## 2. BASIS OF PRESENTATION (cont'd...)

**Statement of compliance** (cont'd...)

The consolidated financial statements have been prepared using accounting policies consistent with those used in the Company's 2013 annual financial statements, except for income tax expense which is recognized and disclosed for the full financial year in the audited financial statements.

**Approval of the financial statements**

The consolidated financial statements of the Company for the three months ended May 31, 2013, were reviewed by the Audit Committee and approved and authorized for issue on July 30, 2013 by the Board of Directors of the Company.

**Basis of preparation**

The consolidated financial statements have been prepared on an accrual basis except for cash flow information and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

**Basis of consolidation**

These consolidated financial statements include the accounts and operations of the Company and its wholly owned subsidiaries, VV Mining Exploration Services Mexico S. DE. R. I. and VV Mining Mexico S. DE R. I. C. V. The two subsidiaries were incorporated in Mexico on June 20, 2012. Details of controlled entities are as follows,

| | Country of incorporation | Percentage owned May 31, 2013 |
|---|---|---|
| VV Mining Exploration Services Mexico S. DE. R. I. | Mexico | 100% |
| VV Mining Mexico S. DE R. I. C. V. | Mexico | 100% |

All inter-company transactions and balances have been eliminated upon consolidation.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Significant accounting judgments, estimates and assumptions**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses.

*Significant Accounting Judgments*

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statement are discussed below:

1) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

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

**Significant accounting judgements, estimates and assumptions** (cont'd...)

2) Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgement in determining whether it is likely that future economic benefits will flow to the Company.

If, after exploration and evaluation expenditures are capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount the Company carries out an impairment test at the cash generating unit or group of cash generating units level in the year the new information becomes available.

*Significant Accounting Estimates and Assumptions*

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

1) Estimated Useful Lives of Assets

The estimation of the useful lives of assets has been based on historical and industry experience. Adjustments to useful life are made when considered necessary. Amortization charges are disclosed in Note 5.

2) Share-Based Payments

Equity-settled share-based awards are recognized as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of an option valuation model – Black-Scholes, which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life, and is expensed over the vesting period. Using different input estimates or models produces different option values, which would result in the recognition of a higher or lower expense.

**Accounting standards, amendments and interpretations not yet effective**

**IFRS 11 *Joint Arrangements*** – IFRS 11 describes the accounting for joint arrangements in which two or more parties have joint control; IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on March 1, 2013.

**IFRS 12 *Disclosure of Interests in Other Entities*** – IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on March 1, 2013.

**IFRS 13 *Fair Value Measurement*** – IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on March 1, 2013.

**(Expressed in Canadian dollars - unaudited)**

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

**Accounting standards, amendments and interpretations not yet effective** (cont'd...)

***IAS 27 Separate Financial Statements* -** The amendment addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. The Company intends to adopt the standard beginning on March 1, 2013.

***IAS 28 Investments in Associates and Joint Ventures* -** This amendment includes joint ventures in its scope and addresses the changes in IFRS 10-13. It deals with the requirements for separate financial statements, which have been carried over largely un-amended from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt the standard beginning on March 1, 2013.

***Amendments to IFRS 7 Disclosures* –** Amended IFRS requires additional disclosures on transferred financial assets.

***Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities* -** The amendments to IAS 32 clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- The meaning of currently has a legally enforceable right of set-off;
- The application of simultaneous realization and settlement;
- The offsetting of collateral amounts; and
- The unit of account for applying the offsetting requirement.

The Company intends to adopt the standard beginning on March 1, 2013.

## 4. CASH AND CASH EQUIVALENTS

| | May 31, 2013 | February 28, 2013 |
|---|---|---|
| Cash at bank | $ - | $ 4,039 |
| Cash issued in excess of funds on deposit | (4,033) | - |
| Term deposit | - | 39,610 |
| Cash and cash equivalents | $ (4,033) | $ 43,649 |

The term deposit was a 30 day term deposit with 0.45% annual interest rate which matured on March 15, 2013, and was withdrawn on March 28, 2013.

**(Expressed in Canadian dollars - unaudited)**

## 5. EQUIPMENT

| | Computer equipment | | Furniture & fixtures | | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At February 29, 2012 and February 28, 2013 | $ | 1,770 | $ | 8,068 | $ 9,838 |
| | | | | | |
| **Amortization:** | | | | | |
| At February 29, 2012 | | 398 | | 1,633 | 2,031 |
| Charges for the year | | 296 | | 1,287 | 1,583 |
| At February 28, 2013 | $ | 694 | $ | 2,920 | $ 3,614 |
| | | | | | |
| **Net book value:** | | | | | |
| **At February 28, 2013** | **$** | **1,076** | **$** | **5,148** | **$ 6,224** |

| | Computer equipment | | Furniture & fixtures | | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At February 28, 2013 and May 31, 2013 | $ | 1,770 | $ | 8,068 | $ 9,838 |
| | | | | | |
| **Amortization:** | | | | | |
| At February 28, 2013 | | 694 | | 2,920 | 3,614 |
| Charges for the period | | 60 | | 257 | 317 |
| At May 31, 2013 | $ | 754 | $ | 3,177 | $ 3,931 |
| | | | | | |
| **Net book value:** | | | | | |
| At February 28, 2013 | | 1,076 | | 5,148 | 6,224 |
| **At May 31, 2013** | **$** | **1,016** | **$** | **4,891** | **$ 5,907** |

**(Expressed in Canadian dollars - unaudited)**

## 6. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition and exploration costs on its mineral properties.

| | Canada | Mexico | Mexico | |
|---|---|---|---|---|
| | Brookmere Property | La Silla West Property | La Silla Property | Total |
| **Balance of costs** | | | | |
| Total acquisition costs | $ 119,700 | $ 213,000 | $ - | $ 332,700 |
| Total deferred exploration costs | 272,065 | - | - | 272,065 |
| **Balance, February 29, 2012** | $ 391,765 | $ 213,000 | $ - | $ 604,765 |
| **Additions** | | | | |
| **Acquisition costs** | | | | |
| Cash | $ - | $ 80,625 | $ 116,000 | $ 196,625 |
| Shares | 25,500 | 91,641 | 278,400 | 395,541 |
| **Total acquisition costs** | 25,500 | 172,266 | 394,400 | 592,166 |
| **Exploration costs** | | | | |
| Property tax | - | - | 110,032 | 110,032 |
| Property assessments | - | 12,230 | - | 12,230 |
| Field work | - | 8,274 | - | 8,274 |
| Geological consulting | - | 35,742 | - | 35,742 |
| Legal fees | - | 579 | - | 579 |
| Maps | - | 473 | - | 473 |
| Travel and accomodation | - | 3,274 | - | 3,274 |
| **Total exploration costs** | **-** | **60,572** | **110,032** | **170,604** |
| Total acquisition costs | 145,200 | 385,266 | 394,400 | 924,866 |
| Total deferred exploration costs | 272,065 | 60,572 | 110,032 | 442,669 |
| Write-down of exploration and evaluation assets | - | (445,838) | (504,432) | (950,270) |
| **Balance, February 28, 2013** | **$ 417,265** | **$ -** | **$ -** | **$ 417,265** |

| | Canada |
|---|---|
| | Brookmere Property |
| **Balance of costs** | |
| Total acquisition costs | $ 145,200 |
| Total deferred exploration costs | 272,065 |
| **Balance, February 28, 2013** | $ 417,265 |
| Total acquisition costs | 145,200 |
| Total deferred exploration costs | 272,065 |
| Write-down of exploration and evaluation assets | - |
| **Balance, May 31, 2013** | **$ 417,265** |

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

BROOKMERE PROPERTY

On May 17, 2010 and further amended on January 14, 2011, the Company entered into a mineral property option agreement (the "Agreement") with Eastland Management Ltd. ("Eastland"). Pursuant to the terms of the Agreement, the Company has the option to acquire a 100% undivided interest in 14 claims (the "Brookmere Property") located southwest of Merritt, British Columbia, Canada.

To acquire a 100% undivided interest in the Brookemere property and to exercise the option, the Company is to pay Eastland:

1) $15,000 cash (paid) upon execution of the agreement.

2) Issue 670,000 (issued and valued at $67,000) shares of the Company upon issuance of the Final Exchange Bulletin.

3) Issue 200,000 (issued and valued at $16,000) shares of the Company on or before the first year anniversary of the bulletin.

4) Issue 300,000 shares (issued and valued at $25,500) of the Company on or before the second year anniversary of the bulletin.

Upon the commencement of commercial production, the Company shall pay Eastland a 1.5% Net Smelter Returns Royalty. Upon execution of the agreement and the Company receiving the Geological Report, the Company shall pay $15,000 (paid) to Eastland, which amount shall be non-refundable in the event the agreement is terminated.

Rider Capital Corp. received 67,000 shares as a finder's fee in connection with the Transaction (common shares were issued and valued at $6,700).

On February 13, 2013, the Company entered into an option agreement with Quadro Resources Corp. ("Quadro"). The Company granted an exclusive right and option to Quadro to acquire, subject to the terms and conditions of this option agreement, a 51% interest in the property subject to a 1.5% Net Smelter Return royalty in favor of the Underlying Vendor.

Pursuant to the terms of the agreement, Quadro has to complete the following within the time limit as follows:

a. $250,000 of exploration expenditures by January 30, 2014;

b. a further $500,000 of exploration expenditures by January 30, 2015; and

c. a further $1,000,000 of exploration expenditures by January 30, 2016.

LA SILLA WEST PROPERTY, SINALOA, MEXICO

The Company entered into an initial mineral property option agreement with K.J. Gold Canada Ltd. ("K.J. Gold") and its wholly owned Mexican subsidiary on April 6, 2011. The agreement ("Option Agreement") was finalized on November 30, 2011 and approved by the Exchange on December 13, 2011. The Company can acquire an undivided 100% interest in certain mineral claims known as the La Silla West property (the "La Silla West Property") located in Sinaloa, Mexico.

In order for the Company to exercise its option (the "Option") and earn an undivided 100% right, title and interest from the optionor (the "Optionor"), the Company had to:

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

LA SILLA WEST PROPERTY, SINALOA, MEXICO (cont'd...)

1) upon execution of the Option Agreement, pay the optionor $15,000 cash (paid);

2) on approval by the Exchange, issue 1,000,000 common shares (issued and valued at $105,000) and pay $75,000 cash (paid) to the Optionor;

3) on or before the first anniversary date of the Option Agreement, pay the optionor an additional $75,000 (paid) cash and issue 1,000,000 common shares (issued and valued at $85,000);

4) on or before the second anniversary date of the Option Agreement, pay the optionor an additional $75,000 cash and issue 1,000,000 common shares. The Company would have acquired a 50% interest in the property;

5) on or before the third anniversary date of the Option Agreement, pay the optionor an additional $75,000 cash and issue 1,000,000 common shares. The Company would have acquired a 75% interest in the property.

6) on or before the fourth anniversary date of the Option Agreement, pay the optionor an additional $75,000 cash and issue 1,000,000 common shares. The Company would have acquired a 100% interest in the property.

Upon the commencement of commercial production, the Company was to pay K.J. Gold a 2.0% Net Smelter Returns Royalty (the "NSR").

The Company would have acquired a 50% interest in the property once the first 3,000,000 shares of the Company were issued and $225,000 is paid. After the acquisition of the 50% interest, the Company had the choice to enter into a joint venture with the optionor with respect to the joint development of the property rather than pursue the acquisition of a further interest.

The Company had to pay a Finder's fee of $26,250 and issue 375,000 common shares to the finder in consideration for the finder introducing K.J. Gold to the Company:

- Cash payment of $7,500 (paid) and issue 100,000 common shares (issued and valued at $10,500) on the closing date;

- Cash payment of $5,625 (outstanding) and issue 78,125 (issued and valued at $6,641) common shares on the one year anniversary of the closing date;

- Cash payment of $5,625 and issue 75,000 common shares on the two year anniversary of the closing date;

- Cash payment of $3,750 and issue 71,875 common shares on the three year anniversary of the closing date; and

- Cash payment of $3,750 and issue 50,000 common shares on the four year anniversary of the closing date.

As at February 28, 2013, the Company decided not to pursue its interest in the La Silla West property and recorded $445,838 as an impairment charge to write-off the property.

**(Expressed in Canadian dollars - unaudited)**

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

LA SILLA PROPERTY, SINALOA, MEXICO

On April 16, 2012, the Company entered into an agreement (the "Option Agreement") with Minera Meridian Minerals S.R.L. de C.V. ("Minera Meridian") to acquire the right to earn an undivided 100% interest in mineral claims located in Sinaloa, Mexico. Under the term of the Option agreement, the Company was required to issue common shares and make the cash payments according to the following schedule, with value added tax of 16% (or whatever the rate may be at the time of each payment):

- 3,000,000 common shares (issued and valued at $240,000) of the Company and a $100,000 cash payment (paid) to Minera Meridian on the closing date;
- 1,500,000 common shares of the Company and a $100,000 cash payment to Minera Meridian on the first anniversary of the closing date;
- 1,000,000 common shares of the Company and a $100,000 cash payment to Minera Meridian on the second anniversary of the closing date;
- 1,000,000 common shares of the Company and a $100,000 cash payment to Minera Meridian on the third anniversary of the closing date.

The Company would have acquired a 70% interest in the property after fulfilling the above payments. The Company would have had to make the final payment of 3,000,000 common shares and $750,000 to Minera Meridian to acquire the remaining 30% interest.

Additionally, with the first payment to Minera Meridian, the Company also issued 480,000 common shares valued at $38,400 and paid $16,000 for value added tax of 16%.

As at February 28, 2013, the Company decided not to pursue its interest in the La Silla property and recorded $504,432 as an impairment charge to write-off the property.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

| | May 31, 2013 | February 28, 2013 |
|---|---|---|
| Accounts payable | $205,630 | $208,576 |
| Accrued liabilities | 27,000 | 26,455 |
| | $232,630 | $235,031 |

**8. LOAN PAYABLE**

During the year ended February 28, 2013, the Company obtained loans from 3 arms-length parties, Quarry Bay Equity, Jacques Martel and Coventry Partners Inc.

As at May 31, 2013, the loan payable consisted of a $32,500 loan from Coventry Partners Inc, a $117,455 loan from Quarry Bay Equity and a $37,300 loan from Jacques Martel. The Company also accrued $9,352 (February 28, 2013 - $3,722) interest on the loans for an aggregate balance of $196,607 (February 28, 2013 - $188,477). All the loans are unsecured, due on demand and bear an annual interest rate of 12%.

**(Expressed in Canadian dollars - unaudited)**

## 8. LOAN PAYABLE (cont'd...)

| Principal | Accrued interest expenses | Loan balance at February 28, 2013 |
|---|---|---|
| $ 32,500 | $ 1,673 | $ 34,173 |
| 117,455 | 1,640 | 119,095 |
| 34,800 | 409 | 35,209 |
| $ 184,755 | $ 3,722 | $ 188,477 |

| Principal | Accrued interest expenses | Loan balance at May 31, 2013 |
|---|---|---|
| $ 32,500 | $ 2,680 | $ 35,180 |
| 117,455 | 5,151 | 122,606 |
| 37,300 | 1,521 | 38,821 |
| $ 187,255 | $ 9,352 | $ 196,607 |

## 9. SHARE CAPITAL

Authorized: unlimited common shares without par value

At May 31, 2013, there were 26,859,725 issued and fully paid common shares (February 28, 2013– 26,859,725).

There is no share capital transactions during the three months ended May 31, 2013.

<u>During the year ended February 28, 2013:</u>

On February 25, 2013, the Company closed a non-brokered private placement of 1,512,500 units at a price of $0.08 per unit for total proceeds of $121,000. Each unit will be issued as a non flow-through unit consisting of one common share and one-half share purchase warrant. One full warrant will entitle the holder to purchase one additional common share of the Company at a price of $0.12 per share for the first year, and $0.15 per share in the second year. If the closing trading price for the common shares is at or above a price of $0.30 for ten consecutive days, the Company has the option to accelerate the expiry date and if it so chooses, the Company may issue a press release that it intends to accelerate the expiry date of the warrants to a date that is the later of 30 days from either the date of the press release or the date that all hold periods attaching to the shares comprising the units expires. The share purchase warrants shall expire on the earlier of the last day of the two year exercise term or the accelerated expiry date.

The Company paid $4,000 and issued 50,000 agent's warrants with a fair value of $2,295 in finders' fee in connection with the private placement. The fair value of warrants were calculated using a risk free rate of 1.19%, and expected life of 2 years, a volatility of 150.87% and an expected dividend rate of 0.00%.

On October 24, 2012, the Company closed a non-brokered private placement of 4,452,100 units at a price of $0.10 per unit for total proceeds of $445,210. Each unit was issued as a non flow-through unit consisting of one common share and one-half of a share purchase warrant. One full warrant will entitle the holder to purchase one additional common share of the Company at a price of $0.15 per share for the first year, and $0.20 per share in the second year. If the closing trading price for the common shares is at or above a price of $0.30 for ten consecutive days, the Company has the option to accelerate the expiry date and if it so chooses, the Company may issue a press release that it intends to accelerate the expiry date of the warrants to a date that is the later of 30 days from either the date of the press release or the date that all hold periods attaching to the shares comprising the units expires. The share purchase warrants shall expire on the earlier of the last day of the two year exercise term or the accelerated expiry date.

**(Expressed in Canadian dollars - unaudited)**

**9. SHARE CAPITAL** (cont'd...)

During the year ended February 28, 2013 (cont'd...):

The Company paid $52,811 and issued 150,000 agents' warrants with a fair value of $9,363 in finders' fee in connection with the private placement closed on October 24, 2012. The fair value of warrants were calculated using a risk free rate of 1.09%, and expected life of 2 years, a volatility of 206.70% and an expected dividend rate of 0.00%.

During the year ended February 28, 2013, the Company issued 4,858,125 common shares for the acquisition of mineral property interests with a value of $395,541.

**Escrow**

During the year ended February 29, 2008, the Company issued 3,000,000 common shares at a price of $0.05 per share for total proceeds of $150,000. These common shares were held in escrow and to be released pro-rata to the shareholders as to 10% of the escrow shares upon issuance of a Final Exchange Bulletin by the Exchange and as to the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months. 1,500,000 common shares were cancelled during the year ended February 28, 2011 as a result of the Company not being able to complete its Qualifying Transaction in a timely manner. The Final Exchange Bulletin was received on January 26, 2011 and 150,000 shares were released. As of May 31, 2013, 450,000 shares remain in escrow.

**Share options**

The Company adopted a share option plan (the "Share Option Plan") under which it may grant options to directors, officers, and technical consultants for up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of an option may not be less than the discounted market price. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

For share options granted to employees, officers, directors, and consultants, the Company recognizes as an expense, the estimated fair value of the share options granted. The fair value of each share option granted was estimated on the date of grant using the Black-Scholes option-pricing model.

A summary of share options outstanding is as follows:

| | Number of Options | Weighted Average Exercise Price $ | Weighted Average Number of Years to Expiry |
|---|---|---|---|
| Balance, February 29, 2012 | 300,000 | 0.20 | 1.11 |
| Granted | 1,300,000 | 0.12 | |
| Cancelled | (220,000) | 0.20 | |
| Expired | (100,000) | 0.20 | |
| Balance, February 28, 2013 | 1,280,000 | 0.12 | 2.93 |
| Balance, May 31, 2013 | 1,280,000 | 0.12 | 2.68 |

**(Expressed in Canadian dollars - unaudited)**

**9. SHARE CAPITAL** (cont'd...)

**Share options** (cont'd...)

As at May 31, 2013, the following incentive share options are outstanding and exercisable:

| Weighted average exercise price | Weighted average contractual life (years) | Number of Options outstanding | Number of Options exercisable | Expiry date |
|---|---|---|---|---|
| $ 0.20 | 0.19 | 200,000 | 200,000 | August 9, 2013 |
| 0.10 | 1.11 | 350,000 | 350,000 | July 9, 2014 |
| 0.10 | 4.11 | 730,000 | 730,000 | July 9, 2017 |
| $ 0.12 | 2.68 | 1,280,000 | 1,280,000 | |

**Warrants**

Changes to the balance of warrants outstanding are as follows:

| | Warrants outstanding | Weighted average exercise price | Weighted average number of year to expiry |
|---|---|---|---|
| Balance, February 28, 2011 | 6,505,000 | $ 0.15 | 1.89 |
| Granted - private placement | 1,850,000 | 0.30 | |
| Balance, February 29, 2012 | 8,355,000 | $ 0.15 | 0.97 |
| Granted - private placement | 3,157,300 | 0.14 | |
| Expired | (6,505,000) | 0.20 | |
| Balance, February 28, 2013 | 5,007,300 | $ 0.23 | 1.97 |
| Balance, May 31, 2013 | 5,007,300 | $ 0.23 | 1.52 |

As at May 31, 2013, the following warrants are outstanding and exercisable:

| Weighted Average Exercise Price | Weighted Average Life (Years) | Number of warrants outstanding and exercisable | Expiry date |
|---|---|---|---|
| $ 0.30 | 0.29 | 1,850,000 | September 13, 2013 |
| 0.15 | 1.50 | 2,351,050 | November 28, 2014 |
| 0.12 | 1.62 | 806,250 | January 14, 2015 |
| $ 0.20 | 0.84 | 5,007,300 | |

**Share-based payments**

There is no share-based payments transactions during the three months ended May 31, 2013.

For the year ended February 28, 2013, the total share-based payments calculated for stock options granted under the fair value method was $97,823 (February 29, 2012 - $24,174) using the Black-Scholes option pricing model. During the year ended February 28, 2013, the Company reversed the fair value of cancelled options of $8,374 (February 29, 2012 - $Nil) resulting in share-based payments expense of $97,823 (February 29, 2012 - $24,174) for the unvested portion of the stock options to operations.

**(Expressed in Canadian dollars - unaudited)**

## 10. CAPITAL DISCLOSURE

The Company considers its capital structure to include the net residual equity of all assets, less liabilities. Capital is comprised of the Company's equity and any debt that it may issue. The Company's objectives when managing capital are to (i) maintain sufficient working capital to meet current financial obligations and continue as a going concern; (ii) maintain a capital structure to allow the Company to raise equity funding to finance its capital expenditures and acquisition activities; (iii) maintain creditworthiness and maximize returns for shareholders over the long term; (iv) maintain capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic circumstances. The capital for expansion was mostly from proceeds from the issuance of common shares. The net proceeds raised will be used to fund the Company's working capital and exploration activities.

## 11. FINANCIAL INSTRUMENTS AND RISKS

**Fair values**

Under IFRS, a three-level hierarchy that reflects the significance of inputs used in making fair value adjustments is required. The three levels of the fair value hierarchy are as follows:

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
b) Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
c) Level 3 – Inputs for assets or liabilities that are not based on observable market data.

The following table outlines the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy described above. Assets and liabilities are classified in entirety based on the lowest level of input that is significant to the fair value measurement.

As at May 31, 2013, there are no assets and liabilities classified to the fair value measurement.

| | As at February 28, 2013 | | | |
|---|---|---|---|---|
| Assets | Level 1 | Level 2 | Level 3 | Total |
| Cash | $ 4,039 | $ - | $ - | $ 4,039 |
| Term deposit | 39,610 | - | - | 39,610 |
| Total | $ 43,649 | $ - | $ - | $ 43,649 |

**Financial Instrument Risks**

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and cash equivalents and receivables.

**11. FINANCIAL INSTRUMENTS AND RISKS** (cont'd...)

**Financial Instrument Risks** (cont'd...)

*Credit risk* (cont'd...)

The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of GST/HST receivables due from federal government agencies.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. At May 31, 2013, the Company had a cash issued in excess of funds on deposit of $4,033 (February 28, 2013 cash balance - $43,649) to settle current liabilities of $535,029 (February 28, 2013 - $487,997). All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

*Market risk*

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

*Currency risk*

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

There are some expenses for the Company denominated in US dollars. The Company may become exposed to currency fluctuations on mineral evaluation and exploration which are denominated in US dollars. These potential currency risks could have a significant impact on the Company.

As at May 31, 2013, the Company was exposed to currency risk through the following monetary assets and liabilities in US dollars:

| | | |
|---|---|---|
| Cash | $ | - |
| Accounts payable and accrued liabilities | | (4,283) |
| | $ | (4,283) |
| Foreign exchange rate at May 31, 2013 - USD | | 1.0339 |

Based on the net exposures at May 31, 2013, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would not have a significant impact on the Company's net earnings (loss).

**(Expressed in Canadian dollars - unaudited)**

## 12. RELATED PARTY TRANSACTIONS

The amounts due to related parties are amounts due to officers and directors of the Company. The balances are unsecured, non-interest bearing and have no specific terms for repayment. Accordingly, the fair value cannot readily be determined. These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Due to related parties

| | | May 31, 2013 | | February 28, 2013 |
|---|---|---|---|---|
| President and CEO | $ | 45,659 | $ | 30,799 |
| CFO | | 53,850 | | 33,690 |
| Corporate secretary | | 2,250 | | - |
| Total | $ | 101,759 | $ | 64,489 |

During three months ended May 31, 2013 and 2012, the Company paid management fees to its officers and directors as follows:

| | | Three months ended | | |
|---|---|---|---|---|
| | | May 31, 2013 | | May 31, 2012 |
| President and CEO | $ | 24,000 | $ | 24,000 |
| CFO | | 18,000 | | 4,500 |
| Corporate secretary | | 2,250 | | 2,250 |
| | $ | 44,250 | $ | 30,750 |

## 13 SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOW

The non-cash investing activities during three months ended May 31, 2013 and 2012 and non-cash financing activities during the three months ended May 31, 2013 and 2012 are as follows:

| | | May 31, 2013 | | May 31, 2102 |
|---|---|---|---|---|
| Non-cash investing activities | | | | |
| Property expenses in accounts payable | $ | - | $ | 5,209 |
| Non-cash financing activities | | | | |
| Fair value of options granted | | - | | 6,193 |

## 14. SEGMENTED INFORMATION

The Company's business is considered to be in one segment, being mineral property acquisition, exploration and development. The total property assets by geographical locations are as follows:

| Three months ended May 31, 2013 | | Canada | | Mexico | | Total |
|---|---|---|---|---|---|---|
| Tangible assets | $ | 423,172 | $ | - | $ | 423,172 |
| Amortization | | 317 | | - | | 317 |

| Three months ended February 28, 2013 | | Canada | | Mexico | | Total |
|---|---|---|---|---|---|---|
| Tangible assets | $ | 423,489 | $ | 213,000 | $ | 636,489 |
| Amortization | | 1,583 | | - | | 1,583 |

## 15. COMMITMENTS

During the year ended February 28, 2011, the Company negotiated a management services contact with the Company's secretary, CFO and CDO, and agreed to pay a total sum of $750/$750/$4,000 respectively on the first calendar day of each month commencing on February 24, 2011. The CFO's amount was increased to $1,500 in November 2011. The Company may at any time after the Initial Term (one year), terminate this Agreement by giving one month written notice. The CEO's amount was increased to $8,000 as of January 2012, and the CFO's amount was increased to $3,000 for the period from August 2012 to December 2012, and increased to $6,000 from January 2013.

## 16. SUBSEQUENT EVENTS

On June 28, 2013, the Company terminated its option agreement with Minera Meridian Minerales S.R.L. de C.V. dated April 14, 2012 whereby the Company was to acquire the right to earn a 100% undivided interest in La Silla claims located in Sinaloa, Mexico.