TELSON RESOURCES INC.

(formerly Soho Resources Corp.)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

Years ended

February 28, 2013

and

February 29, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Telson Resources Inc.
(formerly Soho Resources Corp.)

We have audited the accompanying consolidated financial statements of Telson Resources Inc. (formerly Soho Resources Corp.), which comprise the consolidated statements of financial position as at February 28, 2013, February 29, 2012 and March 1, 2011 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity (deficiency) for the years ended February 28, 2013 and February 29, 2012, 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Telson Resources Inc. (formerly Soho Resources Corp.) as at February 28, 2013, February 29, 2012 and March 1, 2011 and its financial performance and its cash flows for the years ended February 28, 2013 and February 29, 2012 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Telson Resources Inc. (formerly Soho Resources Corp.)'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

June 25, 2013

TELSON RESOURCES INC.
(formerly Soho Resources Corp.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	February 28, 2013	February 29, 2012 (Restated - Notes 2, 22)	March 1, 2011 (Restated - Note 22)
ASSETS			
Current assets			
Cash (Note 4)	$ 26,882	$ 85,348	$ 1,492,440
Receivables (Note 5)	80,464	341,322	103,868
Prepaid expenses and advances (Note 6)	13,850	75,072	29,996
	121,196	501,742	1,626,304
Exploration and evaluation assets (Note 7)	797,551	797,551	797,551
Equipment (Note 8)	67,889	93,546	107,497
	$ 986,636	$ 1,392,839	$ 2,531,352
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Trade and other payables (Note 9)	$ 802,330	$ 643,706	$ 388,280
Advances (Note 16)	227,165	30,000	-
Loans (Note 10)	303,000	270,827	-
Obligation under share purchase agreement (Note 7)	200,000	198,000	194,280
	1,532,495	1,142,533	582,560
Non-current liabilities			
Reclamation and remediation provision (Note 11)	176,295	168,630	176,076
	1,708,790	1,311,163	758,636
Shareholders' equity (deficiency)			
Share capital (Note 12)	43,032,599	42,411,856	41,317,360
Share subscriptions received	-	350,000	-
Share-based payments reserve (Note 13)	1,579,552	1,374,770	1,048,761
Deficit	(45,334,305)	(44,054,950)	(40,593,405)
	(722,154)	81,676	1,772,716
	$ 986,636	$ 1,392,839	$ 2,531,352

Nature of operations and going concern (Note 1)
Commitments (Note 20)
Subsequent events (Note 21)

These consolidated financial statements were approved by the Board of Directors on June 25, 2013.

On behalf of the Board:

"*Ralph Shearing*" Director — "*John Lynch*" Director
Ralph Shearing — John Lynch

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

TELSON RESOURCES INC.
(formerly Soho Resources Corp.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

	Years ended	
	February 28, 2013	February 29, 2012 (Restated - Note 22)
EXPENSES		
Amortization	$ 26,173	$ 44,978
Business promotion	5,602	140,624
Communications	17,872	24,217
Consulting and financial services	83,708	206,789
Exploration and evaluation expenditures (Note 7)	629,588	1,855,562
Foreign exchange loss	30,940	78,280
Insurance	40,359	38,398
Interest and finance charges	1,636	-
Interest on loans	60,618	21,905
Office and miscellaneous	33,759	38,098
Professional fees	254,475	374,047
Regulatory fees	26,305	52,070
Rent	91,972	84,226
Salaries and benefits	299,319	301,510
Share-based payments (Note 13)	27,815	365,525
Transfer agent	16,503	10,785
Travel	14,982	94,757
	(1,661,626)	(3,731,771)
Gain on disposal of equipment	-	2,397
Interest income	3,738	3,873
Loss and comprehensive loss for the year	$ (1,657,888)	$ (3,725,501)
Basic and diluted loss per common share	$ (0.06)	$ (0.15)
Weighted average number of common shares outstanding	26,133,999	24,145,273

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

TELSON RESOURCES INC.
(formerly Soho Resources Corp.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	Years ended February 28, 2013	February 29, 2012 (Restated - Note 22)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,657,888)	$ (3,725,501)
Items not affecting cash:		
Amortization	26,173	44,978
Bonus shares included in interest	28,123	12,577
Stock-based payments expensed	27,815	365,525
Unrealized foreign exchange loss (gain)	13,714	(3,725)
Gain on disposal of equipment	-	(2,397)
Changes in non-cash working capital items:		
Receivables	260,858	(237,454)
Prepaid expenses and advances	61,222	(45,076)
Accounts payable and accrued liabilities	139,548	245,426
Net cash used in operating activities	(1,100,435)	(3,345,647)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares and warrants	850,000	1,359,000
Share issue costs	(4,680)	(70,764)
Share subscriptions received	-	350,000
Advances	197,165	30,000
Loans	-	298,950
Net cash provided by financing activities	1,042,485	1,967,186
CASH FLOWS FROM INVESTING ACTIVITY		
Equipment purchases	(516)	(28,631)
Net cash used in investing activity	(516)	(28,631)
Change in cash during the year	(58,466)	(1,407,092)
Cash, beginning of year	85,348	1,492,440
Cash, end of year	$ 26,882	$ 85,348

Supplemental disclosure with respect to cash flows (Note 14)

TELSON RESOURCES INC.
(formerly Soho Resources Corp.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in Canadian dollars)

	Issued Number of Shares[1]		Share Amount		Share Sub-scriptions Received		Share-based payments reserve		Deficit[2] (Restated – Note 22)		Total
Balance, March 1, 2011	23,191,741	$	41,317,360	$	-	$	1,048,761	$	(40,593,405)	$	1,772,716
Share units issued (Note 12)	1,698,750		1,155,150		-		203,850		-		1,359,000
Share units issue costs (Note 12)	-		(101,354)		-		20,590		-		(80,764)
Shares issued - loan bonus (Note 10)	108,625		40,700		-		-		-		40,700
Share units subscriptions received	-		-		350,000		-		-		350,000
Share-based payments - options (Note 13)	-		-		-		365,525		-		365,525
Share-based payments - option expiry (Note 13)	-		-		-		(263,956)		263,956		-
Loss and comprehensive loss for the year	-		-		-		-		(3,725,501)		(3,725,501)
Balance, February 29, 2012	24,999,116	$	42,411,856	$	350,000	$	1,374,770	$	(44,054,950)	$	81,676
Share units issued (Note 12)	6,062,500		665,500		(350,000)		534,500		-		850,000
Share units issued – Finders fees (Note 12)	75,000		15,000		-		21,000		-		36,000
Share units issue costs (Note 12)	-		(59,757)		-		-		-		(59,757)
Share-based payments - options (Note 13)	-		-		-		27,815		-		27,815
Share-based payments - option expiry (Note 13)	-		-		-		(282,533)		282,533		-
Share-based payments - warrants expiry (Note 13)	-		-		-		(96,000)		96,000		-
Loss and comprehensive loss for the year	-		-		-		-		(1,657,888)		(1,657,888)
Balance, February 28, 2013	31,136,616	$	43,032,599	$	-	$	1,579,552	$	(45,334,305)	$	(722,154)

(1) After retrospective effect of 8:1 share consolidation on January 16, 2013; including adjustments for fractional shares.
(2) After retrospective effect of change in accounting policy for exploration expenditures.(Note 22)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Telson Resources Inc. (formerly Soho Resources Corp.) (the "Company") was incorporated on April 11, 1986 under the laws of British Columbia, Canada. The Company's head office address is Suite 250, 1090 West Georgia Street, Vancouver, BC, V6E 3V7, Canada. The registered and records office address is Suite 700, 595 Burrard Street, Vancouver, BC, Canada, V7X 1S8. The Company is a reporting issuer in the provinces of British Columbia and Alberta, Canada, and trades on the TSX Venture Exchange (TSX-V) under the symbol "TSN".

Effective January 16, 2013, the Company consolidated its common share capital on an eight to one basis, and at the same time the Company changed its name to Telson Resources Inc. All share and per share amounts have been restated to reflect the 8:1 share consolidation, where applicable.

The consolidated financial statements of the Company as at and for the year ended February 28, 2013 comprise the accounts of the Company and its subsidiaries. The Company is the ultimate parent.

The Company is engaged in the identification, acquisition, exploration and, if warranted, development of exploration and evaluation assets consisting of mineral resource projects in Mexico ("mineral properties"). In conducting operations in Mexico, the Company is subject to considerations and risks not typically associated with companies operating in Canada. These include risks such as the political, economic and legal environments in an emerging market. Among other things, the Company's results may be adversely affected by changes in political and social conditions in Mexico, and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

The Company is considered to be in the exploration stage as it has not placed any of its mineral properties into production. The Company has not generated any production revenue since inception and has never paid any dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of the amounts spent for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company will periodically have to raise additional funds to continue operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. The Company believes it does not have sufficient cash on hand to finance operations through the next twelve months without additional financing. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional financing for the substantial expenditures required to achieve planned principal operations. These matters indicate that there is material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Accounting Standards 1, *Presentation of Financial Statements* ("IAS 1") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Directors on June 25, 2013.

Basis of consolidation

These consolidated financial statements includes the accounts of Telson Resources Inc. and its following listed subsidiaries;

Subsidiary name	Incorporation jurisdiction	Ownership
Samarkand de Mexico S.A. de C.V. ("Samarkand")	Mexico	100%
Sierra Soleada S.A. de C.V. ("Sierra")	Mexico	100%
Sacramento de la Plata S.A. de C.V. ("Sacramento")	Mexico	99%
531607 BC Ltd	BC, Canada	100%

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions have been eliminated upon consolidation.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the parent Company's functional currency. The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates.*

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. BASIS OF PRESENTATION (continued)

Critical accounting estimates:

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Estimated useful lives of equipment

The estimated useful lives of equipment which are included in the consolidated statements of financial position will impact the amount and timing of the related amortization included in profit or loss.

Share-based payments

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

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

Exploration and evaluation assets

Acquisition costs related to the acquisition of exploration and evaluation assets are capitalized by property. Acquisition costs include cash consideration and the value of common shares, based on recent issue prices, issued for exploration and evaluation assets pursuant to the terms of the agreement. Exploration expenditures, net of recoveries, are charged to operations as incurred.

If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

An exploration and evaluation asset acquired under an option agreement, where payments are made at the sole discretion of the Company, is capitalized at the time of payment.

2. BASIS OF PRESENTATION (continued)

Exploration and evaluation assets (continued)

The amounts shown for exploration and evaluation assets do not necessarily represent present or future cash flows. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Reclamation and remediation provision

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in profit or loss. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

Actual rehabilitation costs will ultimately depend upon the future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

Title to exploration and evaluation assets

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

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting periods, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

Equipment

Equipment is carried at cost less accumulated amortization and accumulated impairment losses, if any.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the items and restoring the site on which it is located.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment (continued)

Amortization is provided at rates calculated to amortize the costs of equipment, over its estimated useful lives, using the declining balance basis as follows:

Vehicles	25%
Exploration equipment	30%
Camp equipment	30%
Computer equipment	30%
Office equipment	20%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

An item of equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment is composed of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Exploration and evaluation assets and Exploration expenditures

Once the legal right to explore a property has been acquired all costs directly related to the acquisition, classified as exploration and evaluation assets, are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Exploration expenditures, net of recoveries, are charged to operations as incurred.

The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Exploration and evaluation expenditures - Change in accounting policy

During fiscal 2013, the Company changed its accounting policy with respect to exploration and evaluation expenditures. In prior years the Company's policy was to capitalize by property all costs directly related to the exploration and evaluation of mineral properties classified as exploration and evaluation assets. The Company has elected to change this accounting policy to now charge to operations exploration expenditures as incurred, effective with the presentation of these consolidated financial statements, on a retrospective basis. (Note 22)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Restoration, rehabilitation and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the related costs for that amount. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional asset retirement costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are changed to profit or loss.

Impairment

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if 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. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

a) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as FVTPL unless they are designated as effective hedges. Assets in this category include cash.

Financial assets at FVTPL are initially recognized, and subsequently carried, at fair value with changes recognized in profit or loss. Attributable transaction costs are recognized in profit or loss when incurred.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months or those that are expected to be settled after 12 months from the end of the reporting period, which are classified as non-current assets. Assets in this category include receivables.

Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is used to determine the amortized cost of loans and receivables and to allocate interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

c) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

c) Impairment of financial assets (continued)

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

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

d) De-recognition of financial assets

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

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company has classified trade and other payables, advances, loans, and obligations under share purchase agreements as other financial liabilities.

Share capital

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted loss per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

In the Company's case, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and warrants on loss per share would be anti-dilutive.

Share-based payment transactions

The Company's stock option plan allows employees, directors, officers, and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in share-based compensation reserve. 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. Consideration paid on the exercise of stock options is credited to capital stock and the fair value of the options is reclassified from share compensation reserve to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value is measured at grant date and each tranche is recognized 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 each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

If options or warrants issued as share-based compensation are subsequently cancelled or forfeited without being exercised, then the historical fair value of the share-based compensation is transferred from reserve to deficit.

Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Related party transactions

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

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as share-based payment reserve.

Change in accounting policy

Exploration and evaluation expenditures

The Company has adopted a new accounting policy with respect to exploration and evaluation expenditures. In prior years the Company's policy was to capitalized by property all costs directly related to the exploration and evaluation of mineral properties classified as exploration and evaluation assets. The Company has elected to change this accounting policy to now charge to operations exploration expenditures as incurred, effective with the presentation of these consolidated financial statements, on a retrospective basis. (Note 22)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of February 28, 2013 and have not been applied in preparing these consolidated financial statements.

Effective for annual periods beginning on or after January 1, 2013:

IFRS 10 *Consolidated Financial Statements*

This new standard provides a new single consolidation model that identifies control as the basis for consolidation for all types of entities, and replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.

IFRS 11 *Joint Arrangements*

This new standard improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. Such a principle-based approach will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*.

IFRS 12 *Disclosure of Interests in Other Entities*

This new standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 13 *Fair Value Measurement*

This new standard defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRS require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value.

Amendments to IAS 27 *Consolidated and Separate Financial Statements*

The amendments provide guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements.

Amendments to IAS 28 *Investments in Associates*

The amendments provide guidance on the application of the equity method to associates, subsidiaries and joint ventures.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments not yet effective (continued)

Effective for annual periods beginning on or after January 1, 2015:

IFRS 9 *Financial Instruments*

This new standard partially replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Company has initially assessed that there will be no material reporting changes as a result of adopting the above new standards; however, enhanced disclosure requirements are expected.

4. CASH

All cash balances are denominated in Canadian dollars and held in deposits at both Canadian and Mexican banks.

5. RECEIVABLES

The Receivable amounts are denominated in Canadian dollars and relate to both Canadian and Mexican refundable value added taxes.

6. PREPAID EXPENSES AND ADVANCES

The Prepaid expenses and Advances amounts are denominated in Canadian dollars and relate to both Canadian and Mexican vendor deposits, tax installments, and employee advances.

7. EXPLORATION AND EVALUATION ASSETS

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

Tahuehueto Project

In 1997, pursuant to a share purchase agreement through Samarkand, the Company acquired 90% of the issued and outstanding capital stock of Sacramento. In March 2007 the Company converted a portion of inter-company debt between Samarkand and Sacramento into equity, thereby increasing its ownership in Sacramento from 90% to 99%. Sacramento holds a 100% interest in the Tahuehueto mineral property, located in Durango State, Mexico. A portion of the property is subject to a 1.6% net smelter return royalty (“NSR”).

Pursuant to the share purchase agreement, the Company is obligated to make final payments of US$200,000 to the vendors of the Sacramento shares.

7. EXPLORATION AND EVALUATION ASSETS (continued)

In 2006, the Company entered into an agreement for surface access rights to certain areas of the Tahuehueto project, expiring in May 2016. Under the terms of this agreement the Company must pay an annual fee escalating at 5% per annum. The fee due for the 2013 fiscal year of US$26,801 (2012 - US$25,525) was paid in July 2012. Fees for the 2014 fiscal year have not yet been paid.

Jocuixtita Project

During the year ended February 28, 2010 the Company acquired mineral properties by staking and entered into two option agreements to explore and acquire a 100% interest in mineral properties located in Jocuixtita, Sinaloa, Mexico. The option agreements were amended on January 31, 2011. Pursuant to the amended option agreements, the Company must make option payments totaling US$1,010,000 over a period of six years, of which a maximum of US$372,660 may be paid by issuing common shares to the vendors. A portion of the optioned property is subject to a 2% NSR. The Company may acquire 1.75% of the 2% NSR by making a cash payment of US$612,500 to the vendors.

Due to an internal dispute amongst local residents the Company enforced a Force Majeure clause in the option agreements and suspended the January 31, 2012 payment due of US$150,000. During the year ended February 28, 2011, the Company paid the vendors US$75,000 and issued 480,483 common shares valued at $49,730 (US$50,000). The Company has elected to suspend exploration activities at the Jocuixtita Project until the dispute amongst local residents is resolved.

In May 2011, the Company entered into an agreement for surface access rights to certain areas of the Jocuixtita project, expiring in May 2041. Under the terms of this agreement the Company must pay an annual fee based on the area occupied, adjusted annually for inflation. The fee due for the 2012 fiscal year of MXN$174,493 (Cdn$14,030) was paid in June 2011. Fees for the 2013 fiscal year have not been paid as the Company did not carry on any onsite exploration activities.

Exploration and evaluation assets

	Tahuehueto	Jocuixtita	Total
Acquisition costs; February 28, 2011, February 29, 2012, and February 28, 2013	$576,525	$221,026	$797,551

7. EXPLORATION AND EVALUATION ASSETS (continued)

Exploration and evaluation expenditures

Exploration and evaluation expenditures charged to operations were incurred as follows:

	February 28, 2013		
	Tahuehueto	Jocuixtita	Total
Assays, data and maps	$ 18,452	$ -	$ 18,452
Equipment and supplies	84,430	128	84,558
Geological consulting	3,815	-	3,815
Insurance	3,974	-	3,974
Mineral concession taxes, licences, and fees	107,046	16,614	123,660
Project office	135,856	4,180	140,036
Transportation, travel, and lodging	7,370	1,716	9,086
Wages and benefits	241,712	4,295	246,007
	$ 602,655	$ 26,933	$ 629,588

	February 29, 2012		
	Tahuehueto	Jocuixtita	Total
Assays, data and maps	$ 101,510	$ 80,853	$ 182,363
Drilling	159,892	375,342	535,234
Equipment and supplies	121,361	78,751	200,112
Geological consulting	-	68,857	68,857
Insurance	6,744	3,779	10,523
Mineral concession taxes, licences, and fees	59,310	30,534	89,844
Project office	139,581	84,288	223,869
Subcontractors and equipment rentals	44,726	157,628	202,354
Transportation, travel, and lodging	8,813	15,302	24,115
Wages and benefits	208,581	109,710	318,291
	$ 850,518	$ 1,005,044	$ 1,855,562

8. EQUIPMENT

	Vehicles	Exploration equipment	Camp equipment	Computer equipment	Office equipment	Leasehold improve-ments	Total
Cost							
March 1, 2011	$104,351	$140,888	$8,696	$31,698	$89,536	$48,978	$424,147
Additions	31,444	-	-	6,588	6,985	-	45,017
Disposals	(58,947)	-	-	-	-	-	(58,947)
February 29, 2012	76,848	140,888	8,696	38,286	96,521	$48,978	410,217
Additions	-	516	-	-	-	-	516
February 28, 2013	$ 76,848	$141,404	$8,696	$38,286	$96,521	$48,978	$410,733
Accumulated amortization							
March 1, 2011	$74,925	$112,109	$5,287	$23,768	$63,873	$36,688	$316,650
Amortization for the year	15,217	8,634	1,023	4,355	6,529	9,220	44,978
Disposals	(44,958)	-	-	-	-	-	(44,958)
February 29, 2012	45,184	120,743	6,310	28,123	70,402	45,908	316,670
Amortization for the year	7,916	6,198	716	3,049	5,224	3,070	26,173
February 28, 2013	$53,100	$126,941	$7,026	$31,172	$75,626	$48,978	$342,844
Net book value							
March 1, 2011	$29,426	$28,779	$3,409	$7,930	$25,663	$12,290	$107,497
February 29, 2012	$31,664	$20,146	$2,386	$10,163	$26,119	$3,070	$93,546
February 28, 2013	$23,748	$14,463	$1,670	$7,113	$20,895	-	$67,889

9. TRADE AND OTHER PAYABLES

In Canadian dollars	February 28, 2013	February 29, 2012	March 1, 2011
Trade payables	$ 389,294	$ 270,077	$ 124,573
Accrued liabilities	232,034	248,780	214,282
Interest	42,106	9,225	-
Salaries payable	37,646	42,489	-
Employment, withholding, and value-added taxes	101,250	73,135	49,425
	$ 802,330	$ 643,706	$ 388,280

10. LOANS

In Canadian dollars	February 28, 2013	February 29, 2012	March 1, 2011
Loan #1 - A loan from a director of the Company in the amount of US$100,000 (Cdn$103,000) is unsecured, due on September 29, 2013, and bears interest at a rate of 10% per annum, compounded monthly. In connection with this loan the Company agreed to issue the lender 37,125 (297,000 pre-consolidation) shares with a value of $17,820 as a loan bonus.[1]	$ 103,000	$ 98,950	$ -
Loan #2 - A loan from a director of the Company in the amount of $100,000 is unsecured, due on November 10, 2013, and bears interest at a rate of 10% per annum, compounded monthly. In connection with this loan the Company agreed to issue the lender 35,750 (286,000 pre-consolidation) shares with a value of $11,440 as a loan bonus.[1]	100,000	100,000	-
Loan #3 - A loan from a director of the Company in the amount of $100,000 is unsecured, due on December 21, 2013, and bears interest at a rate of 10% per annum, compounded monthly. In connection with this loan the Company agreed to issue the lender 35,750 (286,000 pre-consolidation) shares with a value of $11,440 as a loan bonus.[1]	100,000	100,000	-
	303,000	298,950	-
Value of loan bonus shares issued	(40,700)	(40,700)	-
Amortized to interest expense	40,700	12,577	-
Unamortized value of loan bonus shares	-	(28,123)	-
Net book value	$ 303,000	$ 270,827	$ -

(1) The value of the loan bonus shares is a financing cost and is amortized to interest expense over the term of the loan.

11. RECLAMATION AND REMEDIATION PROVISION

		Reclamation and Remediation Provision
Balance, March 1, 2011	$	176,076
Change in liability estimate		(7,446)
Balance, February 29, 2012		168,630
Change in liability estimate		7,665
Balance, February 28, 2013	$	176,295

The Company makes full provision for the future cost of site reclamation and remediation on a discounted basis at the time the exploration and evaluation activities take place. The reclamation and remediation provision represents the present value of reclamation and remediation costs relating to exploration and evaluation activities that have occurred to date.

12. SHARE CAPITAL

Authorized:
Unlimited common shares without par value
100,000,000 Class A preference shares with a par value of $1 per share
100,000,000 Class B preference shares with a par value of $5 per share

Effective January 16, 2013, the Company consolidated its common share capital on an eight to one basis. All share and per share amounts have been restated to reflect the 8:1 share consolidation, where applicable.

Fiscal 2013 Transactions

a) Completed a non-brokered private placement of 1,562,500 (12,500,000 pre-consolidation) units of the Company. Each unit is priced at $0.48 ($0.06 pre-consolidation) per unit for total gross proceeds of $750,000. A value of $437,500 has been allocated to warrants to reflect the residual value of the warrant portion of the unit. Each unit is comprised of one common share of the Company and one half of a two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.80 within two years of its date of issuance. At February 29, 2012, the Company had received subscription payments of $350,000 relating to this private placement financing and subsequently received the remaining $400,000 proceeds to completed this private placement.

   In connection with this financing the Company paid finders' fees by issuing 75,000 (600,000 pre-consolidation) units valued at $36,000, with the same terms as the private placement units.

b) Completed a non-brokered private placement of 4,500,000 units of the Company. Each unit is priced at $0.10 per unit for total gross proceeds of $450,000. A value of $97,000 has been allocated to warrants to reflect the residual value of the warrant portion of the unit. Each unit is comprised of one common share of the Company and one half of a two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance.

12. SHARE CAPITAL (continued)

Fiscal 2012 Transactions

a) The Company completed a non-brokered private placement of 1,698,750 (13,590,000 pre-consolidation) units at $0.80 per unit for total proceeds of $1,359,000. A value of $203,850 has been allocated to warrants to reflect the residual value of the warrant portion of the unit. Each unit consisted of one common share and one-half of a transferable share purchase warrant. Each one whole share purchase warrant is exercisable for a period of two years at a price of $1.04 per share during the first year and at a price of $1.40 per share during the second year.

   In connection with this financing the Company paid finders' fees of $60,000, and issued 60,000 (480,000 pre-consolidation) non-transferable warrants with the same terms as the private placement units. These finders' fee warrants have been valued using the Black-Scholes option pricing model assuming a risk free interest rate of 0.82%, expected life of two years, annualized volatility of 115.31% and a dividend rate of 0%. The warrants' fair value of $20,590 was recorded as share issue costs offset to share-based payments reserve.

b) In connection with three loans the Company issued the lenders 108,625 (869,000 pre-consolidation) shares with a value of $40,700 as a loan bonus.

13. SHARE-BASED PAYMENTS RESERVE

A 2012 Stock Option Plan (the "Plan") was approved by the shareholders on December 21, 2012, at the Company's annual general meeting. Under the Plan, the Company is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company, on a rolling basis. Options may be granted at an exercise price of not less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the board of directors. Options can be granted for a maximum term of 5 years. Vesting is not required but may be set on an individual basis as determined by the board of directors.

Share-based payments

During the year ended February 28, 2013, the Company granted 106,250 (February 29, 2012 – 265,625 post-consolidation) stock options. The options granted in fiscal 2013 vested 100% upon the date of grant while the options granted in fiscal 2012 vested either at 100%; or at 25% upon the date of grant, and then at a rate of 25% every 3 months thereafter, until fully vested. The options have a term of 4 and 5 years.

For the year ended February 28, 2013, the total fair value of options granted using the Black-Scholes option pricing model was $16,130 (February 29, 2012 – $105,370). A total of $27,815 (February 29, 2012 – $365,525) was charged to operations; all offset to share-based payments reserve. The weighted average fair value of the options granted during the year was $0.02 (February 29, 2012 – $0.05) per option.

During the year ended February 28, 2013, 195,625 (February 29, 2012 – 143,750 post-consolidation) options previously issued as share-based payments with a fair value of $282,533 (February 29, 2012 – $263,956) expired without being exercised. The previously recorded historical fair value of these options was transferred from reserve to deficit.

13. SHARE-BASED PAYMENTS RESERVE (continued)

Share-based payments (continued)

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

	February 28, 2013	February 29, 2012
Risk-free interest rate	1.49%	1.64%
Expected life of options/warrants	5 Years	4.8 Years
Annualized volatility	132.43%	121.50%
Dividend rate	0%	0%

As at February 28, 2013 the Company had outstanding stock options as follows:

Number of Shares	Number Vested and Exercisable	Exercise Price	Weighted average remaining life (years)	Expiry Date
403,125	403,125	$0.80	1.05	March 20, 2014
53,125	53,125	$0.80	1.17	May 1, 2014
68,750	68,750	$0.80	2.51	September 1, 2015
62,500	62,500	$0.80	0.76	December 1, 2013
40,625	40,625	$0.80	2.76	December 1, 2015
603,125	603,125	$0.92	2.93	February 1, 2016
6,250	6,250	$0.80	3.09	April 1, 2016
34,375	34,375	$0.80	3.42	August 1, 2016
62,500	62,500	$0.80	3.59	October 1, 2016
75,000	75,000	$0.80	3.76	December 1, 2016
56,250	56,250	$0.80	4.17	May 1, 2017
50,000	50,000	$0.80	4.51	September 1, 2017
1,515,625	1,515,625		2.43	

13. SHARE-BASED PAYMENTS RESERVE (continued)

Share-based payments (continued)

Stock option transactions are summarized as follows:

	Number of Options(1)	Weighted Average Exercise Price(1)
Balance, February 28, 2011	1,483,125	$ 0.88
Granted	265,625	$ 0.80
Expired/cancelled	(143,750)	$ 0.80
Balance, February 29, 2012	1,605,000	$ 0.88
Granted	106,250	$ 0.80
Expired/cancelled	(195,625)	$ 0.82
Balance, February 28, 2013	1,515,625	$ 0.85
Exercisable, February 28, 2013	1,515,625	$ 0.85

(1) After retrospective effect of 8:1 share consolidation on January 16, 2013.

Warrants

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

Number of Shares(1)	Exercise Price(1)	Weighted average remaining life (years)	Expiry Date
909,375	$1.40	0.44	August 9, 2013
818,750	$0.80	1.25	June 1, 2014
1,900,000	$0.10	1.92	January 30, 2015
350,000	$0.10	2.00	February 27, 2015
3,978,125	$0.54	1.45	

(1) After retrospective effect of 8:1 share consolidation on January 16, 2013.

13. SHARE-BASED PAYMENTS RESERVE (continued)

Warrants (continued)

Warrant transactions are summarized as follows:

	Number of Warrants[(1)]	Weighted Average Exercise Price[(1)]
Balance, February 28, 2011	3,189,969	$ 1.04
Granted	909,375	$ 1.04
Expired/Forfeited	(28,719)	$ 1.20
Balance, February 29, 2012	4,070,625	$ 1.04
Granted	3,068,750	$ 0.29
Expired/Forfeited	(3,161,250)	$ 1.04
Balance, February 28, 2013	3,978,125	$ 0.54

(1) After retrospective effect of 8:1 share consolidation on January 16, 2013.

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	February 28, 2013	February 29, 2012
Cash paid during the year for interest	$ 1,636	$ -
Cash paid during the year for income taxes	$ -	$ -

Significant non-cash transactions during the year ended February 28, 2013 included:

a) The accrual of share issue costs of $19,076.
b) The issuance of 75,000 (600,000 pre-consolidation) units valued at $36,000 for a finder's fee.
c) The reallocation of $282,533 for expired options from share-based payments reserve to deficit.
d) The reallocation of $96,000 for expired warrants from share-based payments reserve to deficit.
e) The reallocation of $350,000 from share subscriptions received to share capital.

Significant non-cash transactions during the year ended February 29, 2012 included:

a) The accrual of share issue costs of $10,000.
b) The issuance of 108,625 (869,000 pre-consolidation) shares valued at $40,700 as a loan bonus.
c) The issuance of 60,000 (480,000 pre-consolidation) warrants valued at $20,590 for a finder's fee.
d) The reallocation of $263,956 for expired options from share-based payments reserve to deficit.

15. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes follows:

	February 28, 2013	February 29, 2012
Loss for the year before incomes taxes	$ (1,657,888)	$ (3,725,501)
Expected income tax (recovery)	$ (414,000)	$ (978,000)
Change in statutory, foreign tax, foreign exchange rates, and other	342,000	218,000
Permanent difference	(9,000)	94,000
Share issue costs	(15,000)	(21,000)
Change in unrecognized deductible temporary differences	96,000	687,000
Total income tax (recovery)	$ -	$ -

The significant components of the Company's unrecorded deferred tax assets are as follows:

	February 28, 2013	February 29, 2012
Deferred tax assets (liabilities)		
Exploration and evaluation assets	$ 1,266,000	$ 1,266,000
Share issue costs and other	82,000	84,000
Allowable capital losses	266,000	266,000
Non-capital losses available for future period	11,920,000	11,822,000
	13,534,000	13,438,000
Unrecognized deferred tax assets	(13,534,000)	(13,438,000)
Net deferred tax assets	$ -	$ -

The significant components of the Company's temporary differences and tax losses are as follows:

	February 28, 2013	Expiry date range	February 29, 2012
Temporary differences			
Exploration and evaluation assets	$ 5,063,000	No expiry date	$ 5,063,000
Share issue costs and other	$ 327,000	2033 to 2036	$ 332,000
Allowable capital losses	$ 1,065,000	No expiry date	$ 1,065,000
Non-capital losses available for future period	$ 11,920,000	2014 to 2032	$ 43,227,000

Tax attributes are subject to review, and potential adjustment, by tax authorities.

16. RELATED PARTY TRANSACTIONS

The Company's related parties consist of key management personnel including individuals who are executive officers and/or directors of the Company, or are directly related to a director of the Company.

The Company incurred the following fees and expenses in connection with compensation of individuals who are key management and directors.

	February 28, 2013	February 29, 2012
Interest on loans	$ 60,618	$ 21,905
Professional fees	113,900	134,650
Salaries and benefits	156,000	156,000
Share-based payments	8,956	297,107
	$ 339,474	$ 609,662

Trade and other payables includes $123,378 (February 29, 2012 - $75,327) owed to related parties.

During the year ended February 29, 2012, the Company received a cash advance of $30,000 from a director. During the year ended February 28, 2013 the Company received additional cash advances of $197,165 from directors of the Company. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

During the year ended February 29, 2012 the Company received three loans from two directors of the Company (Note 10.) There were no similar loans during the year ended February 28, 2013.

17. SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition and exploration of mineral property interests in Mexico. The total assets attributable to the geographical locations relate primarily to exploration and evaluation assets located in Mexico and equipment located in both Mexico and Canada.

Geographical information is as follows:

	February 28, 2013	February 29, 2012	March 1, 2011
Capital assets are located in:			
Mexico	$ 852,894	$ 871,892	$ 871,942
Canada	12,546	19,205	33,106
	$ 865,440	$ 891,097	$ 905,048

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instrument risk exposure and risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Fair values

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash is measured at Level 1 of the fair value hierarchy. The carrying value of receivables, trade and other payables, advances, and loans approximate their fair value because of the short-term nature of these instruments.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial instrument risk exposure and risk management (continued)

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

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. The Company is exposed to liquidity risk.

Interest rate risk

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term demand deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. The Company is nominally exposed to interest rate risk. The Company's bank account earns interest income at variable rates.

Foreign currency risk

The Company is exposed to foreign currency risk on currency fluctuations related to monetary items with a settlement currency other than Canadian dollars. The Company operates in foreign jurisdictions which use both the United States Dollar ("US$") and the Mexican Peso ("MXN$"). The Company does not use derivative instruments to reduce upward and downward risk associated with foreign currency fluctuations. The effect of a 1% change in foreign exchange rates would be approximately $8,000.

Commodity price risk

The Company is exposed to price risk with respect to commodity and equity prices. 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. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

19. CAPITAL RISK MANAGEMENT

The Company manages common shares, stock options, and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

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

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. Cash consist of cash on hand and balances with banks. The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents and the fair value approximates carrying value.

There have been no changes to the Company's approach to capital management during the year ended February 28, 2013. The Company is not subject to externally imposed capital requirements.

20. COMMITMENTS

The Company has the following commitments at February 28, 2013:

a) The Company rents its office premises under an operating lease until June 2014. The operating lease commitment, including rent plus estimated common area costs, is approximately $100,000 per annum.

b) The Company rents office and warehouse space in Mexico under operating leases until May 2013 at a total monthly rent of MXN$24,000 (Cdn$2,000).

21. SUBSEQUENT EVENTS

Subsequent to February 28, 2013, the Company:

a) Completed a non-brokered private placement of 1,800,000 units of the Company. Each unit is priced at $0.10 per unit for total gross proceeds of $180,000. Each unit is comprised of one common share of the Company and one half of a two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance.

b) Completed a non-brokered private placement of 6,760,000 units of the Company. Each unit is priced at $0.05 per unit for total gross proceeds of $338,000. Each unit is comprised of one common share of the Company and one two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance.

22. CHANGE IN ACCOUNTING POLICY

The Company has adopted a new accounting policy with respect to exploration and evaluation assets and expenditures. In prior years the Company's policy was to capitalize by property all costs directly related to the exploration and evaluation of mineral properties classified as exploration and evaluation assets. The Company has elected to change this accounting policy to now charge to operations exploration expenditures as incurred, effective with the presentation of these consolidated financial statements, on a retrospective basis.

The accounting policies in Note 3 have been applied in preparing the consolidated financial statements for the year ended February 28, 2013, the comparative information for the year ended February 29, 2012, and the preparation of an opening statement of financial position on March 1, 2011.

In preparing its opening statement of financial position, the Company has adjusted amounts reported previously in consolidated financial statements. An explanation of how the transition from the amounts previously reported has affected the Company's financial position, financial performance, and cash flows is set out below.

22. CHANGE IN ACCOUNTING POLICY (continued)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - as at March 1, 2011

	Note	March 1, 2011 As previously reported	Effect of change in accounting policy	March 1, 2011 As re-stated under new policy
ASSETS				
Current assets				
Cash		$ 1,492,440	$ -	$ 1,492,440
Receivables		103,868	-	103,868
Prepaid expenses and advances		29,996	-	29,996
		1,626,304	-	1,626,304
Exploration and evaluation assets	22(a)	21,112,273	(20,314,722)	797,551
Equipment	22(a)	33,106	74,391	107,497
		$ 22,771,683	$ (20,240,331)	$ 2,531,352
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)				
Current liabilities				
Trade and other payables		$ 388,280	$ -	$ 388,280
Advances		-	-	-
Loans		-	-	-
Obligation under share purchase agreement		194,280	-	194,280
		582,560	-	582,560
Non-current liabilities				
Reclamation and remediation provision		176,076	-	176,076
		758,636	-	758,636
Shareholders' equity (deficiency)				
Share capital		41,317,360	-	41,317,360
Share subscriptions received		-	-	-
Share-based payments reserve		1,048,761	-	1,048,761
Deficit	22(a)	(20,353,074)	(20,240,331)	(40,593,405)
		22,013,047	(20,240,331)	1,772,716
		$ 22,771,683	$ (20,240,331)	$ 2,531,352

22. CHANGE IN ACCOUNTING POLICY (continued)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – as at February 29, 2012

	Note	February 29, 2012 As previously reported	Effect of change in accounting policy	February 29, 2012 As re-stated under new policy
ASSETS				
Current assets				
Cash		$ 85,348	$ -	$ 85,348
Receivables		341,322	-	341,322
Prepaid expenses and advances		75,072	-	75,072
		501,742	-	501,742
Exploration and evaluation assets	22(b)	22,996,554	(22,199,003)	797,551
Equipment	22(b)	19,205	74,341	93,546
		$ 23,517,501	$ (22,124,662)	$ 1,392,839
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)				
Current liabilities				
Trade and other payables		$ 643,706	$ -	$ 643,706
Advances		30,000	-	30,000
Loans		270,827	-	270,827
Obligation under share purchase agreement		198,000	-	198,000
		1,142,533	-	1,142,533
Non-current liabilities				
Reclamation and remediation provision		168,630	-	168,630
		1,311,163	-	1,311,163
Shareholders' equity (deficiency)				
Share capital		42,411,856	-	42,411,856
Share subscriptions received		350,000	-	350,000
Share-based payments reserve		1,374,770	-	1,374,770
Deficit	22(b)	(21,930,288)	(22,124,662)	(44,054,950)
		22,206,338	(22,124,662)	81,676
		$ 23,517,501	$ (22,124,662)	$ 1,392,839

22. CHANGE IN ACCOUNTING POLICY (continued)

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS – year ended February 29, 2012

	Note	Year ended February 29, 2012 As previously reported	Effect of change in accounting policy	February 29, 2012 As re-stated under new policy
EXPENSES				
Amortization	22(c)	$ 13,900	$ 31,078	$ 44,978
Business promotion		140,624	-	140,624
Communications		24,217	-	24,217
Consulting and financial services		206,789	-	206,789
Exploration and evaluation expenditures	22(c)	-	1,855,562	1,855,562
Foreign exchange loss	22(c)	78,192	88	78,280
Insurance		38,398	-	38,398
Interest and finance charges		-	-	-
Interest on loans		21,905	-	21,905
Office and miscellaneous		38,098	-	38,098
Professional fees		374,047	-	374,047
Regulatory fees		52,070	-	52,070
Rent		84,226	-	84,226
Salaries and benefits		301,510	-	301,510
Share-based payments		365,525	-	365,525
Transfer agent		10,785	-	10,785
Travel		94,757	-	94,757
		(1,845,043)	(1,886,728)	(3,731,771)
Gain on disposal of equipment	22(c)	-	2,397	2,397
Interest income		3,873	-	3,873
Loss and comprehensive loss for the year		$ (1,841,170)	$ (1,884,331)	$ (3,725,501)
Basic and diluted loss per common share		$ (0.01)	$ (0.14)	$ (0.15)
Weighted average number of common shares outstanding		24,145,273	-	24,145,273

22. CHANGE IN ACCOUNTING POLICY (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS – year ended February 29, 2012

	Note	February 29, 2012 As previously reported	Years ended Effect of change in accounting policy	February 29, 2012 As re-stated under new policy
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the year	22(d)	$ (1,841,170)	$ (1,884,331)	$ (3,725,501)
Items not affecting cash:				
Amortization	22(d)	13,900	31,078	44,978
Bonus shares included in interest		12,577	-	12,577
Stock-based payments expensed		365,525	-	365,525
Unrealized foreign exchange loss (gain)		(3,725)	-	(3,725)
Gain on disposal of equipment	22(d)	-	(2,397)	(2,397)
Changes in non-cash working capital items:				
Receivables		(237,454)	-	(237,454)
Prepaid expenses and advances		(45,076)	-	(45,076)
Accounts payable and accrued liabilities	22(d)	124,590	120,836	245,426
Net cash used in operating activities		(1,610,833)	(1,734,814)	(3,345,647)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of common shares and warrants		1,359,000	-	1,359,000
Share issue costs		(70,764)	-	(70,764)
Share subscriptions received		350,000	-	350,000
Advances		30,000	-	30,000
Loans		298,950	-	298,950
Net cash provided by financing activities		1,967,186	-	1,967,186
CASH FLOWS FROM INVESTING ACTIVITY				
Equipment purchases	22(d)	-	(28,631)	(28,631)
Exploration and evaluation assets	22(d)	(1,763,445)	1,763,445	-
Net cash used in investing activity		(1,763,445)	1,734,814	(28,631)
Change in cash during the year		(1,407,092)		(1,407,092)
Cash, beginning of year		1,492,440		1,492,440
Cash, end of year		$ 85,348	$	$ 85,348

22. CHANGE IN ACCOUNTING POLICY (continued)

Explanation of how the re-stated amounts compared to the previously reported amounts affected the Company's financial position, financial performance, and cash flows is set out below.

(a) Consolidated Statements of Financial Position – March 1, 2011:

(i) Exploration and evaluation assets decreased by the cost of capital assets used for exploration activities, net of amortization that would have been charged to operations in the years prior to March 1, 2011. The $74,391 net book value of the capital assets has been reclassified to Equipment.

(ii) The amount of $20,240,331, representing exploration expenditures other than for capital assets, has been charged to Deficit.

(iii) The remaining balance of $797,551 represents the costs incurred to acquire the mineral properties.

(b) Consolidated Statements of Financial Position – February 29, 2012:

(i) Exploration and evaluation assets decreased by the amounts as described in items 22(a) above, plus the amount of Equipment purchases of $28,631 made during the year, less the amount of amortization on the capital assets used for exploration activities. The $74,341 net book value of the capital assets has been reclassified to Equipment.

(ii) The additional change relates to the 2012 fiscal year's Exploration and Evaluation Expenditures of $1,855,562.

(iii) The net difference of $22,124,662, representing the cumulative exploration expenditures other than for capital assets, has been charged to Deficit.

(c) Consolidated Statements of Loss and Comprehensive Loss – year ended February 29, 2012

(i) Amortization increased by $31,078 representing the additional amortization charged on the re-classified capital assets used for exploration activities.

(ii) Exploration and Evaluation Expenditures increased as described in items 22(b) above.

(iii) Foreign exchange loss; there was a minor change of $88.

(iv) Gain on disposal of equipment of $2,397 resulting from the sale of vehicles during the 2012 fiscal year. Under the previous policy this was offset to deferred exploration costs.

(d) Consolidated Statements of Cash Flows – year ended February 29, 2012

(i) The Loss for the year increased by $1,884,331 as a cumulative result of the changes described in items 22(c) above.

(ii) Amortization increased by $31,078 representing the additional amortization charged on the re-classified capital assets used for exploration activities.

(iii) Gain on disposal of equipment of $2,397; under the previous policy this gain is not recognized.

22. CHANGE IN ACCOUNTING POLICY (continued)

(d) Consolidated Statements of Cash Flows – year ended February 29, 2012 (continued)

(iv) The change in accounts payable under the previous policy did not include unpaid amounts for exploration expenditures. Under the new policy these accounts payable are included.

(v) Equipment purchases are disclosed separately under the new policy. Under the previous policy, the equipment purchase were included in the exploration and evaluation asset investment activity.

(vi) Under the previous policy, the cash expenditures on exploration were included in the exploration and evaluation asset investment activity. Under the new policy, these amounts are charged to operations, and are reflected in the loss for the year noted in item 22(d)(i) above.

The change in the accounting policy had no effect on the Company's consolidated statement of changes in equity, other than the changes to the deficit as already shown and described above. Accordingly, no separate consolidated statement of changes in equity is required.