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**VENDOME RESOURCES CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FEBRUARY 28, 2013 AND FEBRUARY 29, 2012**

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**Chartered Accountants**

**INDEPENDENT AUDITORS' REPORT**

**To the Shareholders of  
Vendome Resources Corp.:**

We have audited the accompanying consolidated financial statements of Vendome Resources Corp. and its subsidiary, which comprise the consolidated statements of financial position as at February 28, 2013 and 2012 and the consolidated statements of loss and comprehensive loss, equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the 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 financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vendome Resources Corp. and its subsidiary as at February 28, 2013 and 2012 and the results of its operations and cash flows for the years then ended 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 matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

*Wasserman Ramsay*

Markham, Ontario  
June 25, 2013

Chartered Accountants  
Licensed Public Accountants

**Consolidated Statements of Financial Position***(In Canadian dollars)*

<b>As at</b>	<b>Note</b>	<b>28-Feb-13</b>	<b>29-Feb-12</b>
<b><u>ASSETS</u></b>			
CURRENT			
Cash and Cash equivalents	13	\$151,745	\$453,461
Interest and sundry receivable	13	28,055	157,060
Prepaid expenses		4,110	67,173
Marketable securities	13	-	103,950
		<u>\$183,910</u>	<u>\$781,644</u>
EXPLORATION PROPERTIES	6	\$2,802,566	\$1,810,642
		<u>\$2,986,476</u>	<u>\$2,592,286</u>
<b><u>LIABILITIES</u></b>			
CURRENT			
Accounts payable and accrued liabilities	13	\$38,647	\$71,026
		<u>\$38,647</u>	<u>\$71,026</u>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
CAPITAL STOCK			
Issued and Outstanding	7	\$5,147,571	\$3,957,929
CONTRIBUTED SURPLUS	7	479,136	248,364
ACCUMULATED OTHER COMPREHENSIVE INCOME		(10,970)	(1,125)
ACCUMULATED DEFICIT		(2,667,908)	(1,683,908)
		<u>\$2,947,829</u>	<u>\$2,521,260</u>
		<u>\$2,986,476</u>	<u>\$2,592,286</u>

**See Note 1: Nature of Organization and Going Concern****Approved on behalf of the Board on June 25, 2013:**/s/ Franz Kozich

Director

/s/ Andrew McQuire

Director

*Accompanying notes form an integral part of these financial statements*

**Consolidated Statements of Comprehensive Loss**  
*(In Canadian dollars)*

	Note	Years Ended	
		28-Feb-13	29-Feb-12
<b>EXPENSES</b>			
General and administrative expenditures		\$372,868	\$346,395
Professional fees		179,183	182,414
Marketing and business development		166,352	215,019
Share based payments	7 (ii)	229,822	179,845
		<u>\$948,225</u>	<u>\$923,673</u>
LOSS BEFORE UNDERNOTED		(\$948,225)	(\$923,673)
Loss on sale of property	6 (i)	-	(164,285)
Fair value adjustment on marketable securities	13	(35,775)	(35,100)
NET LOSS FOR THE YEAR		<u>(\$984,000)</u>	<u>(\$1,123,058)</u>
<b>OTHER COMPREHENSIVE INCOME/ (LOSS)</b>			
Foreign currency translation difference		(\$9,845)	(\$1,125)
COMPREHENSIVE LOSS FOR THE YEAR		<u>(\$993,845)</u>	<u>(\$1,124,183)</u>
<b>NET LOSS PER COMMON SHARE</b>			
Basic and diluted		<u>\$ 0.02</u>	<u>\$0.04</u>
Weighted Average number of common shares outstanding - basic and diluted		<u>40,089,194</u>	<u>30,423,404</u>

*Accompanying notes form an integral part of these financial statements*

## Consolidated Statements of Cash Flows

(In Canadian dollars)

	Note	Years Ended	
		28-Feb-13	29-Feb-12
Net Loss for the year		(\$984,000)	(\$1,123,058)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Adjustments for:			
Fair value adjustments on fair value through profit and loss			
Investments	13	35,775	35,100
Share based payments - stock option plan	7 (ii)	229,822	179,845
Foreign currency transaction difference		(9,845)	(1,125)
Loss on sale of property		-	164,285
		(728,248)	(744,953)
Change in non-cash working capital items:			
Decrease (increase) in interest and sundry receivables		129,005	(142,117)
Decrease (increase) in prepaid expenses		63,064	(55,708)
Increase (decrease) in accounts payable and accrued liabilities		(32,379)	37,229
		(\$568,558)	(\$905,549)
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issuance of capital stock for cash for warrants and options		226,404	-
Issuance of capital stock for cash - private placement		294,787	1,342,919
		\$521,191	\$1,342,919
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sale of marketable securities		\$68,175	\$0
Investment in exploration property for cash	6	(322,524)	(382,771)
		(\$254,349)	(\$382,771)
<b>CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		(301,716)	54,599
CASH AND CASH EQUIVALENTS			
Beginning of Year		453,461	398,862
CASH AND CASH EQUIVALENTS			
End of Year		\$151,745	\$453,461
SUPPLEMENTAL INFORMATION			
Interest received		-	-
Interest paid		-	-
NON-CASH FINANCING AND INVESTING ACTIVITIES:			
Common shares issued for exploration properties		\$669,400	\$885,624
Marketable securities received on sale of exploration properties		\$ -	\$139,050

Accompanying notes form an integral part of these financial statements

**Consolidated Statements of Shareholders' Equity**  
*(In Canadian dollars)*

	Number of Common Shares	Capital Stock: Common Shares	Capital Stock: Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Shareholders' Equity
<b>Balance, March 1, 2011</b>	21,075,833	\$1,715,019	\$13,380	\$69,505	\$-	(\$560,850)	\$1,237,054
Issuance of common shares for cash	5,165,166	696,934	11,098				708,032
Issuance of stock options				179,845			179,845
Issuance for exploration property	4,875,000	885,625					885,625
Issuance upon exercise of stock options	264,000	29,514		(3,114)			26,400
Issuance upon exercise of warrants	5,862,368	611,922	(5,563)	2,128			608,487
Foreign currency translation differences					(1,125)		(1,125)
Net loss						(1,123,058)	(1,123,058)
<b>Balance, February 29, 2012</b>	37,242,367	\$3,939,014	\$18,915	\$248,364	(\$1,125)	(\$1,683,908)	\$2,521,260
Issuance of common shares for cash	1,165,000	\$267,314	\$27,474				\$ 294,788
Issuance of stock options (graded vesting)				229,822			229,822
Issuance for exploration property	2,880,000	669,400					669,400
Issuance upon exercise of stock options	208,000	23,253		(2,463)			20,790
Issuance upon exercise of warrants	1,590,766	210,029	(4,415)				205,614
Warrants expired			(3,413)	3,413			-
Foreign currency translation differences					(9,845)		(9,845)
Net loss						(984,000)	(984,000)
<b>Balance, February 28, 2012</b>	43,086,133	\$5,109,010	\$38,561	\$479,136	(\$10,970)	(\$2,667,908)	\$2,947,829

Accompanying notes form an integral part of these financial statements

## Notes to the Consolidated Financial Statements

(In Canadian dollars)

### 1. Nature of Organization and Going Concern

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#### *Description of the Business*

Vendome Resources Corp. (the "**Company**") was incorporated on February 27, 2007 pursuant to the Business Company Act (Ontario) and was classified as a capital pool company as defined in the TSX Venture Exchange ("**TSXV**") Policy 2.4. On April 13, 2010, the Company acquired the Guibord Properties (Note 6) and this transaction constituted as the Company's qualifying transaction. As such, the Company is now engaged in the exploration of base metals and precious metals. All interests held are currently in the exploration stage. The registered office of the Company is 133 Richmond St., Suite 403, Toronto, Ontario.

These consolidated financial statements of the Company were authorized for issue in accordance with a resolution of the directors on June 25, 2013.

The Company's principal assets are mining claims and deferred exploration costs relating to properties which are not in commercial projects. The Company is in the process of exploring its mining claims and has not yet determined whether or not the properties will contain economically recoverable reserves.

These consolidated financial statements have been prepared on a going concern basis that assumes the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business. As is common with exploration companies, the Company is dependent upon obtaining equity financings to fund future exploration expenditures and cover administrative costs. The following items cast doubt upon the validity of the going concern assumptions: the Company has incurred losses in the current and prior periods, with a current net loss of \$993,845 (2012 - \$1,124,183) and has an accumulated deficit of \$2,667,908 (2012 - \$1,683,908). In the event that the Company is not able to obtain adequate funding, there is uncertainty as to whether the Company will be able to maintain or complete the exploration of its property interests. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company was unable to continue as a going concern. These adjustments could be material.

### 2. Basis of Preparation

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#### *Statement of Compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and effective as of February 28, 2013.

The Company's consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting, measurement and consolidation methods previously applied in the Canadian GAAP financial statements to comply with IFRS.

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

## **Notes to the Consolidated Financial Statements**

*(In Canadian dollars)*

### *Basis of Consolidation*

The consolidated financial statements of the Company include the accounts of its subsidiary. The results of Vendome Minas, S.A. de C.V. ("**VDR Mexico**") are included in the accounts of the Company as VDR Mexico is a wholly owned subsidiary of the Company. The Consolidated financial statements have been prepared to represent the activities of VDR Mexico from the date that it commenced its operations, which was January 1, 2011.

### *Functional and presentation currency*

These Consolidated financial statements are presented in Canadian dollars, which is Company's functional currency.

## **3. Summary of Significant Accounting Policies**

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### **(i) Cash and cash equivalents**

Cash and cash equivalents consist of cash and cash equivalents with initial maturities of three months or less. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

### **(ii) Impairment of financial assets**

Financial assets are assessed at each reporting date in order to determine whether objective evidence exists that the assets are impaired as a result of one or more events which have had a negative effect on the estimated future cash flows of the asset.

If there is objective evidence that a financial asset has become impaired, the amount of the impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows from the asset discounted at its original effective interest rate. Impairment losses are recorded in earnings. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed up to the original carrying value of the asset. Any reversal is recognized in earnings.

### **(iii) Exploration Properties**

The Company capitalizes all costs related to investments in mineral property in which it holds a legal interest on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries, and are monitored for indications of impairment. Where there are indications of a potential impairment, an assessment is performed for recoverability. Capitalized costs are charged to the statement of comprehensive loss to the extent that they are not expected to be recovered. Exploration expenditure relates to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within property, plant and equipment. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

From time to time the Company may acquire or dispose of a mineral property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

The Company has determined that all of its mineral property interests are exploration stage properties.

## **Notes to the Consolidated Financial Statements**

*(In Canadian dollars)*

### **3. Summary of Significant Accounting Policies – continued**

#### **(iv) Income taxes and deferred taxes**

The income tax expense or benefit for the period consists of two components: current and deferred. Income tax expense or benefit is recognized in the Consolidated Statement of Comprehensive Loss except to the extent it relates to a business combination or items recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. To the extent that the Company does not consider it to be probable that taxable profits will be available against which deductible temporary differences can be utilized, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

#### **(v) Warrants**

The Company measures the fair value of warrants issued using the Black-Scholes option pricing model. The fair value of each warrant is estimated based on their respective issuance dates taking into account volatility, expected life, the dividend rate, and the risk free interest rate. The fair value of warrants issued to agents in conjunction with an offering is charged to share issue costs with an offsetting amount recorded to Contributed Surplus.

The fair value of warrants exercised is recorded as share capital, and the fair value of any expired warrants is recorded as Contributed Surplus.

#### **(vi) Foreign Currency Translation**

Items included in the financial statements of the Company's subsidiary are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the Condensed Consolidated Statement of Comprehensive Loss.

Assets and liabilities of the Company's subsidiary are translated at the period end rates of exchange, and the results of its operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in Shareholders' Equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive income.

## **Notes to the Consolidated Financial Statements**

*(In Canadian dollars)*

### **3. Summary of Significant Accounting Policies – continued**

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and certain intercompany loans that are not permanent in nature are presented in the income statement within “General and administrative expenditures”.

References to “\$” are to Canadian dollars.

#### **(vii) Earnings Per Share**

Earnings per share is calculated using the weighted average number of shares outstanding during the period. The treasury stock method of calculating diluted earnings per share is used, which assumes that all outstanding stock options granted with an exercise price below the average market value are exercised during the period. The difference between the number of shares assumed and the number of shares assumed purchased is then included in the denominator of the diluted earnings per share computation.

#### **(viii) Financial Instruments**

Financial instruments are classified into one of the following four categories: loans and receivables; fair value through profit or loss; held-to-maturity; and available-for-sale. Financial assets are initially measured at fair value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows:

- Financial assets and financial liabilities at fair value through profit and loss include financial assets and financial liabilities that are held for trading or designated upon initial recognition as at fair value through profit and loss. These financial instruments are measured at fair value with changes in fair values recognized in the condensed consolidated Statement of Comprehensive Loss.
- Financial assets classified as available-for-sale are measured at fair value, with changes in fair values recognized as Other Comprehensive Income (“OCI”) in the Statement of Comprehensive Loss, except when there is objective evidence that the asset is impaired, at which point the cumulative loss is recognized within the condensed consolidated Statement of Comprehensive Loss.
- Financial assets classified as held-to-maturity and loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method.
- Financial liabilities, other than financial liabilities classified as fair value through profit and loss, are measured in subsequent periods at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a short period, to the net carrying amount on initial recognition.

The Company measures its financial assets and financial liabilities initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**Notes to the Consolidated Financial Statements***(In Canadian dollars)***3. Summary of Significant Accounting Policies – continued**

The Company has classified its financial instruments as follows:

<u>Asset/ Liability</u>	<u>Classification</u>	<u>Measurement</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Marketable securities	Fair value through profit or loss	Fair value
Interest and sundry receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

The Company had no held-to-maturity or available-for-sale financial assets as at February 28, 2013 and February 29, 2012.

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the income statement.

The fair values of the Company's cash and cash equivalents, amounts receivable and accounts payable approximate their carrying values because of the immediate or short-term to maturity of these financial instruments.

**(ix) Equity Instruments**

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 Company are recorded at the proceeds received, net of direct issue costs.

**(x) Flow-through Shares**

The Company may, from time to time, issue flow-through common shares to finance its resource exploration activities in Canada. Canadian income tax law permits the Company to renounce to the flow-through shareholders the income tax attributes of resource exploration costs financed by such shares. Flow-through common shares are recognized in equity based on the quoted price of the existing shares on the date of the issue. The difference between the amount recognized in common shares and the amount the investor pays for the shares is recognized as another liability which is reversed into earnings as eligible expenditures are incurred. The deferred tax impact is recorded prospectively upon renunciation of the related tax benefits, provided it is expected the Company will incur the required eligible expenditures.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not previously recognized, are recognized as a recovery of deferred income taxes in net income. The Company has not issued flow-through shares as at February 28, 2013 and February 29, 2012.

**(xi) Share-based Payments**

Stock options issued by the Company are accounted for in accordance with the fair value based method. The fair value of options issued to directors, officers, employees of and consultants to the Company is charged to earnings over the vesting period of each tranche (graded vesting) with the offsetting amount recorded to Contributed Surplus. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The historical forfeiture rate is also factored in to the calculations. When options are exercised, the amount received, together with the amount previously recorded in contributed surplus are added to capital stock.

## **Notes to the Consolidated Financial Statements**

*(In Canadian dollars)*

### **3. Summary of Significant Accounting Policies - continued**

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

When options are exercised, the amount received, together with the amount previously recorded in Contributed Surplus are added to Capital Stock.

#### **(xii) Impairment of non-financial assets (excluding inventories, investment properties and deferred taxes)**

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ("CGUs").

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income.

#### **(xiii) Fair Value Hierarchy**

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to valuation technique used to measure fair value as per IFRS 7. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

#### **(xiv) Segment reporting**

In accordance with IFRS 8, Operating Segments, it is mandatory for the Company to present and disclose segmental information based on the internal reports that are regularly reviewed by the Board of Directors in order to assess each segment's performance. In this regard, the Company conducts its business in a two operating units, representing the geographic locations of the operations: Canada and Mexico.

#### **(xv) Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the Consolidated financial statements are disclosed in note 4.

## **Notes to the Consolidated Financial Statements**

*(In Canadian dollars)*

### **3. Summary of Significant Accounting Policies – continued**

#### **(xvi) Provisions**

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, 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, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at February 28, 2013, and February 29, 2012.

#### **(xvii) Restoration, Rehabilitation and Environmental Obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Corporation has no material restoration, rehabilitation and environmental costs as at February 28, 2013 and February 29, 2012 as the disturbance to date is minimal.

### **4. Summary of Accounting Estimates and Judgements**

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The preparation of the financial statements in conformity with IFRS requires management to make estimates and judgements that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including on historical experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions. The estimates and judgments that, in managements' opinion, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

#### **(i) Fair Value of Financial Instruments**

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

## Notes to the Consolidated Financial Statements

(In Canadian dollars)

### 4. Summary of Accounting Estimates and Judgments – continued

#### (ii) Impairment of non-financial assets

Exploration properties are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration property may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the Company measures, presents and discloses any resulting impairment loss in accordance with IFRS.

Impairment is assessed by management using key impairment indicators of IFRS 6 - *Exploration for and evaluation of mineral resources*, such assessment is subject to uncertainty.

#### (iii) Share-based payment transactions

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 7 (ii).

#### (iv) Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

#### (v) Restoration rehabilitation and environmental obligations

Management's assumption of no material restoration, rehabilitation and environmental obligations is based on facts and circumstances, which may be open to interpretation that existed during the period.

## 5. Recent Accounting Pronouncements

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The following standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, unless otherwise disclosed. The Company is assessing the impact of these new standards, but does not expect them to have a significant impact on the consolidated financial statements.

IFRS 9, Financial instruments, introduces new requirements for the classification, measurement and derecognition of financial instruments. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 10, Consolidated financial statements, requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

## **Notes to the Consolidated Financial Statements**

*(In Canadian dollars)*

### **5. Recent Accounting Pronouncements – continued**

IFRS 11, Joint arrangements, requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionally consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures.

IFRS 12, Disclosure of interests in other entities, establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, Fair value measurement, is a comprehensive standard for fair value measurement and disclosure requirements across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

International Accounting Standard 27, Separate Financial Statements ("IAS 27"), replaces IAS 27, Consolidated and Separate Financial Statements and contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9.

International Accounting Standard 28, Investments in Associates and Joint Ventures ("IAS 28"), has been amended as a consequence of the issuance of IFRS 10, IFRS 11, and IFRS 12, and will further provide accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee.

IFRS Interpretations Committee Interpretation 20, Stripping costs in the production phase of a surface mine ("IFRIC 20"), sets out the criteria for the capitalization of production stripping costs to non-current assets, and states that stripping activity is recognized as a component of the larger asset to which it relates. In addition, IFRIC 20 requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity.

International Accounting Standard 1, Presentation of Financial Statements ("IAS 1"), requires an entity to group items presented in the statement of comprehensive income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted.

International Accounting Standard 32, Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) ("IAS 32"), clarifies the application of the offsetting requirements. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

**Notes to the Consolidated Financial Statements***(In Canadian dollars)***5. Recent Accounting Pronouncements – continued**

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) outlines new disclosure requirements that enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles.

**6. Exploration Properties**

The following is a summary of the Company's investment in exploration properties:

	Guibord Ontario	Ivanhoe Ontario	La Diana Mexico	San Miguel Mexico	San Javier Mexico	Total
Balance, Mar 1, 2011	\$143,286	\$129,396	\$572,899	\$ -	\$ -	\$845,581
Acquisition costs	-	73,125	195,000	487,550	295,000	1,050,675
Exploration costs	160,049	44,407	13,265	-	-	217,721
Sale of land	(303,335)	-	-	-	-	(303,335)
Balance, Feb 29, 2012	\$-	\$246,928	\$781,164	\$487,550	\$295,000	\$1,810,642
Acquisition costs	-	20,400	222,722	-	429,000	\$672,122
Exploration costs	-	1,962	3,536	20,110	294,194	\$319,802
Balance, Feb 28, 2013	\$ -	\$269,290	\$1,007,422	\$507,660	\$1,018,194	\$2,802,566

**(i) Guibord, Ontario**

On September 15, 2011, the Company announced that an agreement had been reached with Lake Shore Gold Corp. ("**Lake Shore**") to relinquish its rights in the Guibord Property in return for 67,500 common shares of Lake Shore and 33,750 Lake Shore purchase warrants ("LSPW"), where each LSPW entitles the holder to purchase one additional common share of Lake Shore at a price of \$3.00 for a period of two (2) years.

**(ii) Ivanhoe, Ontario**

Under the terms of the option agreement to acquire these claims, the Company is to pay the vendors \$62,000 in cash and issue 1,500,000 common shares of the Company. The vendors will also receive a 3% net smelter royalty. Specifically, the Company paid \$15,000 and issued 375,000 shares upon obtaining regulatory requirements in September 2010. Further payments of \$15,000 and 375,000 common shares of the Company will be due to the vendors on the anniversary date of the signing of the agreement over the next three years. The Company is required to incur \$250,000 in exploration expenses by the 3rd anniversary date and may purchase 50% of the net smelter royalty at any time for a payment of \$3,000,000 to the vendors.

On July 30, 2012 the Company announced that the original terms for the agreement to acquire a 100% interest in the Ivanhoe Lake property (the "Property") had been amended. Under the amended terms of the agreement, the Company has acquired 100% interest in the Ivanhoe Lake property (the "Property") by issuing a final payment of 80,000 common shares during the year to the vendors.

Under the new agreement, the remaining two anniversary payments to the vendor were cancelled, and the requirement to incur \$250,000 in exploration expenses has also been cancelled.

## Notes to the Consolidated Financial Statements

(In Canadian dollars)

### 6. Exploration Properties - continued

#### (iii) **La Diana, Mexico**

On September 2, 2010 the Company entered in to an agreement in principal to acquire a 50% interest in the La Diana property from Camsim Minas SA DE CV ("Camsim"). During the year, the Company has amended the terms of the agreement to reduce the work commitment on the property by issuing additional common shares. Under the amended terms of the agreement, the Company must pay Camsim \$250,000 in cash; issue 4,000,000 common shares of the Company, and incur exploration and administrative expenditures of \$2,500,000. During the current year the Company issued 1,000,000 common shares. In order to complete the amended option agreement the Company must issue 1,000,000 common shares for the amendment of the agreement. In addition, the Company will be required to incur additional \$2,206,046 in exploration and administrative expenditures by the third year anniversary date of the agreement between the two companies.

The mineral rights to the La Diana property are 100% held by Camsim. The property covers 14,722 hectares and is located in the Eastern portion of the State of Guerrero, Southern Mexico, within the heart of the famous precious metals belt of Mexico known as the Sierra Madre del Sur.

#### (iv) **San Miguel Property, Mexico**

In July 2011, the Company agreed to acquire the San Miguel property ("**San Miguel Property**") from Santa Claws Minas., De C.V. The San Miguel Property is located within the southern portion of the Sierra Madre del Sur precious metal belt in the State of Guerrero, Mexico. The San Miguel Property is approximately 2,000 hectares in size and is surrounded by the 14,722 hectare La Diana Property. The Company has paid \$25,000 and issued 2,500,000 common shares of the Company to Santa Claws Minas S.A., de C.V. and therefore has acquired the property rights.

#### (v) **San Javier Property, Mexico**

On December 1, 2011, VDR Mexico has entered into an agreement to acquire from Camsim Minas S.A. de C.V. ("Camsim") an earn-in option for a 50% undivided interest in and to the San Javier Mine property (the "Property") located within the municipality of Malinaltepec, State of Guerrero, Mexico.

The Property is 253 hectares in size and is host to silver-gold-lead-zinc epithermal vein mineralization typical of polymetallic deposits found within the Sierra Madre del Sur precious metal belt. Veins on the Property are host to a variety of sulphide minerals such as pyrite, chalcopyrite, argentite, galena, sphalerite, and arsenopyrite. The Company has paid \$75,000 cash and issued 1,000,000 common shares to Camsim upon signing of the earn-in option agreement. Vendome has also issued 1,000,000 common shares to Camsim on each of the first and second anniversaries of the effective date of the agreement.

To complete the option agreement the Company will be required to incur additional \$2,287,087 exploring the property prior to the third anniversary date of the agreement and pay a final cash payment of \$250,000 on the third anniversary of the agreement.

**Notes to the Consolidated Financial Statements***(In Canadian dollars)***7. Shareholders' Equity****(i) Share capital and contributed surplus**

Authorized and issued

The Company is authorized to issue an unlimited number of commons shares. The issued and outstanding common shares are as follows:

	<u>28-Feb-13</u>	<u>29-Feb-12</u>
Shares issued and fully paid:		
Beginning of the year	37,242,367	21,075,833
Stock-options exercised	208,000	264,000
Warrants exercised	1,590,766	5,862,368
Share issue	1,165,000	5,165,166
Issued for mining claims	2,880,000	4,875,000
Shares issued and fully paid end of year	43,086,133	37,242,367

On December 31, 2012 the Company completed a private placement for 1,165,000 units at \$0.25 per unit for total gross proceeds of \$291,250. Each unit consists of one common share and one half of a share purchase warrant, each warrant exercisable into one additional common share for 18 months from the date of closing at a price of \$0.35 per share.

For each class of share capital:

The number of shares authorized	Unlimited
The number of shares issued and fully paid	43,086,133
The number of shares issued but not fully paid	0
Par value per share, or that the shares have no par value	no par value

Of the issued and outstanding common shares, there are 480,000 that are held in escrow as at the balance sheet date and shall be released on April 15, 2013.

**(ii) Stock Options**

The Company's Stock Option Plan ("the **Plan**") provides for the issuance of a maximum of 10% of the issued and outstanding common shares at an exercise price equal or greater than the market price of the Company's common shares on the date of the grant to directors, officers, employees and consultants to the Company. The option period for options granted under the Plan is for a maximum period of 5 years. Options granted may vest over certain time periods within the option period, which will limit the number of options that may be exercised. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option.

The stock options activity is summarized below:

**Notes to the Consolidated Financial Statements***(In Canadian dollars)***7. Shareholders' Equity - continued**

	28-Feb-13		29-Feb-12	
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
<b>Balance at beginning of period</b>	<b>2,738,000</b>	<b>\$0.18</b>	<b>1,422,000</b>	<b>\$0.15</b>
Granted during the period	1,820,000	0.25	1,680,000	0.20
Exercised during the period	(208,000)	0.10	(364,000)	0.12
<b>Balance at end of period</b>	<b>4,350,000</b>	<b>\$0.22</b>	<b>2,738,000</b>	<b>\$0.18</b>

**7. Shareholders' Equity - continued**

The fair value of the options was based on the Black-Scholes option-pricing model. The following assumptions were used to value them:

	28-Feb-13	29-Feb-12
Weighted average share price	\$0.23	\$0.13
Weighted average exercise price	\$0.25	\$0.20
Weighted average expected volatility	82 - 106%	178%
Weighted average expected option life	2 - 5 years	3.8 years
Weighted average expected dividend yield	0%	0%
Weighted average risk-free interest rate	1.08 - 1.65 %	1.24%

The following table summarizes the range of exercise prices and weighted average remaining contractual life for share units outstanding at the end of the period:

	28-Feb-13		29-Feb-12	
	The range of exercise prices	weighted average remaining contractual life	The range of exercise prices	weighted average remaining contractual life
Share options outstanding at the end of the period:	\$0.175 - \$0.25	3.38	\$0.10 - \$0.20	3.46

**Notes to the Consolidated Financial Statements***(In Canadian dollars)***7. Shareholders' Equity - continued**

The following table summarizes weighted average fair value of share options granted during the period:

Measurement Date	Weighted Average Fair Value
<b>Year Ended February 28, 2013</b>	
February 6, 2013	\$ 0.134
<b>Year Ended February 29, 2012</b>	
October 3, 2011	\$ 0.110

**(iii) Warrants**

The following is a summary of warrants outstanding:

	28-Feb-13		29-Feb-12	
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
<b>Balance at beginning of period</b>	<b>8,846,965</b>	<b>\$0.24</b>	<b>10,694,167</b>	<b>\$0.11</b>
Warrants issued	582,500	0.35	5,165,166	0.30
Exercised during the period	(1,590,766)	0.14	(5,862,368)	0.10
Expired during the period	(2,091,033)	0.15	(1,150,000)	0.15
<b>Balance at end of period</b>	<b>5,747,666</b>	<b>\$0.31</b>	<b>8,846,965</b>	<b>\$0.24</b>

The fair value of the warrants was based on the Black-Scholes option-pricing model. The following assumptions were used to value them:

	28-Feb-13	29-Feb-12
Weighted average exercise price	\$0.35	\$0.24
Weighted average expected volatility	35%	35%
Weighted average expected option life	1.5 years	1.5 years
Weighted average expected dividend yield	0%	0%
Weighted average risk-free interest rate	1.08%	0.98%

**Notes to the Consolidated Financial Statements***(In Canadian dollars)***8. Related Party Transactions**

The Company's related parties include its subsidiaries, key management and their close family members, and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Company had the following balances with related parties:

	<b>28-Feb-13</b>		<b>29-Feb-12</b>	
	Key Management Personnel	Other	Key Management Personnel	Other
<u>Transactions</u>				
Share based payments	\$157,544	\$ -	\$83,969	\$ -
Management fees	93,200	-	60,000	-
Paid for operations of the subsidiary	-	175,300	-	-
Shares issued for mining properties	-	669,400	-	-
Rent reimbursement	-	19,912	-	19,204
<u>Outstanding balances</u>				
Receivable/ (Payable) to a director or officer	(6,409)	-	9,443	-
Receivable/ (Payable) Payable to related parties with common directors	-	14,493	-	(6,302)
	<b>\$244,335</b>	<b>\$879,105</b>	<b>\$153,412</b>	<b>\$12,902</b>

Amounts due from and to the related parties, are a result of transactions with entities controlled by shareholders, officers or directors of the Company. These amounts are non-interest bearing, unsecured and not subject to specific terms of repayment unless stated.

Camsim Minas S.A. de C.V., the company which owns the La Diana and San Javier Properties (see Note 6 (iii and v) is controlled by an individual who is related to a board member of the Company.

The remuneration of directors and other members of key management personnel were as follows:

	<b>28-Feb-13</b>	<b>29-Feb-12</b>
Short-term employee benefits	\$93,200	\$60,000
Share-based payments	157,544	83,969
	<b>\$250,744</b>	<b>\$143,969</b>

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

**Notes to the Consolidated Financial Statements***(In Canadian dollars)***9. Segmented Information**

The Company conducts its business in two geographic segments being Canada and Mexico and one business segment being exploration for mineral resource properties. At February 28, 2013 and February 29, 2012, the Company's mineral property interests were situated in Canada and Mexico.

The following table summarizes total assets by geographic location:

	<b>28-Feb-13</b>	<b>29-Feb-12</b>
Canada	\$269,290	\$246,928
Mexico	2,533,276	1,563,714
Total Assets	<b>\$2,802,566</b>	<b>\$1,810,642</b>

	<b>28-Feb-13</b>	<b>29-Feb-12</b>
Canada	\$868,936	\$798,626
Mexico	79,289	125,047
Total Expenses	<b>\$948,225</b>	<b>\$923,673</b>

**10. Contingency**

From time to time, the Company may be exposed to claims and legal actions in the normal course of business, some of which may be initiated by the Company. As of February 28, 2013, no material claims were outstanding.

**11. Income Taxes**

The Company's effective income tax rate differs from the amount that would be computed by applying the combined Federal and Provincial statutory tax rate of 26.5% (2012 – 26.5%) to the net loss for the year for reasons noted below:

	<b>28-Feb-13</b>	<b>29-Feb-12</b>
Income tax recovery based on statutory rate	(\$260,760)	(\$244,162)
Actual provision per financial statements	-	-
Entertainment	3,969	3,637
Non-cash compensation	60,903	43,325
Fair value adjustment on marketable securities	9,480	-
Share issue costs	(6,212)	(7,591)
	(\$192,620)	(\$204,791)
Valuation allowance	192,620	204,791
	\$ -	\$ -

**Notes to the Consolidated Financial Statements***(In Canadian dollars)***11. Income Taxes - continued**

The Company has incurred tax losses of \$2,248,383 (2012 - \$1,470,608) which may be used to reduce future taxable income. The potential benefit of these losses has not been recognized in these consolidated financial statements and will expire, if unused, in the fiscal years ended February 28 as follows:

	<u>Amount</u>
2028	\$42,906
2029	138,532
2030	51,824
2031	253,041
2032	984,305
2033	<u>777,775</u>
	<u>\$2,248,383</u>

The components of deferred income tax asset (liability) are as noted below:

	<b>28-Feb-13</b>	<b>29-Feb-12</b>
Non-capital losses and share issue costs	\$573,776	\$332,314
Investments	0	8,775
Mineral properties	43,404	61,574
	<u>617,180</u>	<u>402,663</u>
Valuation allowance	(617,180)	(402,663)
Deferred Income Tax	<u>\$ -</u>	<u>\$ -</u>

In addition to the above tax losses the Company has incurred Canadian Development Expenditures, Canadian Exploration Expenditures and Foreign Exploration and Development Expenditures in the amount of \$2,941,181 (2012 - \$2,056,889) which may be used to reduce future taxable income. The potential benefit of these expenditures has not been recognized in these financial statements and can be carried-forward without expiry.

**12. Capital Management and Liquidity**

The Company considers its capital structure to consist of its cash, common shares, stock options and warrants. The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**Notes to the Consolidated Financial Statements***(In Canadian dollars)***12. Capital Management and Liquidity - continued**

There were no changes in the Company's approach to capital management during the periods ended February 28, 2013 and February 29, 2012. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

The Company's capital for the reporting periods is summarized as follows:

	<b>28-Feb-13</b>	<b>29-Feb-12</b>
Cash	\$151,745	\$453,461
Marketable securities	-	103,950
Common shares	5,147,571	3,957,929
Contributed Surplus	479,136	248,364
Deficit	(2,667,908)	(1,683,908)
	<b>\$3,110,544</b>	<b>\$3,079,796</b>

**13. Financial Instruments**

Financial Instruments details can be summarized as follows:

	<b>Level of Fair Value Measurement</b>	<b>Balance as at</b>	
		<b>28-Feb-13</b>	<b>29-Feb-12</b>
<b>Loans and receivables</b>			
Cash and cash equivalents	Level 1	\$151,745	\$453,461
Interest and sundry receivables	Level 2	28,055	157,060
<b>Fair Value Through Profit or Loss</b>			
Marketable Securities	Level 1	-	103,950
		<u>\$179,800</u>	<u>\$714,471</u>
<b>Financial liabilities measured at amortized cost</b>			
Accounts payable and accrued liabilities	Level 1	38,647	71,026
		<u>\$38,647</u>	<u>\$71,026</u>

**Fair Value of Non-Derivative Financial Instruments**

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair value of interest bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk.

The Company values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Company maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

Level 3 fair values are based on a number of valuation techniques other than observable market data. There are no level 3 values currently recorded on the balance sheet of the Company.

## **Notes to the Consolidated Financial Statements**

*(In Canadian dollars)*

### **14. Financial Instruments Risk Management**

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The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and interest rate risk.

#### **(i) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company is not exposed to credit risk due to the nature of the collectible accounts. On February 28, 2013, February 29, 2012, the Company does not have any allowance for doubtful accounts.

Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to amounts receivable. The Company considers the risk of loss for its amounts receivable to be remote and significantly mitigated due to the financial strength of the party from whom the receivables are due - the Canadian government for harmonized sales tax ("HST") refunds receivable.

#### **(ii) Liquidity risk**

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The primary source of liquidity is net operating income, which is used to finance working capital and capital expenditure requirements, and to meet the Company's financial obligations associated with financial liabilities.

Additional sources of liquidity are debt and equity financing, which is used to fund additional operating and other expenses and retire debt obligations at their maturity. In addition to having a working capital deficiency at The Company's approach to managing liquidity risk is to ensure that it will have sufficient cash to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than one year and are subject to normal trade terms. The Company's ability to continue operations and fund its business is dependent on management's ability to secure additional financing. It is anticipated that the Company will continue to rely on equity financing to meet its ongoing working capital requirements. Liquidity risk at the Company is considered to be high.

#### **(iii) Market risk**

Market risk is the risk that changes in market price, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net income or the value of financial instruments. These risks are generally outside the control of the Company. The objectives of the Company are to mitigate market risk exposure within acceptable limits, while maximizing returns. The Company has no significant exposure to market risk.

#### **(iv) Interest rate sensitivity**

The Company has no significant exposure at February 28, 2013 and February 29, 2012 to interest rate risk through its financial instruments.

#### **(v) Foreign Exchange Risk**

The Company is exposed to foreign currency fluctuations as the Company's fully owned subsidiary operates in MXN pesos. The translation effects of changes in exchange rates in the Consolidated Statement of Financial Position were net translation loss of \$9,845 on February 28, 2013 (February 29, 2012 loss of \$1,125) and are recorded within Accumulated Other Comprehensive Income in Shareholders' Equity.

**Notes to the Consolidated Financial Statements**

*(In Canadian dollars)*

**14. Financial Instruments Risk Management - continued**

Foreign Exchange Rate Sensitivity analysis can be presented as follows:

	<u>28-Feb-13</u>	<u>29-Feb-12</u>
Average foreign exchange rate	\$0.08	\$0.08
Net translation loss recognized in:		
Accumulated Other Comprehensive Income in Shareholders' Equity	\$9,845	\$1,125

**Sensitivity Analysis**

	<u>Mar 31, 2013</u>		<u>Mar 31, 2012</u>	
Change in foreign exchange rate	+ 0.5%	- 0.5%	+ 0.5%	- 0.5%
Impact on:				
Accumulated Other Comprehensive Income in Shareholders' Equity	\$492	\$(492)	\$56	\$(56)

Management believes that foreign exchange risk is not significant as at February 28, 2013 and February 29, 2012.

**15. Events after the Reporting Period**

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No significant events took place after the reporting period.