INTERNATIONAL NORTHAIR MINES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

February 28, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
International Northair Mines Ltd.

We have audited the accompanying consolidated financial statements of International Northair Mines Ltd., which comprise the consolidated statements of financial position as at February 28, 2014 and February 28, 2013 and the consolidated statements of loss and comprehensive loss, changes in cash flows and changes in equity for the years ended February 28, 2014 and February 28, 2013, 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 auditors consider 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 International Northair Mines Ltd. as at February 28, 2014 and February 28, 2013 and its financial performance and its cash flows for the years ended February 28, 2014 and February 28, 2013 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 the ability of International Northair Mines Ltd. to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

June 25, 2014

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International Northair Mines Ltd.
Consolidated Statements of Financial Position

As at February 28,
(Expressed in Canadian Dollars)

		2014		2013
ASSETS				
Current				
Cash	**$**	**105,604**	$	166,347
Short-term deposits *(Note 6)*		**637,000**		2,537,000
Receivables		**70,012**		67,975
Due from related parties *(Note 12)*		**37,620**		105,850
Short-term investments *(Note 7)*		**758**		1,516
Prepaid expenses		**50,314**		42,619
		901,308		2,921,307
Non-current assets				
Taxes receivable		**388,800**		478,333
Property and equipment *(Note 8)*		**906,143**		932,285
Exploration and evaluation assets *(Note 9)*		**11,879,230**		9,097,143
	$	**14,075,481**	$	13,429,068
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**162,283**	$	240,722
Due to property vendors		**-**		487,300
		162,283		728,022
SHAREHOLDERS' EQUITY				
Share Capital *(Note 10)*		**39,493,056**		36,938,758
Reserves *(Note 10)*		**3,417,929**		2,897,014
Accumulated other comprehensive income		**-**		758
Deficit		**(28,997,787)**		(27,135,484)
		13,913,198		12,701,046
	$	**14,075,481**	$	13,429,068

Nature of business *(Note 1)*
Commitment *(Note 14)*
Subsequent event *(Note 16)*

APPROVED ON BEHALF OF THE BOARD JUNE 25, 2014:

"F. G. Hewett", Director

"Brian Irwin", Director

The accompanying notes are an integral part of these financial statements

International Northair Mines Ltd.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended February 28,
(Expressed in Canadian Dollars)

	2014	2013
General and administrative expenses		
Administrative recoveries	**$(28,667)**	$(38,421)
Amortization (Note 8)	**33,051**	29,325
Office, salaries and general	**695,353**	730,732
Professional fees	**186,068**	260,482
Regulatory compliance and transfer agent fees	**34,598**	61,417
Shareholder information and investor relations	**269,114**	435,245
Share-based payments *(Note 10)*	**527,140**	620,244
Loss before the undernoted	**1,716,657**	2,099,024
Write-down of taxes receivable	**125,574**	195,438
Loss (gain) on foreign exchange	**(858)**	2,953
Interest income and other	**(17,467)**	(78,919)
Write-off of exploration and evaluation assets *(Note 9)*	**38,397**	160,898
Net loss for the year	**1,862,303**	2,379,394
Other comprehensive loss		
Unrealized loss on available-for-sale investments	**758**	2,779
Comprehensive loss for the year	**$1,863,061**	$2,382,173
Loss per share – basic and diluted	**$0.02**	$0.03
Weighted average number of shares outstanding	**99,944,850**	84,252,679

The accompanying notes are an integral part of these financial statements

International Northair Mines Ltd.
Consolidated Statements of Cash Flows

For the Years Ended February 28,
(Expressed in Canadian Dollars)

		2014		2013
Operating activities				
Net loss for the year	**$**	**(1,862,303)**	$	(2,379,394)
Items not affecting cash:				
Amortization		**33,051**		29,325
Share-based payments		**527,140**		620,244
Write-down of taxes receivable		**125,574**		195,438
Write-off of exploration and evaluation assets		**38,397**		160,898
		(1,138,141)		(1,373,489)
Changes in non-cash working capital *(Note 15)*		**3,458**		(402,669)
		(1,134,683)		(1,776,158)
Investing activities				
Exploration and evaluation costs		**(2,082,424)**		(4,965,699)
Purchase of equipment		**(494,209)**		(399,372)
		(2,576,633)		(5,365,071)
Financing activities				
Net purchase of short-term deposits		**1,900,000**		965,000
Shares issued for private placement		**1,859,315**		6,099,616
Shares issued pursuant to stock options exercised		**11,250**		25,200
Share issuance costs		**(119,992)**		(148,274)
		3,650,573		6,941,542
Change in cash		**(60,743)**		(199,687)
Cash – beginning of year		**166,347**		366,034
Cash – end of year	**$**	**105,604**	**$**	166,347
Supplementary disclosure of cash flow information:				
Cash paid for interest	$	Nil	$	Nil
Cash paid for income taxes	$	Nil	$	Nil

Supplemental disclosure with respect to cash flows *(Note 15)*

The accompanying notes are an integral part of these financial statements

International Northair Mines Ltd.
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital (Number of Shares)	Share Capital (Amount)	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
February 29, 2012	**69,558,969**	**$ 30,947,101**	**$ 2,237,885**	**$ 3,537**	**$ (24,756,090)**	**$ 8,432,433**
Share-based payments	-	-	620,244	-	-	620,244
Other comprehensive loss	-	-		(2,779)	-	(2,779)
Units issued for cash	21,784,344	6,099,616	-	-	-	6,099,616
Broker warrants issued as Finder's fee	-	(53,285)	53,285	-	-	-
Share issuance costs - cash	-	(148,274)	-	-	-	(148,274)
Shares issued for property	200,000	54,000	-	-	-	54,000
Options exercised	120,000	25,200	-	-	-	25,200
Fair value of options exercised	-	14,400	(14,400)	-	-	-
Net loss for the year	-	-	-	-	(2,379,394)	(2,379,394)
February 28, 2013	**91,663,313**	**36,938,758**	**2,897,014**	**758**	**(27,135,484)**	**12,701,046**
Share-based payments	-	-	527,140	-	-	527,140
Other comprehensive loss	-	-	-	(758)	-	(758)
Options exercised	75,000	11,250	-	-	-	11,250
Fair value of options exercised	-	6,225	(6,225)	-	-	-
Units issued for cash	13,153,896	1,859,315	-	-	-	1,859,315
Share issuance costs - cash	-	(119,992)	-	-	-	(119,992)
Shares issued for property	5,250,000	797,500	-	-	-	797,500
Shares returned to treasury	(140)	-	-	-	-	-
Net loss for the year	-	-	-	-	(1,862,303)	(1,862,303)
February 28, 2014	**110,142,069**	**$39,493,056**	**$3,417,929**	**$ -**	**$(28,997,787)**	**$13,913,198**

The accompanying notes are an integral part of these financial statements

1. Nature of Business

International Northair Mines Ltd. (the "Company") is incorporated under the laws of the Province of British Columbia, Canada. The Company's corporate office, registered address and records office is located at 625 Howe Street, Suite 860, Vancouver, British Columbia V6C 2T6.

The consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company and of its Mexican subsidiary, Grupo Northair de Mexico, S.A. de C.V. ("Grupo Northair"). The Company trades its shares on the TSX Venture Exchange.

The Company is an exploration stage company which is engaged principally in the acquisition and exploration of mineral properties. These consolidated financial statements have been prepared on the assumption that the Company is a going concern, meaning that it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. The Company has incurred a deficit of $28,997,787 as at February 28, 2014 and has no current source of revenue. During fiscal 2014 the Company raised capital to meet its working capital requirements for fiscal 2014 and part of 2015. The Company's continuation as a going concern is dependent on its ability to attain profitable operations and generate funds therefrom and/or raise funds sufficient to meet current and future obligations. There can be no assurances that management's future plans for the Company will be successful. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of assets and liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. Basis of Presentation

Statement of Compliance to International Financial Reporting Standards

These consolidated financial statements, including comparatives, have been prepared in accordance 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").

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Grupo Northair. Subsidiaries are entities controlled by the Company. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. All intercompany balances and transactions have been eliminated.

New Accounting Pronouncements

The Company has adopted the following revised standards effective March 1, 2013.

i. IFRS 10: Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption of this standard had no impact on the Company's consolidated financial statements.

ii. IFRS 11: Joint Arrangements is intended to provide for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.

2. Basis of Presentation- continued

New Accounting Pronouncements - continued

The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. The adoption of this standard had no impact on the Company's consolidated financial statements.

iii. IFRS 12: Disclosure of Interests in Other Entities which combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of this standard had no impact on the Company's consolidated financial statements.

iv. IFRS 13: Fair Value Measurement which defines fair value, sets out in a single IFRS framework for measuring fair value, and requires disclosures about fair value measurements. The adoption of this standard is prospective and had no material impact on the Company's consolidated financial statements.

v. IAS 1: Presentation of Financial Statements that require an entity to group items presented in the statement of other comprehensive income on the basis of whether they may be reclassified to profit or loss subsequent to initial recognition. For those items presented before tax, the amendments to IAS 1 also require that the tax related to the two separate groups be presented separately. The adoption of this standard had no impact on the Company's consolidated financial statements.

The IASB has also issued several new standards which have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2014 with early adoption permitted, except for IFRS 9, which is delayed indefinitely, and IFRS 7 which becomes effective January 1, 2015. The following is a brief summary of the new standards:

- *IAS 36 – Impairment of assets – disclosure*
  This standard has limited scope amendments to disclosure requirements in IAS 36, Impairment of Assets. The extent of the impact of adoption of IAS 36 has not yet been determined by the Company.

- *IAS 32 – Financial instruments – presentation*
  This standard has been amended to clarify requirements for offsetting of financial assets and financial liabilities. The extent of the impact of adoption of IAS 32 has not yet been determined by the Company.

- *IFRS 9 - Financial Instruments – classification and measurement*
  This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with changes in fair value through profit or loss. In addition, this new standard has been updated to include guidance on financial liabilities and derecognition of financial instruments. The extent of the impact of adoption of IFRS 9 has not yet been determined.

- *IFRS 7 – Financial instruments – disclosure*
  This standard has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. The extent of the impact of adoption of IFRS 7 has not yet been determined.

2. Basis of Presentation- continued

Significant accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant accounts that require estimates as the basis for determining the stated amounts include exploration and evaluation assets, the valuation of share based payments and the valuation of deferred tax amounts.

Significant assumptions and critical judgements exercised in applying accounting policies relate to, but are not limited to, the following:

- The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position;
- The application of the inputs used in accounting for share-based payment expense which is included in the statements of loss and comprehensive loss. These estimates are derived using the Black-Scholes option pricing model or are based on the value of comparable goods and services. Inputs are determined using readily available market data.
- The recognition of deferred tax assets is determined on whether it is more probable than not that these assets will be recovered.
- The determination of the Company's subsidiary's functional currency.

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3. Significant Accounting Policies

a) Foreign currencies

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of both the Company and its subsidiary, Grupo Northair, 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 ("IAS 21").

Any transactions in currencies other than the functional currency have been translated to the Canadian dollar in accordance with IAS 21. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in the statements of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The Company's presentation currency is the Canadian dollar ("$").

3. Significant Accounting Policies - continued

b) Loss per share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the loss per share. The calculation proved to be anti-dilutive for fiscal 2014 and 2013.

c) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted. 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.

The fair value of options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period during which the stock options vest. The fair value of the stock options granted is measured taking into account the terms and conditions upon which the stock options were granted. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

d) Property and equipment

Equipment is stated at cost less accumulated amortization and any impairment in value.

The initial cost of an asset is comprised of its purchase price and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as an additional cost of equipment.

Assets are amortized using the straight-line method based on the estimated life of the asset.

The remaining useful lives, residual values and amortization method are reviewed and adjusted, if appropriate, at financial year-end to ensure that the periods and method of amortization are consistent with the expected pattern of economic benefits from the items of equipment.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of equipment is derecognized either when it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses arising on the retirement and disposal of an item of equipment are included in the statement of loss and comprehensive loss in the period of retirement or disposal.

3. Significant Accounting Policies – continued

e) Exploration and evaluation assets

Exploration costs are capitalized under intangible assets on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Exploration and evaluation assets include overheads on the acquisition, exploration and evaluation of interest in licenses. When it is determined that such costs will be recouped through successful development and exploitation, expenditures are transferred to tangible assets and depreciated over the expected productive life of the asset. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for the prospects abandoned are written off.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a single cash generating unit. An impairment review is undertaken when indicators of impairment arise but typically when one or more of the following circumstances apply:

- Unexpected geological occurrences that render the resource uneconomic;
- Title to the asset is compromised;
- Fluctuations in metal prices that render the project uneconomic;
- Variation in the currency of operations; and
- Threat to political stability in the country of operation.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as exploration and evaluation assets or recoveries when the payments are made or received.

The recoverability of the amounts capitalized for the undeveloped resource properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Title to resource 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 resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing.

f) Impairment

At the end of each reporting period the carrying amounts of the Company’s assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of loss for the period. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying

3. Significant Accounting Policies – continued

f) Impairment - continued

amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

g) Cash

Cash consists of cash on hand, deposits in banks and highly liquid investments.

h) Short-term deposits

Short-term deposits are investments which are transitional or current in nature, with an original maturity greater than three months.

i) Short-term investments

Investments in which the Company has less than a 20% interest and where the Company has no significant influence, are measured at fair market value. These investments are designated as available-for-sale and are recorded at fair value with unrealized gains and losses recorded in other comprehensive income.

j) Financial instruments

Financial assets

Financial assets are classified into one of the following categories:

- fair value through profit or loss (“FVTPL”);
- available for sale (“AFS”);
- held-to-maturity (“HTM”); and,
- loans and receivables.

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

(i) FVTPL financial assets

Financial instruments are classified as FVTPL when the financial instrument is held for trading or it is designated as FVTPL.

A financial instrument is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial instruments classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial instrument.

The Company has classified cash and short-term deposits as FVTPL.

3. Significant Accounting Policies – continued

j) Financial instruments – continued

(ii) AFS financial assets

Investments held by the Company that are classified as AFS are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in accumulated other comprehensive income. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, are recognized directly in profit or loss rather than equity. When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in accumulated other comprehensive income is included in the statement of loss for the period.

The fair value of AFS monetary assets denominated in a foreign currency is translated at the spot rate at the statement of financial position date. The change in fair value attributable to translation differences due to a change in amortized cost of the asset is recognized in profit or loss, while all other changes are recognized in equity.

The Company has classified short-term investments as AFS financial assets.

(iii) HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs.

(iv) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Company has classified receivables, taxes receivable and due from related parties as loans and receivables.

(v) Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates 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 instrument, or, where appropriate, a shorter period.

(vi) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial instruments 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 instrument, 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.

3. Significant Accounting Policies – continued

j) Financial instruments– continued

For financial instruments 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 instrument's original effective interest rate.

The carrying amount of all financial instruments, 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. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial instrument cannot exceed its amortized cost had impairment not been recognized.

vii) Derecognition of financial assets

A financial instrument is derecognized when:

- the contractual right to the asset's cash flows expire; or
- if the Company transfers the financial instrument and all risks and rewards of ownership to another entity.

Financial liabilities

Financial liabilities are classified into one of the following categories:

- fair value through profit or loss ("FVTPL"); or
- other financial liabilities;

The classification is determined at initial recognition and depends on the nature and purpose of the financial liability.

(i) FVTPL financial liabilities

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of loss and comprehensive loss.

(ii) Other financial liabilities

This category includes amounts due to related parties and accounts payable and accrued liabilities. These 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 accounts payable and accrued liabilities and due to property vendors as other financial liabilities.

3. Significant Accounting Policies – continued

j) Financial instruments– continued

(iii) Effective interest method

The effective interest method calculates the amortized cost of a financial liability and allocates interest expense over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial liability, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial instruments classified as FVTPL.

(iv) Derecognition of financial liabilities

Financial liabilities are derecognized when the Company's obligations are discharged, cancelled or they expire.

k) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statements of loss and comprehensive loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred taxes are recorded using the statement of financial position liability method. Under the statement of financial position liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the asset.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities that do not affect accounting or taxable profit
- goodwill

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

l) Environmental rehabilitation

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development 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 and capitalized at the start of each project to the carrying amount of the asset, along with

3. Significant Accounting Policies – continued

j) Environmental rehabilitation- continued

a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets. The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period. The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred.

The Company has no material restoration, rehabilitation and environmental obligations as the disturbance to date is limited.

4. Capital Management

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 mineral properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares.

In the management of capital, the Company includes the components of shareholders' equity.

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

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments, selected with regards to the expected timing of expenditures from continuing operations.

The Company may require additional funding to carry its exploration and development plans and operations through its current operating period.

(Expressed in Canadian Dollars)

5. Financial Instruments

Categories of financial instruments

		February 28, 2014		February 28, 2013
Financial assets				
FVTPL Assets				
Cash	**$**	**105,604**	$	166,347
Short-term deposits		**637,000**		2,537,000
AFS Assets				
Short-term investments		**758**		1,516
Loans and receivables				
Receivables		**70,012**		67,975
Due from related parties		**37,620**		105,850
Taxes receivable		**388,800**		478,333
	$	**1,239,794**	$	3,357,021

		February 28, 2014		February 28, 2013
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	**$**	**162,283**	$	240,722
Due to property vendors		**-**		487,300
	$	**162,283**	$	728,022

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.

The Company's classifications of financial instruments within the fair value hierarchy are summarized below:

		February 28, 2014		February 28, 2013
Level 1				
Cash	**$**	**105,604**	$	166,347
Short-term deposits		**637,000**		2,537,000
Short-term investments		**758**		1,516
Level 2		**-**		-
Level 3		**-**		-
Total	**$**	**743,362**	**$**	2,704,863

The carrying value of receivables, taxes receivable, \due from related parties, accounts payable and accrued liabilities, and due to property vendors approximated their fair value because of the short-term nature of these instruments.

5. Financial Instruments - continued

Financial Risk Management

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

a) *Currency Risk*

The Company is primarily exposed to currency fluctuations relative to the Canadian dollar through expenditures that are denominated in US dollars and Mexican pesos. Also, the Company is exposed to the impact of currency fluctuations on its monetary assets and liabilities.

The Company is exposed to foreign currency risk through the following financial assets and liabilities denominated in currencies other than Canadian dollars:

February 28, 2014		Cash and short-term deposits		Receivables		Accounts payable and accrued liabilities
US dollar	$	36,892	$	-	$	20,970
Mexican peso		14,664		397,258		17,087
	$	**51,556**	**$**	**397,258**	**$**	**38,057**

February 28, 2013		Cash and short-term deposits		Receivables		Accounts payable and accrued liabilities
US dollar	$	154,765	$	-	$	64,897
Mexican peso		6,337		489,790		515,879
	$	161,102	$	489,790	$	580,776

At February 28, 2014 with other variables unchanged, a +/-10% change in exchange rates would decrease/increase pre-tax loss by $41,000.

b) *Interest Rate and Credit Risk*

The Company has significant cash balances and no interest-bearing debt. The Company has no significant concentrations of credit risk arising from operations. The Company's current practice is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial institutions with which it keeps its bank accounts and management believes the risk of loss to be remote. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Cash and short-term deposits include deposits which are at variable interest rates. Sensitivity to a plus or minus 1% change in rates would affect annual net loss by $7,400.

Receivables are primarily amounts due from government agencies and are unsecured and non-interest bearing. Amounts due from related parties are recoveries for administrative services provided to companies with certain officers and directors in common, such amounts are based on time spent, unsecured, non-interest bearing and due on demand. Management believes that the credit risk concentration with respect to receivables is remote.

(Expressed in Canadian Dollars)

5. Financial Instruments - continued

Financial Risk Management - continued

c) Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short term obligations. As at February 28, 2014, the Company had cash and short term deposit balances of $742,604 (February 28, 2013 - $2,703,347) to settle current liabilities of $162,283 (February 28, 2013 - $728,022).

d) Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market prices of gold and silver. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

6. Short-term Deposits

		February 28, 2014		February 28, 2013
Security deposits held as collateral for corporate credit cards	**$**	**32,000**	$	32,000
Security deposits held as other collateral		**5,000**		5,000
Guaranteed investment certificates		**600,000**		2,500,000
	$	**637,000**	$	2,537,000

7. Short-term Investments

		February 28, 2014		February 28, 2013
Marketable securities:				
Holdings in companies related by virtue of common directors/officers	**$**	**758**	$	1,516
	$	**758**	$	1,516

The Company classifies its short-term investments as available-for-sale, with revaluation gains and losses recognized in accumulated other comprehensive income. As of February 28, 2014, investments were measured at a fair value of $758, after an unrealized loss of $758 in the year ended February 28, 2014.

8. Property and equipment

	Office Equipment	Leasehold Improvements	Vehicle	Property	Total
Cost					
Balance, February 29, 2012	$ 148,291	$ 23,440	$ 66,572	$ -	$ 238,303
Additions for the year	25,094	-	26,207	835,371	886,672
Balance, February 28, 2013	173,385	23,440	92,779	835,371	1,124,975
Additions	**6,909**	**-**	**-**	-	**6,909**
Balance, February 28, 2014	**$ 180,294**	**$ 23,440**	**$ 92,779**	**$ 835,371**	**$ 1,131,884**

(Expressed in Canadian Dollars)

8. Property and equipment - continued

Accumulated Amortization					
Balance, February 29, 2012	$ 111,736	$ 11,287	$ 40,342	$ -	$ 163,365
Amortization for the year	13,089	3,103	13,133	-	29,325
Balance, February 28, 2013	124,825	14,390	53,475	-	192,690
Additions	**15,671**	**3,103**	**14,277**	**-**	**33,051**
Balance, February 28, 2014	**$ 140,496**	**$ 17,493**	**$ 67,752**	**$ -**	**$ 225,741**
Carrying amounts					
February 28, 2013	$ 48,560	$ 9,050	$ 39,304	$ 835,371	$ 932,285
February 28, 2014	**$ 39,798**	**$5,947**	**$ 25,027**	**$ 835,371**	**$ 906,143**

9. Exploration and Evaluation Assets

	Parral 1, Mexico	La Cigarra, Mexico	El Reventon, Mexico	Sierra Rosario and Other	Total
February 29, 2012	$ -	$3,585,699	$912,603	$39,897	$4,538,199
Acquisition and tenure	273,895	107,418	19,015	29,142	429,470
Camp and general	1,859	204,963	-	162,885	369,707
Drilling and data collection	183,348	2,385,291	-	353,370	2,922,009
Field work and travel	39,164	239,435	-	57,088	335,687
Salaries and consulting	54,117	815,523	519	82,307	952,466
Contributions from joint-venture partner	-	-	-	(289,497)	(289,497)
Write-offs	-	-	-	(160,898)	(160,898)
February 28, 2013	**552,383**	**7,338,329**	**932,137**	**274,294**	**9,097,143**
Acquisition and tenure	**1,083,665**	**229,024**	**21,201**	**6,671**	**1,340,561**
Camp and general	**35,510**	**151,312**	**-**	**38,732**	**225,554**
Drilling and data collection	**86,781**	**145,160**	**-**	**-**	**231,941**
Field work and travel	**5,475**	**38,939**	**518**	**-**	**44,932**
Salaries and consulting	**144,651**	**828,547**	**3,796**	**502**	**977,496**
Write-offs	**-**	**-**	**-**	**(38,397)**	**(38,397)**
February 28, 2014	**$1,908,465**	**$8,731,311**	**$957,652**	**$281,802**	**$11,879,230**

La Cigarra, Mexico

During the year ended February 28, 2010, the Company entered into an option agreement, through its wholly owned subsidiary Grupo Northair to acquire a 100% interest in the La Cigarra Project located in the State of Chihuahua, Mexico. Grupo Northair can acquire a 100% ownership in the concessions by making payments over a five year period totalling US$445,000 (US$245,000 paid).

During the year ended February 29, 2012, the Company expanded the project to include the La Borracha concession at a cost of US$35,000.

9. Exploration and Evaluation Assets- continued

During fiscal 2013, the Company also acquired surface rights to land adjoining and overlying the La Cigarra Project at a cost of US$825,000 (paid). In addition, a US$200,000 amount will be payable should the Company announce development of a mine on the La Cigarra Project. These rights are capitalized to property and equipment.

During the year ended February 28, 2014, the Company reached an agreement to allow access and conduct exploration on a portion of the land for future construction, mining and processing.

Parral 1, Mexico

During the year ended February 28, 2013, the Company executed an agreement with DFX Exploration Ltd. ("DFX") to acquire up to a 70% interest in a land position in the area of its La Cigarra Project, consisting of the adjacent and outside properties. Under the terms of the agreement the Company paid $175,000 and issued 450,000 shares valued at $101,500, during the past two years. In addition, the Company has purchased 1,000,000 common shares in DFX at a price of $0.25 per share and has recorded the share purchase as an acquisition cost. Effective March 24, 2014, the Company entered into an agreement with DFX, amending the original agreement in order to acquire a 100% interest in the adjacent property and a 60% interest in the outside property, subject to a 1% net smelter royalty payable to the original property vendor. To acquire the 100% interest in the adjacent property the Company must pay DFX $450,000 in cash ($200,000 paid) and issue 5,000,000 common shares (issued with a fair value of $750,000). Subsequent to earning its interest in the adjacent property, the Company will be required to issue an additional 3,000,000 common shares to DFX if it completes 20,000 meters of diamond drilling on the property, commences commercial production on the property or if the Company is acquired by another company. In addition, DFX will be paid an upfront bonus of $0.10 per silver ounce equivalent up to a maximum of 50 million ounces if prior to September 30, 2016, at least 50 million silver equivalent ounces are estimated to exist on the adjacent property in a NI 43-101 technical report prepared by the Company. If silver equivalent ounces are produced from the adjacent property, DFX will be paid $0.10 per silver equivalent ounce from production to a maximum of (i) 135 million ounces, in the event that DFX received the upfront bonus or (ii) 185 million ounces if the upfront bonus was not applicable.

In order for the Company to exercise the option and acquire a 60% interest in the outside property, the Company must incur an aggregate of $500,000 in exploration expenses on the property, after which a joint venture will be formed with all exploration costs paid on a pro rata basis.

El Reventon, Mexico

The El Reventon project in Durango, Mexico was acquired by staking a 100% interest in certain claims and by entering into, on July 2006, an option agreement for an additional concession. Under the terms of the option agreement, the Company earned a 100% interest in the optioned concession by making payments totalling US$151,000 (paid).

During the year ended February 28, 2013, the Company entered into an agreement whereby it granted Focus Ventures Ltd. ("Focus") the option to acquire up to 80% interest in the El Reventon Silver Project located in the state of Durango, Mexico. Under the terms of the agreement, Focus can earn its interest by the payment of US$235,000 (US$10,000 received) to the Company over 24 months, incurring US$2,000,000 of exploration expenditures on the property over a three year period and the maintenance of the underlying option agreement and costs. During the year ended February 28, 2014, Focus terminated its option agreement with the Company.

(Expressed in Canadian Dollars)

9. Exploration and Evaluation Assets- continued

Sierra Rosario, Mexico

During the year ended February 29, 2012, the Company executed an agreement with Sparton Resources Inc. ("Sparton") and American Consolidated Metals Corp. ("American Consolidated") to facilitate the acquisition by American Consolidated of Sparton's 50% interest in the Sierra Rosario Property located in the state of Sinaloa, Mexico. Sparton held a 51% interest in Sierra Rosario under a Joint Venture Agreement with the Company. In consideration for the Company waving its right of first refusal to match the American Consolidated offer, Sparton transferred a 1% interest and operatorship in the Sierra Rosario Property to the Company concurrently with the completion of the first payment and share issuance from American Consolidated to Sparton under their agreement.

Brandywine, Canada

The Company maintains the Brandywine claim near Whistler, B.C. The nine unit claim is in good standing until August 3, 2015.

10. Share Capital and Reserves

Authorized share capital

Unlimited number of common shares without par value
Unlimited number of preferred shares with rights and restrictions to be determined on issuance

Shares Issued

a) During the year ended February 28, 2014, the Company completed a non-brokered private placement consisting of 9,600,000 shares at a price of $0.14 per share and a second non-brokered private placement consisting of 3,553,896 units at a price of $0.145 per unit for gross proceeds of $1,859,315. Under the terms of the second private placement each unit consisted of one share and one half share purchase warrant. Each full warrant shall enable the holder to purchase a share in the Company at a price of $0.25 per share for a period of two years. Finders' fees and costs totalling $119,992 were payable in conjunction with the financing.

b) During the year ended February 28, 2013, the Company completed a 21,784,344 unit non-brokered private placement at a price of $0.28 per unit for gross proceeds of $6,099,616. Each unit consisted of one share and one half share purchase warrant. Each full warrant shall enable the holder to purchase a share in the Company at a price of $0.40 for a period of eighteen months. The warrants are subject to an accelerated exercise provision if the shares of the Company trade at or above $0.85 for 10 or more consecutive days. Finders' fees consisting of $117,216 and 347,200 Finders' Warrants valued at $53,285 were payable on a portion of the financings. The Finders' Warrants were valued based on the Black Scholes model using the following assumptions:

Risk-free interest rate	0.99%
Expected dividend yield	Nil
Expected stock price volatility	142%
Expected life (in years)	1.5

The Company also paid $31,058 share issuance costs associated with the private placement.

(Expressed in Canadian Dollars)

10. Share Capital and Reserves- continued

Stock options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant up to a total of 18,332,662 options to directors, officers, employees or consultants. The vesting period of options outstanding range from the grant date to one year and expire 5 years from the grant date.

a) Movements in share options during the period

The changes in share options were as follows:

	Options outstanding	Weighted Average exercise price
Balance, February 29, 2012	3,240,000	$0.45
Granted	3,920,000	$0.30
Exercised	(120,000)	$0.21
Forfeited/Expired	(40,000)	$0.24
Balance, February 28, 2013	7,000,000	$0.37
Granted	3,030,000	$0.22
Exercised	(75,000)	(0.15)
Forfeited/Expired/Cancelled	(1,366,666)	(0.32)
Balance, February 28, 2014	8,588,334	$0.33

b) Fair value of share options granted

During the year ended February 28, 2014, the Company granted options to directors, officers, employees and consultants to purchase up to 3,030,000 common shares of the Company at a weighted average exercise price of $0.22 per share. The estimated fair value of the stock options granted during the year ended February 28, 2014 was $465,522 using the Black Scholes option pricing model.

During the year ended February 28, 2013, the Company granted options to employees to purchase up to 3,920,000 common shares of the Company at a weighted average exercise price of $0.30 per share. The estimated fair value of the stock options granted during the year ended February 28, 2013 was $648,410 using the Black Scholes option pricing model.

The Company has used the following assumptions in its option pricing model:

	Year ended February 28, 2014	Year ended February 28, 2013
Risk-free interest rate	**1.1 - 1.33%**	0.99%
Expected dividend yield	**Nil**	Nil
Expected stock price volatility	**105% - 130%**	86% - 130%
Expected life (in years)	**2.0 - 3.0**	1.0 - 3.0
Expected forfeiture rate	**0%**	7%

During the year ended February 28, 2014 a total value of $527,140 (2013 - $620,244) has been recorded to reserves and to share-based payments. The portion of share-based payments recorded is based on the vesting schedule of the options.

(Expressed in Canadian Dollars)

10. Share Capital and Reserves- continued

Stock options- continued

c) Share options outstanding

A summary of the Company's options outstanding as at February 28, 2014 is as follows:

Options outstanding	Options exercisable	Price per share	Remaining contractual life (years)	Expiry date
15,000	15,000	$0.15	0.67	October 30, 2014
125,000	125,000	$0.15	1.03	March 11, 2015
150,000	150,000	$0.15	1.14	April 21, 2015
1,075,000	1,075,000	$0.71	2.22	May 19, 2016
750,000	750,000	$0.495	2.39	July 18, 2016(ii)
50,000	50,000	$0.305	2.56	September 20, 2016
175,000	175,000	$0.25	2.58	September 28, 2016
255,000	255,000	$0.24	2.80	December 15, 2016
2,600,000	2,600,000	$0.28	3.29	June 13, 2017(ii)
470,000	470,000	$0.29	3.87	January 10, 2018
2,698,334	2,343,329	$0.22	4.01	March 4, 2018(ii)
225,000	225,000	$0.25	1.40	July 24, 2015
8,588,334	8,233,329			

Subsequent to February 28, 2014:

i) The Company granted 2,615,000 share purchase options to directors, officers and employees entitling them to purchase 2,615,000 shares at a price of $0.15 per share for a period of five years.

ii) Options were cancelled as follows:
- 100,000 exercisable at price of $0.495 per share to July 18, 2016
- 50,000 exercisable at a price of $0.28 per share to June 13, 2017
- 33,334 exercisable at a price of $0.22 per share to March 4, 2018

Warrants

a) Movements in warrants during the year

The changes in share warrants during the year ended February 28, 2014 and the year ended February 28, 2013 were as follows:

	Warrants outstanding	Weighted average exercise price
Balance, February 29, 2012	9,398,166	$0.50
Issued	11,239,372	$0.40
Exercised/Expired	(9,398,166)	$0.50
Balance, February 28, 2013	11,239,372	$0.40
Issued	**1,776,947**	**$0.25**
Cancelled/Expired	**(11,239,372)**	**$0.40**
Balance, February 28, 2014	**1,776,947**	**$0.25**

(Expressed in Canadian Dollars)

10. Share Capital and Reserves- continued

Warrants - continued

b) Warrants outstanding

A summary of the Company's warrants outstanding as at February 28, 2014 is as follows:

Number	Exercise price	Expiry Date
1,776,947	$0.25	July 22, 2015

Shareholder Rights Plan

The Company's board of directors approved the adoption of a Shareholder Rights Plan (the "Rights Plan"). Shareholder approval of the Rights Plan was obtained at the Company's annual general meeting of shareholders held on August 16, 2011. The Rights Plan has an initial term which expires at the annual general meeting of shareholders of the Company to be held in 2014, unless terminated earlier. The Rights Plan may be extended beyond 2014 by resolution of shareholders at such meeting. Under the terms of the Rights Plan, should a transaction or event occur, holders will be entitled to acquire common shares at a 50% discount to the market price. Certain persons or groups may be exempt from the dilutive effects of the Rights Plan. The Rights Plan has received the approval of the TSX Venture Exchange.

11. Income Taxes

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

		2014		2013
Loss for the year	$	(1,862,303)	$	(2,379,394)
Expected income tax (recovery)	$	(483,000)	$	(595,000)
Change in statutory rates, foreign tax and other		129,000		386,000
Permanent Difference		180,000		152,000
Share issue cost		(31,000)		(37,000)
Change in unrecognized deductible temporary differences		205,000		94,000
Total income tax expense (recovery)	**$**	**-**	**$**	**-**

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

		2014		2013
Deferred Tax Assets (liabilities)				
Exploration and evaluation assets	$	164,000	$	157,000
Property and equipment		88,000		78,000
Share issue costs		78,000		72,000
Allowable capital losses		71,000		68,000
Non-capital losses available for future period		1,427,000		1,052,000
		1,828,000		1,427,000
Unrecognized deferred tax assets		(1,828,000)		(1,427,000)
Net deferred tax assets	**$**	-	$	-

(Expressed in Canadian Dollars)

11. Income Taxes- continued

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

		2014		2013	Expiry Date Range
Temporary Differences					
Exploration and evaluation assets	**$**	**(9,979,000)**	$	(7,197,000)	No expiry date
Property and equipment		**332,000**		303,000	No expiry date
Share issue costs		**298,000**		290,000	2033 - 2036
Allowable capital losses		**273,000**		273,000	No expiry date
Non-capital losses available for future period		**15,398,000**		12,044,000	2015 – 2034

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

12. Related party transactions

Balances and transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below.

a) Related party transactions

Certain companies which have an officer and/or director or former officer and/or director in common or which have a partner who is an officer of the Company render services or are charged for certain services as follows:

	Nature of transactions
New Dimension Resources Ltd.	Administrative and salary recoveries
Mercator Minerals Ltd.	Administrative recoveries
Condire Investors LLC.	Consulting
North Arrow Minerals Inc.	Administrative recoveries
Grenville Strategic Royalty Corp. (formerly Troon Ventures Ltd.)	Administrative recoveries

The Company incurred the following transactions in the normal course of operations in connection with companies which have an officer and/or director in common.

	Note		**Year ended February 28, 2014**		Year ended February 28, 2013
Accounting fees		**$**	**-**	$	139
Administrative recoveries		**$**	**(22,652)**	$	(38,421)
Salary recoveries	**(i)**	**$**	**(211,210)**	$	(187,194)
Financing costs		**$**	**79,558**	$	-
Consulting		**$**	**44,441**	$	181,293

(i) The Company recovered salaries from companies with certain officers and directors in common. These amounts have been recorded against office, salaries and general expense.

(Expressed in Canadian Dollars)

12. Related party transactions- continued

b) Related party balances

The Company is owed the following amounts from related parties primarily for reimbursements of shared office costs:

	February 28, 2014	February 28, 2013
Mercator Minerals Ltd.	**$ 4,070**	$ 4,268
New Dimension Resources Ltd.	**7,844**	8,731
Grenville Strategic Royalty Corp.	**7,634**	144
North Arrow Minerals Inc.	**17,898**	50,138
Other	**174**	42,569
	$ 37,620	$ 105,850

c) Compensation of key management personnel

	Year ended February 28, 2014	Year ended February 28, 2013
Management fees, directors' fees, salaries	**$ 318,000**	$ 314,333
Share-based payments	**$ 314,210**	$ 378,009

- Share-based payments represent the expense for the years ended February 28, 2014 and February 28, 2013.
- Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended February 28, 2014 and February 28, 2013.

d) Employment contract

During the year ended February 28, 2013, the Company entered into employment agreements with certain senior employees and officers requiring minimum annual payments totalling $495,500. In addition, the agreements contain clauses which could provide for payments to be made to these employees or officers upon the conclusion of a change in control or similar transaction. On the event of such a transaction the Company could become liable for the payment of salaries of $1,181,000.

e) Consulting contract

During the year ended February 28, 2014, the Company entered into agreements with Condire Investors LLC. ("Condire"), a party related by a director, under which the Company paid Condire $44,441 for planning, advisory and due diligence services, financing costs of $79,558 and granted 225,000 stock options.

(Expressed in Canadian Dollars)

13. Segmented Information

The Company's business consists of mineral exploration and development. Details on geographic segments are as follows:

Total Assets		February 28, 2014		February 28, 2013
Canada	$	**877,030**	$	2,742,984
Mexico		**13,198,451**		10,686,084
Total	$	**14,075,481**	$	13,429,068

Total Non-current Assets		February 28, 2014		February 28, 2013
Canada	$	**39,926**	$	**49,029**
Mexico		**13,134,247**		**10,458,732**
Total	$	**13,174,173**	$	**10,507,761**

Net Loss		Year ended February 28, 2014		Year ended February 28, 2013
Canada	$	**1,687,858**	$	1,985,687
Mexico		**174,445**		393,707
Total	$	**1,862,303**	$	2,379,394

14. Commitment

As at February 28, 2014, the commitment for rental of the Company's office space is as follows:

Year ending		
February 28, 2015	$	269,771
February 29, 2016	$	247,290

The rental cost includes the basic monthly rent as well as a proportionate share of the building's operating costs and property taxes. The Company has sub-lease agreements which allow it to recover a portion of the minimum annual rental commitments.

15. Supplemental cash flow information

Changes in non-cash working capital:		**Year ended February 28, 2014**		Year ended, February 28, 2013
Increase in:				
Receivables and taxes receivable	$	**(38,078)**	$	(438,062)
Due from related parties		**68,230**		(15,209)
Prepaid expenses		**(7,695)**		18,432
Increase in:				
Accounts payable and accrued liabilities		**(18,999)**		32,170
	$	**3,458**	$	(402,669)

(Expressed in Canadian Dollars)

15. Supplemental cash flow information - continued

Schedule of non-cash investing and financing transactions:		**Year ended February 28, 2014**		Year ended February 28, 2013
Fair value of warrants issued	**$**	**-**	$	53,285
Change in exploration and evaluation assets included in accounts payable	**$**	**(59,440)**	$	196,414
Unrealized loss on short-term investments	**$**	**758**	$	2,779
Shares issued in acquisition of exploration and evaluation assets	**$**	**797,500**	$	54,000
Property and equipment acquisitions through due to vendor	**$**	**-**	$	487,300
Advances from joint venture partners allocated to exploration and evaluation assets	**$**	**-**	$	103,443

16. Subsequent event

Subsequent to February 28, 2014, the Company sold a 2.5% Net Smelter Royalty ("NSR") on the Company's La Cigarra Silver Project to Coeur Capital Inc., a company holding 19.4% of the Company's outstanding shares, for total proceeds of US$4,000,000. Under the terms of the agreement the Company received US$2,250,000 for an initial 1.25% NSR with a further US$1,750,000 to be paid for an additional 1.25%. A finders' fee to a maximum of US$80,000 is to be paid in connection with the closing of the transaction.