VVC Exploration Corporation

A Canadian Exploration and Mining Company

Annual Report

2012

Corporate Information

Directors:

James A. Culver
Michel J. Lafrance
Patrick Fernet, Chairman *
Robert Boisjoli *
Peter Dimmell *

** Members of the Audit Committee*

Officers:

James A. Culver
President & CEO

Patrick Fernet
Vice-President and Chairman

Michel J. Lafrance
Secretary-Treasurer

Kevin Barnes
Chief Financial Officer

Legal Consultants:

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Lavery de Billy (Montreal)

Stikeman Keeley Spiegel
Pasternack LLP (Toronto)

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Share Capital (as at June 14, 2012):

Authorized: unlimited
Issued: 63,300,396

Share listed:

TSX Venture Exchange - VVC
Frankfurt Stock Exchange - V7S

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Registrar and Transfer Agent:

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Annual Meeting of Shareholders:

The Annual General Meeting of VVC Exploration Corporation
will be held at 10:30 am (Dorval time) on Thursday, July 19, 2012
in the Marseille Room of the Best Western Montreal Aéroport
13000 Côte de Liesse, Dorval, Québec

To the Shareholders of VVC Exploration Corporation:

On behalf of the Board of Directors of VVC Exploration Corporation ("VVC" or the "Company"), I am pleased to present the Management Discussion and Analysis and the Financial Statements for the year ended January 31, 2012.

I have had the pleasure of serving as President and CEO of VVC Exploration Corporation for the last year. And yes most of it has been a pleasure, particularly work with the staff and directors of VVC and getting to know many of the Company's shareholders. However, it has also been a trying time for junior exploration companies like VVC.

Strategic Overview

A year ago I shared my vision of developing VVC into a significant junior exploration company focused on properties in the Sierra Madre in Northern Mexico. The strategy was to identify and develop projects that can quickly generate cash flow by choosing projects which can be brought into production quickly and less expensively. The generated cash flows could then be used to support full scale exploration and development of that and other properties. This is still VVC's strategy today, although the financial markets have not been very receptive to finance early stage gold explorers.

In spite of VVC's difficulty in raising funds, there has even been some exploration progress. We are certainly not where I had envisioned that we would be a year ago. The progress VVC has made is small compared to our goals, but those goals have not changed. For a junior company like VVC to succeed, first it must have a strategy, which VVC has, and second it must have a team that can implement that strategy, something we have worked hard to build over the last year, and finally it must have the financial resources to implement its strategy, something we are struggling to obtain.

Because VVC cannot currently afford a fulltime team, we have pulled together an amazingly talented group, who can and are willing to supplement the VVC Management Team, on an as needed basis, understanding that as the Company grows and has assets it will be able to better compensate them and support their work. I would like to highlight three members of that team. First, Andre St-Michel who has been involved with VVC for 3 years and is now taking more responsibility by managing VVC's subsidiary and its assets in Mexico and managing the overall exploration process for the Company. Dr. Michel Gauthier has recently agreed to serve as our Chief Geologist and will work with Andre St-Michel to develop the geological model and exploration strategy for each of the properties and implement them. And thirdly I would mention Jocelyn Pelletier whose geological field work has provided the basis for the work of Andre and Dr. Gauthier. Because of their expertise we have been able to make exploration progress in spite of extremely limited funds.

The financial support needed has been difficult to obtain during this last year. Raising money for exploration in junior companies has been nearly impossible. Thanks to the support of Palos Merchant Bank and Camex, VVC has survived in a year when many junior companies have not. Without the Camex loans and the Palos private placement support, survival for VVC would have been much more difficult. Currently, the Company is engaged in a private placement with the objective of acquiring enough funds to implement Phase 1 and Phase 2 of the proposed exploration plan for Cumeral and for working capital of the Company. I look forward to providing you with an update on that situation at our annual meeting on July 19, 2012.

While VVC has three interesting properties, we must focus our limited resources on the property that we think is our best opportunity. That property is the **Cumeral Property**.

The Cumeral Property is the Company's main focus and priority because of its location, ease of access and mineral potential. The Property is located on the well mineralized Sierra La Jojoba trend in North Central Sonora, Mexico. This area of Sonora is host to a number of other outstanding precious metals prospects, including La Herradura and Mesquite, two of the largest open pit gold mines in Mexico. Dr. Gauthier pointed out that the Property appears to have a very similar mineralization structure to La Herradura.

Additional grab sampling, and extensive soil sampling in conjunction with systematic mapping of the Property during 2011/2012 has built on the earlier exploration work, more than doubling the size of the known mineralized zone. We anticipate the completion of a NI 43-101 compliant technical report this month which will contain a proposed exploration plan and methodology. This plan includes further general prospecting in the unexplored parts of the property and a two phase drill program to be implemented as soon as funds are available.

Future Plans

Going forward, in addition to raising funds to implement the proposed exploration program of the Cumeral Property the Company will seek other targets of opportunity through joint ventures, acquisitions or other types of transactions which will allow the Company to grow the value of VVC Exploration Corporation for the benefit of shareholders. Our talented team of staff and advisors are focused on accomplishing that task.

Finally I would like to thank my fellow Board Members for their tireless and often thankless work during the last year. Especially I would like to single out Peter Dimmell for his support to the Board as a qualified person (QP) and Robert Boisjoli for audit and accounting expertise and support on the Board.

Sincerely

James A. Culver

James A. Culver, President & CEO

June 14th, 2012

✦ Mot du President

Aux Actionnaires de VVC Exploration Corporation:

Au nom du Conseil d'Administration de VVC Exploration Corporation ("VVC" ou la "Société"), je suis heureux de vous présenter le rapport de gestion et les états financiers pour l'année financière se terminant le 31 Janvier 2012.

J'ai eu le plaisir de servir en tant que Président et Chef de Direction de VVC au cours de la dernière année. Et oui, en grande partie, ce fut un plaisir, en particulier de travailler avec le personnel et les administrateurs de VVC et d'apprendre à connaître un grand nombre d'actionnaires de la Société. Toutefois, ce fut également une période difficile pour les sociétés d'exploration juniors telles que VVC.

Aperçu stratégique

L'an passé, j'ai partagé avec vous ma vision de développer VVC en une importante compagnie d'exploration junior axée sur des propriétés minières situées dans la région Sierra Madre au nord du Mexique. Cette stratégie consistait à identifier et développer des projets permettant de générer rapidement des revenus en choisissant des projets pouvant être mis en production rapidement et à moindre coût. Les revenus générés pourraient alors être utilisés pour soutenir une exploration plus intensive et le développement dudit projet, ainsi que d'autres propriétés. C'est toujours la stratégie de VVC, bien que les marchés financiers ne furent pas très réceptifs à financer des compagnies d'exploration en croissance.

Malgré le fait que VVC ait fait face à des difficultés, il y a quand même eu du progrès au niveau de l'exploration. Nous ne sommes certainement pas là où j'avais imaginé que nous serions il y a de cela un an. Les progrès de VVC furent modestes par rapport à nos objectifs, mais ces objectifs sont toujours en place. Pour la réussite d'une jeune entreprise telle que VVC, il est essentiel en premier lieu d'avoir une stratégie, ce que nous avons mise en place, et deuxièmement, elle doit avoir une équipe pouvant mettre en œuvre cette stratégie, ce que nous avons travaillé avec acharnement à construire au cours de la dernière année, et enfin elle doit avoir les ressources financières lui permettant la réalisation de sa stratégie, ce que nous tentons d'obtenir.

Puisque VVC ne peut pas actuellement se permettre une équipe à plein temps, nous avons réuni un groupe incroyablement talentueux de gens qui peuvent, et sont prêts à, compléter l'équipe de gestion de VVC selon les besoins, en comprenant bien qu'au fur et à mesure que la Société se développera et accumulera des actifs, elle sera en mesure de mieux les rémunérer et de leur procurer du travail. Je voudrais souligner trois membres de cette équipe. Tout d'abord, André St-Michel qui a été impliqué avec VVC depuis 3 ans et va continuer de prendre plus de responsabilités en tant que gérant de la filiale de VVC et de ses actifs au Mexique, en plus de voir à l'ensemble de la gestion du processus d'exploration de la Société. Dr. Michel Gauthier qui a récemment accepté de servir en tant que Géologue en Chef et travaillera de concert avec André St-Michel à développer le modèle géologique et la stratégie d'exploration pour chacune de nos propriétés et à les mettre en œuvre. Et troisièmement, je voudrais mentionner Jocelyn Pelletier dont le travail géologique sur le terrain a fourni la base et le fondement pour le travail d'André et de Dr. Gauthier. Grâce à leurs expertises, nous avons été en mesure de faire des progrès significatifs au niveau de l'exploration en dépit des fonds très limités dont nous disposions.

L'obtention du soutien financier nécessaire au cours de la dernière année fut très difficile à obtenir. Lever des fonds aux fins de l'exploration pour les sociétés juniors a été pratiquement impossible. Grâce à l'appui et au soutien de Palos Merchant Bank et de Camex, VVC a survécu au cours d'une année où de nombreuses compagnies juniors n'ont malheureusement pas réussi à en faire autant. Sans les prêts de Camex et le soutien de Palos dans le placement privé, la survie de VVC aurait été beaucoup plus difficile. Actuellement, la Société fait un placement privé avec l'objectif de lever suffisamment de fonds pour mettre en œuvre la phase 1 et la phase 2 du plan d'exploration proposé pour son projet Cumeral et pour le fonds de roulement de la Société. Je suis impatient de vous fournir une mise à jour à ce sujet lors de notre assemblée annuelle qui sera tenue le 19 Juillet 2012.

Pendant que VVC a trois propriétés intéressantes, nous devons concentrer nos ressources limitées sur la propriété que nous croyons avoir le meilleur potentiel. Cette propriété est la propriété Cumeral.

La propriété Cumeral est le principal objectif et priorité de la Société en raison de son emplacement, sa facilité d'accès et son potentiel minéral. La propriété est située dans la zone minéralisée de Sierra La Jojoba situé au Centre-Nord de l'état de Sonora, au Mexique. Cette région de Sonora est l'hôte d'un certain nombre d'autres projets exceptionnels de métaux précieux, y compris La Herradura et Mesquite, deux des plus grosses mines d'or à ciel ouvert du Mexique. Le Dr. Gauthier a souligné que notre propriété semblait avoir une structure minéralisée très semblable et comparable à celle de La Herradura.

L'échantillonnage de surface supplémentaire, et l'échantillonnage extensif du sol, en conjonction avec la cartographie systématique de la propriété effectués au cours des années 2011 et 2012 s'est appuyé sur les travaux d'exploration réalisés précédemment, ce qui a permis de plus que doubler la taille de la zone minéralisée connue. Nous prévoyons la finalisation d'un rapport technique conforme à la Norme Canadienne 43-101 d'ici la fin du mois, qui établira un plan d'exploration et sa méthodologie. Ce plan comprendra en outre la prospection générale pour les parties inexplorées de la propriété et un programme de forage en deux phases à être mis en œuvre dès que les ressources financières seront disponibles.

Plans d'avenir

Pour l'avenir, en plus de compléter un financement afin de mettre en œuvre le programme d'exploration proposé pour la propriété Cumeral, la Société sera à la recherche d'autres opportunité par le biais de coentreprises, d'acquisitions ou d'autres genres de transactions permettant d'accroître la valeur de la Société, et ce pour le bénéfice de ses actionnaires. Notre talentueuse équipe de personnel et ses conseillers sont dédiés à la réalisation de cette tâche.

Finalement, je tiens à remercier mes collègues du Conseil d'Administration pour leur travail inlassable et souvent ingrat au cours de la dernière année. En particulier, je tiens à souligner l'apport de Peter Dimmell pour son soutien au Conseil en tant que personne qualifiée (QP) et Robert Boisjoli pour son expertise en comptabilité et en vérification ainsi que de son soutien au Conseil d'Administration.

Au nom du Conseil d'Administration

James A. Culver

James A. Culver, Président & Chef de Direction

14 Juin, 2012

The Company's mineral properties, which include recently optioned properties in Mexico, are described below. The technical aspects contained herein were reviewed by Peter Dimmell, P.Geo. (NL, ON), a director of the Company, who is a Qualified Person (QP) as defined in National Instrument 43-101. The QP has visited the Cumeral Property in Mexico, but has not visited the La Tuna Property in Mexico, nor the Timmins Twp. Property in Canada. The technical information, on those properties not visited by the QP, is derived from reports and data on those properties, which is believed to be correct.

Mexico

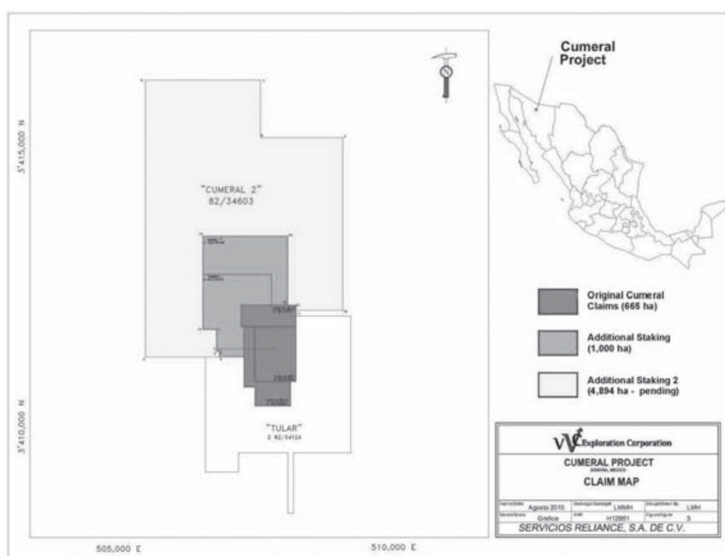
Cumeral Property

1. Property and Ownership

The Cumeral Gold Property covers 6,649 hectares (ha) in the State of Sonora, Mexico consisting of 3 optioned mining concessions totalling 665 ha and two adjoining staked areas (5,984 ha). The Property is located in the municipality of Imuris, approximately 200 kilometres to the north of the city of Hermosillo. Road access, by a network of gravel road from the main paved highway, is excellent. Travel time is approximately 30 minutes from the nearest small town, Imuris, where all necessary services and infrastructure are available. The Cumeral Property is located approximately 140 kilometres south of Tucson, Arizona by Highway 15 which runs from the United States border to the city of Hermosillo. Rail access parallels Highway 15 between the border city of Nogales and Hermosillo.

In 2010, the Company finalized a formal agreement with two Mexican individuals (the "Vendors") for the Cumeral Property. Through Company's wholly-owned Mexican subsidiary, VVC Mexico SA ("VVC Mexico"), the Company has the option to acquire a 100% interest in the original 665 ha Cumeral Property. VVC originally signed a letter of assignment with Invesmin San Miguel S de RL de CV ("ISM"). ISM subsequently withdrew from the letter of assignment to permit VVC Mexico SA to negotiate directly with the Vendors. Under the finalized option agreement, VVC will pay a total of US$800,000 to the private individuals, of which US$250,000 has been paid. The remaining US$550,000 will be paid over 5 payments before October 15, 2012. The private individuals will retain a 1% Net Smelter Royalty ("NSR"). ISM will retain a 1% NSR and have received 200,000 common shares of VVC (issued). A third, arm's length party, received a finder's fee of 130,000 common shares of VVC (issued).

VVC Mexico, through an intermediary, acquired from the Ministry of Mines, two (2) additional concessions covering 1,000 ha adjoining the Property on the northwest and one (1) further adjoining concession covering an additional 4,984 ha. The recently staked concessions are 100% owned by VVC and are not subject to the Option Agreement covering the original 665 ha.



The Cumeral Property is located in the Sierra Madre Occidental which is characterized by long narrow mountainous areas of moderate relief, limited by the extensive semi-desert to desert plains of the Sonoran Desert at approximately 900 m elevation above sea level (asl). The Property topography is moderate consisting of hills with elevations ranging from 900 to 1,100 metres asl. The average yearly temperature is about 17 degrees Celsius ranging from minus 3 in January to as much as 40 degrees Celsius in July. Annual precipitation averages 480 mm with a summer rainy season and occasional snow in the winter. Cattle ranching is prevalent. Fauna includes squirrels, rabbits, hares, coyotes, wild boars, rats, badgers, foxes, skunks, hawks, falcons and quail. Vegetation includes many species of cactus, including saguaro vinoramam, white wood and mesquite. There are no known environmental issues or endangered species in the area.

2. Geology and Mineralization

The Property is located in the geological provinces of the Sonora Plains and the Sierra Madre Occidental. The geological setting is late Jurassic metamorphic units, formerly sedimentary to volcanic units, cut by granites in the eastern part of the Property. Specifically, the Property is underlain by interbedded muscovite-biotite schists, formerly rhyodacitic units, of Jurassic age with quartz diorite dikes also noted.

The structural fabric is dominated by northwest striking, dextral, wrench fault systems with associated sinistral shears and normal faults, a structural regime favourable for dilational structural zones conducive to the emplacement of large, epithermal gold mineralized systems. The fracture systems, which appear to control the mineralization on the Property, trend northwest and dip at 85 degrees to the southeast. Dominant structures correspond to faults and fractures which intersect, reflecting different tectonic episodes. Low-angle reverse and normal faults trend mainly northeast-southwest and north-south, and are cut by a third group of northwest-southeast structures which are the strongest and are caused by the late, major tectonic features.

The Property is located along the well mineralized "Sierra La Jojoba" trend which is host to numerous other prospects and small mines, including the Mina Lluvia de Oro and Mina La Jojoba deposits located about 15 kilometres to the southwest. The Cumeral mineralized zone can be traced along strike for 3 kilometres over widths of up to 1 kilometre with the zone open along strike to both the northwest and southeast. Sericite-illite alteration, quartz vein stockworks and abundant iron oxides are noted, with the alteration related to both low and high angle structures. Mineralization, mainly gold and silver, is associated with structures such as quartz stockworks with abundant iron oxide (hematite) hosted in Jurassic age metavolcanic, muscovite-biotite schists. Sub-horizontal mineralized quartz veinlets are generally parallel to bedding. Alteration controls are the schistose foliation as well as low to high angle structures. Visible gold has been panned from the altered zone. A mafic dyke, associated with a north trending vein system in one of the exploration target areas (Area A) also has strong copper mineralization as chalcocite, chalcopyrite, malachite and azurite with significant gold and silver values.

3. Mining in Sonora

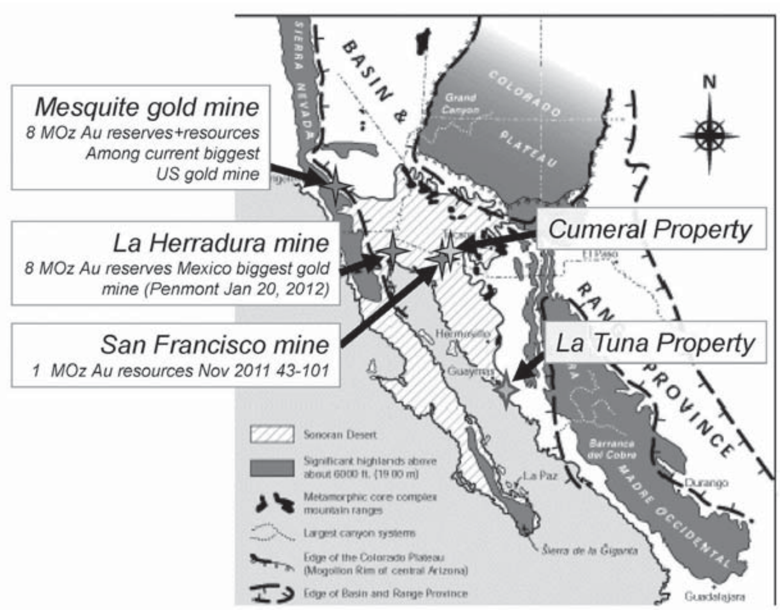
Sonora has a long history of mining back to Spanish colonial times. Over the past 20 years, the region has benefited from significant exploration for gold including for "Carlin-style" sediment hosted deposits resulting in the definition and development of several deposits and mines.

Carlin-style mineralization typically occurs as shallow systems where lower grade gold occurs finely disseminated in carbonaceous, limey siltstones and altered limestone at depths of 150-200 metres, with deeper, higher-grade sulphide-gold mineralization commonly occurring at depths below 300 metres. Based on publicly disclosed information to date, gold exploration in Sonora is still defining the shallower systems and has yet to fully explore the mineralized potential at depth.

4. Historical Exploration

The Property has been mined by artisanal miners (gambusinos) using shallow pits, shafts and short adits which were dug in areas A, B, C, and D with most of the work concentrated on three / four shallow shafts in Area B. The rock was blasted, sorted and and carried out by hand to an arrastre (an artisinal grinding method) away from the Property where it was ground (milled) and the free gold recovered by panning. No historical data on the artisanal production (grades/tonnages) is known.

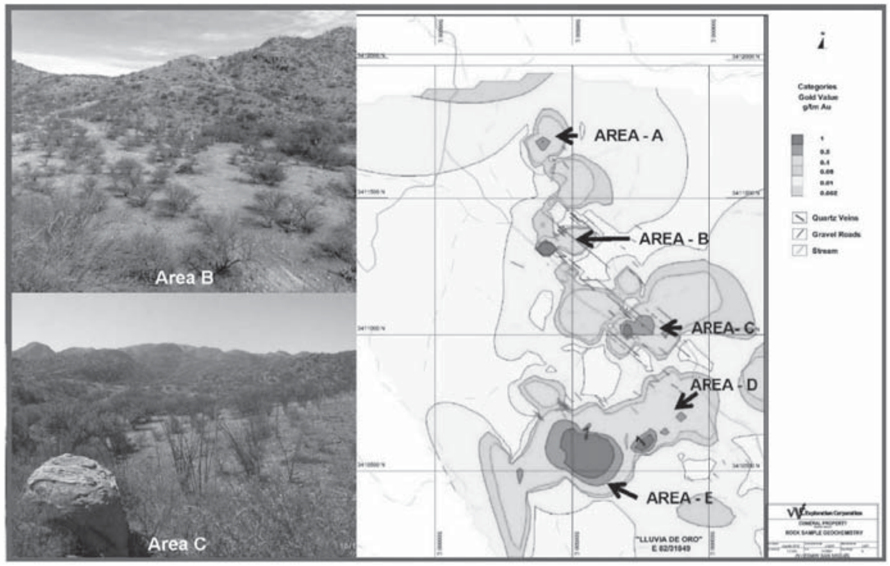
In 2008, Corex Gold Corp. ("Corex") optioned the Cumeral Property and completed a sampling program. Corex's sampling included panning gold from the old workings and from an outcrop within the Tularcito altered zone. They collected 219 rock chip surface samples over an approximate 8 kilometres by 13 kilometre area with the majority of sampling concentrated on the 1.5 kilometre by 4 kilometre, Tularcito zone. Samples taken across the structural controls and foliation gave values up to 39.5 g/T gold and 29.2 g/T silver over widths of up to 1.5 metres. Corex noted that surface colour anomalies (red oxidation) could be a useful guide for mineralization and alteration. Corex spent approximately $150,000 on the



Successful Projects Nearby Cumeral

acquisition and exploration on the Cumeral Property. No reverse circulation or diamond drilling was carried out. Corex apparently terminated its Cumeral option agreement to focus limited cash resources on a more advanced property.

5. Exploration by VVC



VVC has spent over US $625,000 on the acquisition and exploration of the Cumeral Property, having completed a payment of US $150,000 on March 15.

Exploration has included geological mapping, prospecting and rock chip sampling (89 samples) over a 120 hectare area in the vicinity of the old pits and shallow shafts (Tularcito area). Four due diligence grab samples returned gold values of 0.03, 3.4, 3.5 and 6.03 g/T and the regional sampling gave values as high as 12.65 g/T, defining five areas of gold/silver mineralization (Areas A to E) associated with alteration (sericite and quartz veining) with associated pyrite and hematite, trending in a northwest-southeast direction. The host units are heavily oxidized quartz sericite to biotite/muscovite schists. The Company also completed 28 air track drill holes totalling 572 metres with 15 holes in Area B and 13 holes in Area C.

Area B, the main area of the artisanal workings, covers an area of 155 by 180 metres. Air track drilling returned values as high as 1.45 g/T gold and 6.74 g/T silver over 14 metres including 4.19 g/T gold over 4 metres. Other values varied from insignificant to 0.42 g/T gold and 14.56 g/T silver over 10 metres. Eight of the holes returned values of 0.1 to 0.4 g/T gold and 1 to 4 g/T silver over widths varying from 4 to 22 metres. Air track drilling on Area C which covered an area of 115 by 200 metres, also gave significant values including 0.44 g/T gold and 0.48 g/T silver over 10 metres, and 0.21 g/T gold and 0.53 g/T silver over widths varying from 6 to 26 metres. Area A which covers an area of 80 by 300 metres, in the northern part of the Property, consists of quartz veins / veinlets carrying minor malachite and azurite. The north copper vein along the contact of a mafic dyke, gave a value of 2.2 g/T gold and 493 g/T silver and 3.73 percent copper from one grab sample. Area D which covers an area of 100 by 270 metres and Area E which covers 140 by 200 metres, located in the southern part of the Cumeral Property, also show good potential.

In 2011/12, exploration, including geological mapping and rock chip sampling and soil geochemistry was carried out by independent geological consultants, with a National Instrument 43-101 report on the property being prepared by Michel Boily, PhD, P.Geo. (News release June 12/12) The NI 43-101 report will be released when completed. Combined results from the 2010-2012 mapping/rock sampling programs show high gold values (i.e 0.5 to > 10 g/t) in hematized and pyritized quartz veins/veinlets associated with mylonitized, gently eastward-dipping, low-angle (20º to 40º) faults. Geological mapping in the southern segment of the property has defined at least ten gold-mineralized structures generally confined to areas tested by the air track drilling program of 2010 (News release dated September 21, 2010).

A soil geochemical survey carried out to the north of the area covered by the detailed mapping and rock sampling program gave three anomalous areas with values of >50 ppb Au defined within zones characterized by a paucity of outcrops or in unmapped regions (News release June 12/12). The soil geochemistry, in conjunction with gold analyses from rock and soil samples taken from 2010 to 2012, gives a general NNW-SSE trend of elevated values extending for 4 km remaining open to the north and south along trend. Preliminary mapping to the west and north of the mineralized zones suggests a similar tectonic / geologic environment with the potential for significant gold-mineralized areas of similar quartz/pyrite/hematite veins.

Rock and soil samples were sent to the ALS Chemex laboratories in Chihuahua, Zacatecas or Hermosillo, Mexico. All Au analyses were by Fire Assay with a gravimetric finish. All other assays were performed by ICP-AES or AAS methods. Samples with ore grade values (>100 ppm Ag, >10,000 ppm Cu) were re-analyzed by ICP-AES or AAS. Gold values in soil samples (at least 25g) were determined by ICP-MS following digestion in Aqua Regia. A compilation map showing the soil geochemical anomalies and gold mineralization is filed on SEDAR as part of the June 12, 2012 news release and is also shown on the VVC website http://www.vvcexpl.com/news-releases/2012.html.

6. Proposed Program and Budget

Exploration on the Cumeral Property has defined a number of mineralized zones along a 4 km trend which remain open along trend to the north and south. The zones areas carry gold/silver mineralization, or soil geochemistry indicating the potential for significant gold/silver mineralization, with the potential for significant deposits in the 500,000 to 1 million ounce size, like others already discovered in the area (ie La Herradura, San Francisco). The company is planning follow up exploration including prospecting, continued geological mapping and a diamond drilling program. The budget for, and timing of this work will be announced as plans progress.

La Tuna Property

Last year, VVC Mexico acquired a 100% interest in a 3,533-hectare gold prospective Property known as La Tuna and located in the Municipality of Alamos, State of Sinaloa, at the junction of The Rio Fuerte and The Rio Baboyahui for US$40,000 plus applicable taxes and 300,000 shares of the Company, subject to a 2% NSR Royalty (the "NSR'') with a buy-back option.

The La Tuna Property has gold potential in paleo placers, present day placers derived from the paleo placers and vein type deposits such as the La Perdida deposit. The river placer deposit and the paleo-placer zone are located mainly along the Rio Baboyahui near the river junction extending to the Rio Fuerte, over an area of approximately 500 by 500 meters. The paleo-placer zone carries gold associated with magnetite (from black sand) which may allow definition of the paleo channels by magnetic surveys. Limited historical sampling in the period from 1987-91 by an Australian company, in a "drift" in a paleo placer channel gave grades ranging from 1 to 3 g/m³ Au. Historical data (non 43-101 compliant), from 1994 from a Mexican engineer, Alberto J. Terrones Langone, indicated that the area deposit however since it is a hard rock deposit it should be sampled using channel, chip or drill core samples, not bulk samples in cubic metres, which has little relevance in a hard rock deposit.

The La Perdida vein deposit, which averages 2.75 m in width, is located in the north-west part of the property with the structure hosting the deposit, trending north-west and dipping 25 degrees to the south-east. The deposit has not operated since the 1940's however historical results from 4 grab samples taken in 1991 by an Australian company, are: portal area - 12.49 g/t; ore zone- 3.29 and 16.23 g/t; and development muck - 11 .24 g/t.

No work has been carried out by WC since acquiring this property and the results described above are not 43-101 compliant, have not been subject to due diligence sampling and should be treated with caution. VVC may sell or option this property to a 3rd party if circumstances permit. In order to assess the potential of the Property, a National Instrument 43-101 Geological Report will be commissioned..

Canada

Timmins Township Property- Ontario

The Timmins Township Property is a single, nine-unit, unpatented claim, located in the centre of Timmins Township about 48 km (30 mi) east-southeast of the City of Timmins. It was staked by the Company as it was deemed to be a prime target for base metal exploration. Access is provided via the Gibson Lake Road and tertiary bush roads approximately 35 km (22 mi) south from the junction of the Gibson Lake Road and Highway 101. The Property covers a northwest trending zone of strong airborne electromagnetic responses within a complex magnetic system. An initial program comprising line cutting and detailed geophysical surveys was carried out in 2008. The surveys were evaluated by a qualified geophysicist who concluded that the results of the survey are encouraging with drill targets identified. A property visit was carried out by geologists Mel Rennick (P.Geo.) and Michel Lafrance in August 2008. At the present time, given the emphasis on gold and silver projects in Mexico, follow-up work is being deferred.

This Management's Discussion and Analysis ("MD&A") of the Company for the year ended January 31, 2012 (the "Year") was prepared on May 30, 2012 and should be read in conjunction with the Company's January 31, 2012 audited consolidated financial statements and related notes, prepared in accordance with international financial reporting standards ("IFRS"). All financial information disclosed in this report was prepared in accordance with IFRS unless otherwise disclosed. In this report, "GAAP" means Canadian Generally Accepted Accounting Principles.

All amounts herein are expressed in Canadian dollars unless otherwise indicated. The technical information in the MD&A has been approved by Peter Dimmell, P.Geo., a mineral exploration consultant and a director of VVC, who is a qualified person (QP) in both Newfoundland and Labrador and Ontario.

FORWARD LOOKING INFORMATION

This MD&A includes forward-looking statements that are subject to risks and uncertainties and other factors that may cause the actual results, performance or achievements expressed or implied by such forward-looking statements. Such factors include general economic and business conditions, which among other things, affect the price of metals, the foreign exchange rate, the ability of the Company to implement its business strategy, and changes in, or the failure to comply with government laws, regulations and guidelines. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information relating to the Company can be obtained from its News Releases and other public documents at the SEDAR website <www.sedar.com>.

BUSINESS OVERVIEW

The Company is a venture issuer reporting in Ontario, British Columbia, Alberta and Quebec. The Company's common shares trade on the TSX Venture Exchange under the symbol "VVC" and on the Frankfurt Stock Exchange and the Berlin Stock Exchange under the symbol "V7S".

The Company is in the business of acquisition and exploration of resource properties in the mineral sector. The Company's principal business activity is the exploration and development of gold and base metal mineral properties both nationally and internationally.

Mexico

a) Cumeral Property

In April 2010, VVC Exploración de México, S. de R.L. de C.V.("VVC Mexico") finalized a formal option agreement with 2 Mexican individuals (the "Optionee") relating to a 665-hectare (ha) gold mining project known as Cumeral (the "Cumeral Property") consisting of 3 mining concessions, in the State of Sonora, Mexico. VVC Mexico, through an intermediary, acquired from the Ministry of Mines, 3 additional concessions covering 5,984 ha, for a total property size of 6,649 ha. The recently staked concessions are 100% owned by VVC and are not subject to the Option Agreement. The Cumeral Property is located approximately 140 kilometres south of the City of Tucson, Arizona and 200 kilometres north of the City of Hermosillo. A network of gravel roads and paved highways provide excellent year round access.

The Agreement provides an option to acquire a 100% interest in the Cumeral Property in consideration for US$800,000 plus applicable taxes ("VAT") payable over a period of three years and the issuance of 200,000 common shares of the Company. The Cumeral Property is subject to the reservation of a 2% Net Smelter Return. A finder's fee of US$5,000 and 130,000 shares of the Company were paid to 3rd parties who were instrumental in arranging the transaction.

Located in the under-explored Sierra Madre Occidental along the well mineralized "Sierra La Jojoba" trend, the Cumeral Property is located approximately 15 km northeast of the Mina Lluvia de Oro and Mina La Jojoba deposits which host over 26 million tonnes of measured, indicated and inferred resources grading 0.525 to 0.741 g/T gold (over 500,000 ounces of gold). This area of Sonora is host to numerous other gold deposits and mines, including

Fresnillo PLC's & Newmont Mining Company's La Herradura Gold Mine which in 2009 produced over 255,000 ounces of gold and has proven and probable reserves of 193 million tonnes grading 0.65 g/T gold (4.1 million ounces). Other deposits in the area, include the San Francisco (780,000 ounces of gold reserves) and La Colorada (605,000 ounces of measured and indicated gold resources).

Sonora State has benefited from a recent increase in exploration for Carlin-style mineralization. This mineralization typically occurs as shallow systems where lower grade gold in oxidized zones occurs in sedimentary rocks to depths of 150 to 200 metres. Higher grade, sulphide-gold mineralization commonly occurs at depths typically below 300 metres. Gold exploration in Sonora is still defining the shallower systems and has yet to fully explore the mineralized potential at depth.

The Company believes that the potential of the Cumeral Property has yet to be fully explored, both near surface and at depth. Mineralization in the Cumeral Property can be traced along strike for 3 km over widths of up to 1 km. Five mineralized targets (A to E) have been defined by past and current exploration and artisanal mining. Grab sample grades of up to 39.5 g/T gold have been noted.

Exploration, which has included geological mapping, prospecting and rock chip sampling, has defined five mineralized areas, with two zones tested by an air trac drilling program. Eighty-nine (89) rock samples outlined the five mineralized areas (A to E) giving results up to 12.65 g/T Au and 493 g/T Ag (news releases dated July 22, 2010 and September 27, 2010).

The air trac drilling program in July, 2010 tested zones B and C in the central portion of the property. In Area B, the main zone, where most of the artisanal workings – pits, short adits and shallow shafts are located, 15 holes (#'s 1 to 15) gave a number of anomalous intersections including a high value of 1.45 g/T Au and 6.74 g/T Ag over 14 m, including 4.19 g/T over 4 m, in CUM01-10 with other values varying from insignificant to 0.42 g/T Au and 14.56 g/T Ag over 10 m in CUM13-10. Eight of the 15 holes gave significant intersections between 0.1 g/T and 0.4 g/T Au with 1 to 4 g/T Ag over widths varying from 4 to 22 m. In Area C, in the central part of the Property, 13 holes (#'s 16-28), gave 4 significant intersections in holes 14,18, 23 and 24 with a high value of 0.44 g/t Au, and 0.48 g/t Ag over 10 m in hole CUM18-10. The other significant intersections had values of 0.21 g/t Au and 0.53 g/T Ag over widths varying from 6 to 26 m.

The Company has carried out an exploration program on its Cumeral Property in Mexico, consisting of prospecting, rock and soil sampling and geological mapping. The results are being compiled and evaluated by our geological team and a independent consultant who will recommend and propose the next phase of exploration. Part of this work will include a 43-101 technical report which will be released when completed.

The Company expects to do carry-out systematic exploration in 2012, including drilling, in all prospective areas. Based on the geological setting and known deposits in the area, it is believed that the Cumeral Property has the potential to host significant deposits in the 500,000 to 1 million ounce range. Prospecting will be carried out on northwesterly strike extensions of the mineralized zones, including the adjoining concessions along trend to the northwest.

b) La Tuna Property

In March 2010, the Company acquired a 3,533 ha gold project known as La Tuna (the "Property") located in the Municipality of Alamos, Sinaloa State, Mexico, at the junction of the Rio Fuerte and Rio Baboyahui rivers.

Pursuant to the agreement, VVC's Mexican subsidiary acquired a 100% interest in the Property in consideration of a payment of US$40,000 plus applicable taxes and 300,000 common shares of the Company. The Property is subject to a 2% NSR Royalty (the "NSR") derived from mineral production, with a buy-back option.

The Property has gold potential in paleo placers, present day placers derived from the paleo placers and vein type deposits such as the La Perdida deposit. The river placer deposit and the paleo-placer zones are located mainly along the Rio Baboyahui near the river junction extending to the Rio Fuerte, an area of approximately 500 by 500 meters. The paleo-placer zone carries gold associated with magnetite (from black sand) which may allow definition of the paleo-channels by magnetic surveys. Limited historical sampling in the period from 1987-91 in a "drift" in the paleo-placer mineralization gave a grade of 1 to 3 g/m^3 Au in one of these paleo channels. Historical data (non 43-101 compliant) from 1994 indicates that the area contains 3.7 million m^3 at 2 g/m^3, equivalent to approximately 200,000 ounces of gold. It should be noted that the "paleo placer" was sampled as a placer deposit and since it is a hard rock deposit it should be sampled by weight using channel, chip or core samples not bulk samples of cubic metres, which has little relevance in a hard rock deposit. Accordingly, the results noted above should be treated with caution.

The La Perdida deposit is located in the north-west part of the property. The structure which hosts the deposit, trends north-west and dips 25 degrees to the south-east. Historical results from 4 grab samples taken in 1991 gave values from 3.29 g/t to 16.23 g/t Au, with three of the samples grading more than 10 g/t Au. The samples were taken from the portal (12.49 g/t), from the ore zone within the deposit (3.29 and 16.23 g/t) and from development muck (11.24 g/t).

Canada

c) Timmins area properties (Ontario)

In fiscal 2007, the Company entered into property option agreements to acquire a 100% interest in a number of exploration properties in the Timmins area (covering an aggregate of 82 claim units), located about 80km east southeast of Timmins, in the Abitibi Greenstone Belt of Northern Ontario. The agreements provided for the issuance of an aggregate of 600,000 common shares of the Company which were issued on October 19, 2007 at a value of $144,000. In fiscal 2008, the Company staked an additional 16 claim units in Blackstock Township and 9 claim units in Timmins Township of Ontario, located about 50 km southeast of Timmins, also located in the Abitibi Greenstone Belt of Northern Ontario. The Blackstock Township claims were allowed to expire in 2009.

Currently the only claims remaining are those comprising the Timmins Township Property. This Property, located in the centre of Timmins Township approximately 48 kilometres (30 miles) east-southeast of the City of Timmins is deemed to be a prime base metals exploration target. It covers a northwest trending zone of strong airborne electromagnetic responses within a complex magnetic system. An initial program comprising line cutting and detailed geophysical surveys including magnetic, VLF and HLEM electromagnetic surveys was completed with 2 drill targets identified. The encouraging results on the Timmins Township property justifies further exploration, however no further work was carried out since the Company is focused on opportunities considered more economically viable in Mexico.

Due to the lack of follow-up exploration on the Timmins Township Property, it was written down to a minimal value although the Company still retains title to the Property. The Company is currently exploring the possibility of optioning a large interest in the Property to a third party, with a requirement to test drill the targets on the Property within a year. This would save the Company the cost of drilling and allow it to focus its efforts on the Mexican properties, while maintaining a small interest in the Property

SELECTED ANNUAL INFORMATION

Set forth below is a summary of the financial data derived from the Company's consolidated financial statements for the past 3 years (CAD$).

	2010 (GAAP)	2011 (IFRS)	2012 (IFRS)
Revenue	$ -	$ -	$ -
Net loss for the year	**(2,716,253)**	**(3,192,393)**	**(973,306)**
Total assets	**3,804,122**	**902,029**	**1,058,338**
Mineral exploration properties written off	**12,418**	**1,733,327**	**-**
Stock-based compensation	**196,915**	**143,869**	**204,610**

RESULTS OF OPERATIONS – THREE MONTHS

Operating loss for the three months ended January 31, 2012 was $426,889 as compared to a loss of $2,592,566 over the same period in 2011. The major expense categories were consistent from 2011 to 2012. The significant contributors to difference from 2011 to 2012 were: $1,733,327 write down of mineral properties and $675,000 write down of short-term investments in 2011. While the Company did not write down any mineral properties and investments in 2012, the Company did, however, write down $213,163 of IVA receivable in 2012. Due to the long waiting period for collecting this IVA receivable from the Government of Mexico, the Company felt that it would be reasonable not to carry this receivable beyond two years. It will, however, continue to pursue the collection of these funds from the Mexican Government. Overall, the Company's burn rate was consistent with that of the three months ended January 31, 2011.

Non-cash stock based compensation increased by $44,785 over 2011 due to the granting of 2,250,000 stock options in 2012 versus 200,000 in 2011.

RESULTS OF OPERATIONS – TWELVE MONTHS

Operating loss for the year ended January 31, 2012 was $973,306 as compared to a loss of $3,192,393 in 2011. The activity in the three months discussed above was consistent with the activity over the year ended January 31, 2012 compared to January 31, 2011. 2012 saw major expense categories such as investor relations, management and consulting, stock-based compensation and professional fees change quite significantly compared to 2011. Increases in one expense category were, however, off-set by decreases in another. Excluding stock-based compensation, the Company was able to reduce its burn rate for the year ended January 31, 2012 from $852,880 to $672,577, a reduction of $180,303.

The big changes over 2011 were in management and consulting fees and investor relations. Management and consulting fees increased from $239,123 in 2011 to $298,114 in 2012. This represents an increase of $58,991 or 25%. The increase in consulting fees was a result of restructuring the Company over the last twelve months, in addition, termination packages were paid out to former executives of the Company. Over the next twelve months, VVC will experience a marginal increase in management and consulting fees which will be compensated by the significant savings it will obtain from the decrease in investor relations expense.

As an off-set to the increase in management and consulting fees, investor relations went from $234,487 in 2011 to $105,773 in 2012, a reduction of $128,714 or 55%. In restructuring the Company, management felt that the Company's investor relations expense was not providing value for the amount that was being paid. In addition, the Company needed more energy directed to its core business of mineral exploration. Success in mineral exploration activities will naturally drive the success in shareholder value. A significant amount of investor relations activity is now being handled internally. Over the next twelve months, VVC will experience a marginal increase in management and consulting fees which will be compensated by the significant savings it will obtain from the decrease in investor relations expense

Other cash expenses such as professional fees and office expenses saw combined reductions approximating $65,012. With no longer committing so much of its efforts to investor relations activities, the Company is able to obtain cost reductions in other areas. Many of these expenses were directly linked to investor relations as ancillary costs to the delivery of those services.

The Company issued 2,250,000 stock options in 2012 with an average vesting period of 6.9 years. These new stock options contributed to the stock based compensation expense of $204,610, an increase of $60,741 over 2011. Stock options are an important incentive in hiring and retaining qualified people. The Company may issue stock options in the future, which will result in an increase in this expense on a go forward basis.

The Company continues to sell its investments to cover its operating expenses. In 2011, the Company had a gain of $218,114 versus a gain of $118,031 in 2012.

As discussed in the three month activity, the Company significant contributors to difference from 2011 to 2012 were: $1,733,327 write down of mineral properties and $675,000 write down of short term investments in 2011. While the Company did not write down any mineral properties and investments in 2012, the Company did, however, write down $213,163 of IVA receivable in 2012. Although the receivable was written down to nil, the Company will continue to pursue the collection of these funds from the Mexican Government.

Summary of Quarterly Results

Set forth below is a summary of the financial data derived from the Company's consolidated financial statements of the 8 most recently completed quarters.

	Jan 31/12	Oct 31/11	Jul 31/11	Apr 30/11	Jan 31/11	Oct 31/10	Jul 31/10	Apr 30/10
Operating Costs	249,314	236,185	212,373	179,315	328,157	187,266	242,577	238,749
Interest and investment Income	-	-	-	-	-	-	-	-
Mineral exploration properties written off	-	-	-	-	1,733,327	-	-	-
Foreign exchange	-	-	-	-	5,431	-	-	-
Write-down of investment	-	-	-	-	675,000	-	-	-
Write-down of accounts receivables	213,163	-	-	-	-	-	-	-
Gain (loss) on sale of investments	36,575	-	33,209	48,247	144,418	21,704	26,712	25,280
Net (loss)	(426,889)	(236,185)	(179,164)	(131,068)	(2,597,497)	(165,562)	(215,865)	(213,469)

MATERIAL EVENTS OVER THE EIGHT MOST RECENT QUARTERS

Over the last eight quarters, the Company experienced a number of extraordinary losses that resulted in the Company's losses being magnified. These extraordinary items included the investment loss in Q4 2011 relating to the write down of its investments.

In an effort to focus its energy on high potential exploration projects, the Company wrote off many of its exploration properties in Q4 2011 and is now in a position to dedicate its financial and operational resources to the Cumeral and La Tuna properties in Mexico.

In Q4 2012, the Company wrote off $213,163 of IVA receivable that the Company is experiencing some challenges collecting from the Mexican Government.

LIQUIDITY AND SOLVENCY

As at January 31, 2012, the Company had a working capital deficiency of $241,369, compared to January 31, 2011, where the working capital balance was $136,809 and February 1, 2010 where the working capital balance was $2,147,902. On April 11, 2011, the Company closed a brokered private placement of 11,000,000 units at a price of $0.07 per unit amounting for gross proceeds of $770,000. Each unit comprised one common share and one share-purchase warrant to purchase an additional share at $0.12 until April 11th, 2012. Palos Merchant Bank L.P. ("Palos"), through its sole general partner, Palos Management Inc., of Montreal, Quebec, acted as agent and received a fee of $47,950 plus applicable taxes, of which $9,450 was paid in cash and the balance settled by the issuance of an additional 550,000 common shares of the Company. In addition to the private placement financing, the Company; on September 14, 2011, October 11, 2011 and January 13, 2012, obtained financing of 600,000 Mexican Pesos, 1,400,000 Mexican Pesos and 1,250,000 Mexican Pesos, respectively, via loans from a company that is controlled by the president and CEO of the Company. These loans are due by December 31, 2014, unless the Company obtains sufficient financing earlier to repay the principal and interest balances. The loans charge interest an annual rate of 12% and are secured by promissory notes issued by the borrower in favour of the lender. The loans payable outstanding balance at January 31, 2012 was $267,735 (3,250,000 Mexican Pesos)

At January 31, 2012, the Company had current assets of $106,724 (January 31, 2011 - $353,525 and February 1, 2010 - $2,280,664). This amount is not sufficient to cover the Company's operating expenses and exploration commitments. The Company needs to obtain additional financing to continue its exploration projects and cover its operating expenses. To obtain financing, the Company may need to issue common shares. Although the Company has been successful in the past in raising funds, there can be no assurance that any funding required by the Company in the future will be made available to it and, if such funding is available, that it will be offered on reasonable terms.

The Company has property commitments of $325,000 for fiscal 2012 mainly for option payments. In addition to these commitments, the Company has annual operating expenses of approximately $700,000. Although the Company raised funds in April, the existing funds are not sufficient to finance operations for fiscal 2013 and the Company is investigating opportunities to obtain additional financing, which includes the exercise of warrants from the last financing and raising additional capital in 2013 (see Subsequent events). Positive exploration results, as documented earlier on the Cumeral and La Tuna properties, indicate that the Company should be in a good position to raise these funds.

OFF-STATEMENTS OF FINANCIAL POSITION ARRANGEMENTS

There are no Off-Statements of financial position arrangements.

RELATED PARTY TRANSACTIONS

Compensation to key management personnel were as follows:

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

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

OUTSTANDING SHARE DATA

a) Outstanding Common Shares

	Number of shares	Amount
Balance, February 1, 2010	47,942,390	$ 21,237,758
Shares issued for mineral property	2,330,000	421,400
Balance, January 31, 2011	50,272,390	21,659,158
Shares issued on private placement	11,000,000	770,000
Shares issued as share issue costs	550,000	38,500
Shares issued on warrant exercise	1,478,571	177,428
Fair value of warrants exercised	-	19,917
Share issue costs	-	(47,950)
Valuation of share purchase warrants	-	(148,170)
Balance, January 31, 2012 and May 28, 2012	63,300,961	$ 22,468,883

b) Warrants and Stock Options

The continuity of the outstanding share purchase warrants is as follows:

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

At May 28, 2012, there were 9,521,430 warrants outstanding.

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at January 31, and May 28, 2012 are as follows:

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 - valuation techniques based on inputs for the asset or liability that are not based on observable market data.

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

Credit Risk

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

Liquidity Risk

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

Market Risk

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

a) Interest rate risk

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

(b) Price risk

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

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

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

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

SUBSEQUENT EVENTS

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

OTHER MD&A REQUIREMENTS

Risks

The Company's business of exploring for mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and the Company's common shares should be considered speculative.

The recoverability of amounts shown as mining interests, and property plant and equipment, is dependent upon a number of factors including environmental risks, legal and political risks, the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying assets, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

There can be no assurance that any funding required by the Company will become available to it, and if so, that it will be offered on reasonable terms, or that the Company will be able to secure such funding through third party financing or cost sharing arrangements. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or projects, or that they can be secured on competitive terms.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Prior to the adoption of IFRS, the Company established a strategy for the successful adoption of IFRS which included the following:

1. Hiring outside consultants to provide guidance and assistance to the Company as it addressed its transition to IFRS.
2. Developing a transition plan which was executed.

3. Developing a detailed analysis and understanding of the differences between IFRS and Canadian GAAP.
4. Implementing the necessary changes to; systems, process and disclosure controls.

While the adoption of IFRS did not result in changes to actual cash flows of current or prior period consolidated financial statements, there were changes to the results and equity of the Company. Notes 2 and 14 of the consolidated financial statements provides the currently adopted accounting policies of the Company and a detailed analysis of the impact of the Company's transition to IFRS. A summary of the impact of the adoption of IFRS is presented below:

In preparing the statements, comparative financial results for the year ended January 31, 2011 and the statements of financial position as at January 31, 2011 were adjusted to comply with IFRS from amounts previously reported in accordance with GAAP.

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

Business combinations

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

Share-based payment transactions

IFRS 1 encourages but does not require first-time adopters to apply IFRS 2, Share-based Payment, to equity instruments that were granted on or before November 7, 2002 and vested before the transition date. The Company has elected not to apply IFRS 2 to awards that vested prior to February 1, 2010.

Mandatory Exceptions

Estimates

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

Impact on the Company's Financial Reporting

The adoption of IFRS had the following impact on the Company:

(a) Share-based Payments

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

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

Recognition of Expense

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

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

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

(b) Exploration and Evaluation Expenditures

Capitalizing vs. Expensing Exploration and Evaluation Costs:

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

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

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

The following is a reconciliation of the Company's equity, net loss and comprehensive income from Canadian GAAP to IFRS for the periods required under IFRS:

Reconciliation of Equity

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

Reconciliation of Net Loss

	Year Ended January 31, 2011	Three Months Ended January 31, 2011
Net loss under GAAP	$ 3,604,667	$ 3,028,879
Differences increasing (decreasing) reported net loss		
Stock-based compensation	23,748	4,639
Write down of exploration costs	(436,022)	(436,022)
	(412,274)	(431,383)
Net loss under IFRS	$ 3,192,393	$ 2,597,496

Reconciliation of Comprehensive Loss

	Year Ended January 31, 2011	Three Months Ended January 31, 2011
Comprehensive loss under GAAP	$ 3,527,568	$ 3,041,348
Differences increasing (decreasing) reported comprehensive loss		
Differences affecting net loss reported under GAAP	(412,274)	(431,383)
	(412,274)	(431,383)
Comprehensive loss under IFRS	$ 3,115,294	$ 2,609,965

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

OUTLOOK

The Company's primary focus is the exploration of its mineral properties in Mexico, with emphasis on the Cumeral Property, in Sonora State, where an Air trac drilling program has given positive results which require further follow up by drilling. In addition, additional unexplored, recently acquired properties to the northwest along trend also appear to hold good potential for gold / silver mineralization. The Company believes that further exploration is warranted and is optimistic that further positive results are likely.

The Company will also carry-out exploration on the 100% owned La Tuna Property in Sinaloa State which shows good potential for gold / silver mineralization in a number of geological settings and in addition will be actively looking for new precious and base metal projects in Mexico to complement the existing properties.

* * * * *

MSCM LLP
Accountants & Advisors for a Complex World

Independent Auditors' Report

To the Shareholders of
VVC Exploration Corporation

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of matter

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

MSCM LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
May 30, 2012

✦ Consolidated Statements of Financial Position

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

Going Concern (note 1)

Approved by the Board

Michel Lafrance

Michel Lafrance, Director

Patrick Ferret

Director

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

✦ Consolidated Statements of Loss and Comprehensive Loss

For the year ended January 31,

For the Year Ended December 31,	2012	2011
Expenses		
Management and consulting fees	$ **298,114**	$ 239,123
Stock-based compensation (Note 8(c))	**204,610**	143,869
Professional fees	**111,301**	169,876
Investor relations	**105,773**	234,487
Office and sundry	**60,793**	67,230
Travel and promotion	**35,646**	31,304
Rent and utilities	**32,643**	42,630
Telephone	**9,649**	14,869
Listing and transfer fees	**7,784**	18,556
Bank charges	**7,170**	877
Depreciation	**3,704**	5,428
Investment counselling fees	**-**	28,500
	877,187	996,749
Other income (expenses):		
Gain on sale of investments	**118,031**	218,114
Foreign exchange loss	**(987)**	(5,431)
Write-down of exploration costs (Note 6)	**-**	(1,733,327)
Write-down of short-term investments (Note 17)	**-**	(675,000)
Write-down of accounts receivable	**(213,163)**	-
Net loss	$ **(973,306)**	$ (3,192,393)
Basic and diluted loss per share (Note 10)	$ **(0.02)**	$ (0.06)
Consolidated Statements of Comprehensive Loss		
Net loss	$ **(973,306)**	$ (3,192,393)
Reclassification adjustment for short-term investments sold in the year	**(144,350)**	(35,601)
Unrealized loss on short-term investments	**-**	112,700
Comprehensive loss for the year	$ **(1,117,656)**	$ (3,115,294)

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

✦ Consolidated Statements of Changes in Shareholders' Equity

For the year ended January 31,

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

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

✦ Consolidated Statements of Cash Flows

For the year ended January 31,

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

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and cash equivalents

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

Short-term investments

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

Equipment

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

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

Mineral properties

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

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

Impairment of long-lived assets

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

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

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

Stock-based compensation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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

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

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

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

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

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

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

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

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

4. SHORT-TERM INVESTMENTS

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

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

5. EQUIPMENT

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

6. MINERAL PROPERTIES AND DEFERRED PROPERTY ACQUISITION COSTS

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

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

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

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

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

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

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

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

Payments to the optionor will be as follows:

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

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

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

7. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related Party Balances:

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

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

7. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Related Party Transactions:

Compensation to key management personnel were as follows:

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

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

8. SHARE CAPITAL

(a) Authorized
Unlimited common shares without par value

(b) Issued:

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

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

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

(c) Stock Options

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

8. SHARE CAPITAL (continued)

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

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

(c) Stock Options (continued)

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

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

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

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

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

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

8. SHARE CAPITAL (continued)

(d) Warrants

The following table reflects the continuity of warrants:

2012

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

2011

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

9. CONTRIBUTED SURPLUS

The following table reflects the continuity of contributed surplus:

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

10. LOSS PER SHARE

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

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

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

11. SEGMENTED INFORMATION

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

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

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

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

12. CAPITAL MANAGEMENT

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

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

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

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

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

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

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

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

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

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

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

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

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

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

14. TRANSITION TO IFRS

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

14. TRANSITION TO IFRS (continued)

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

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

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

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

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

Optional Exemptions

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

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

Mandatory Exceptions

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

Explanation of effect of transition from GAAP to IFRS

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

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

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

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

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

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

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

14. TRANSITION TO IFRS (continued)

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

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

Reconciliations of Canadian GAAP to IFRS

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

Reconciliation of Equity

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

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

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

14. TRANSITION TO IFRS (continued)

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

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

14. TRANSITION TO IFRS (continued)

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

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

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

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

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

15. ACCOUNTS PAYABLE

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

16. INCOME TAXES

a) Provision for income taxes, current and deferred

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

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

b) Unrecognized deferred tax assets

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

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

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

16. INCOME TAXES (continued)

c) Tax loss carry-forwards

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

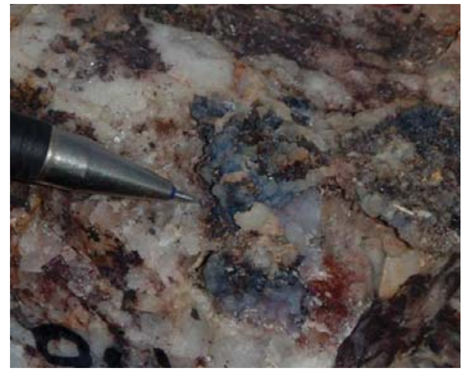
2015	$	**718,400**
2026		**859,300**
2027		**898,200**
2028		**670,600**
2029		**863,500**
2030		**979,000**
2031		**1,368,000**
2032		**632,400**
	$	**7,048,500**

17. WRITE DOWN OF INVESTMENTS

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

18. SUBSEQUENT EVENTS

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



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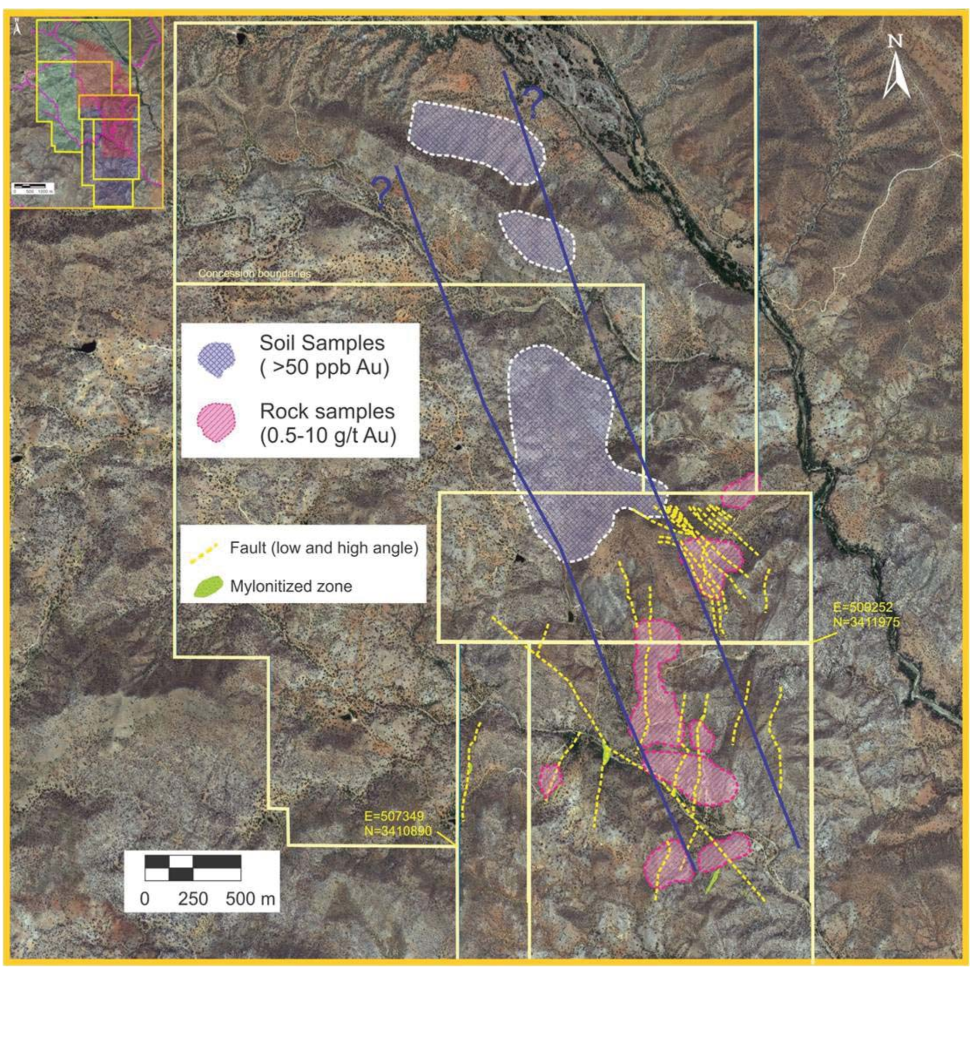

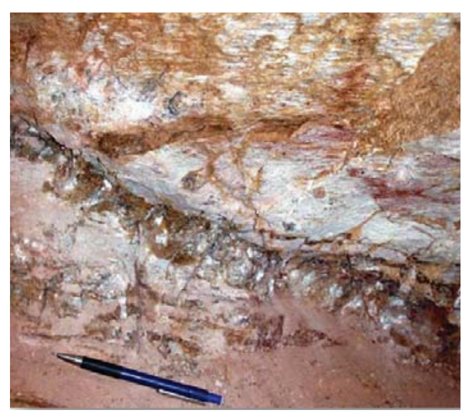

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