OROCO RESOURCE CORP.

CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2011

Unaudited – Prepared by Management

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying interim financial statements, notes to interim financial statements and the related Management's Discussion and Analysis.

OROCO RESOURCE CORP.
CONSOLIDATED BALANCE SHEETS

	February 28, 2011	May 31, 2010
ASSETS		
CURRENT		
Cash	$ 36,259	$ 376,230
GST recoverable and other receivables	69,382	24,179
Prepaid expenses	6,657	48,712
	112,298	449,121
INTEREST IN RESOURCE PROPERTIES (Note 3)	7,739,220	6,927,316
PROPERTY AND EQUIPMENT (Note 4)	27,029	32,774
	$ 7,878,547	$ 7,409,211
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 344,853	$ 153,414
Due to related parties (Note 6)	210,063	155,060
Loans payable (Note 11)	86,000	-
	640,916	308,474
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	10,229,869	9,501,806
CONTRIBUTED SURPLUS (Note 5)	1,054,809	978,698
DEFICIT	(4,047,047)	(3,379,767)
	7,237,631	7,100,737
	$ 7,878,547	$ 7,409,211

GOING CONCERN CONTINGENCY (Note 1)
COMMITMENTS (Note 7)
SUBSEQUENT EVENTS (Note 11)

Approved on behalf of the Board:

"Craig Dalziel" — Craig Dalziel – Director

"Steve Vanry" — Steve Vanry – Director

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

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

	For the Three Months Ended February 28, 2011	For the Three Months Ended February 28, 2010	For the Nine Months Ended February 28, 2011	For the Nine Months Ended February 28, 2010
EXPENSES				
Amortization	$ 2,524	$ 2,022	$ 5,745	$ 5,928
Bank charges and interest and finance charges	24,838	326	25,417	986
Consulting fees	30,137	90,906	84,154	184,605
Management and director fees (note 6)	48,750	387,972	128,750	430,869
Office and general	17,555	17,878	65,897	50,578
Professional fees (note 6)	71,497	114,227	200,338	152,135
Rent	10,511	13,997	31,305	32,883
Shareholder communications and investor relations	21,661	37,765	79,558	141,263
Transfer agent and filing fees	4,837	9,942	22,184	38,613
Travel	2,916	10,362	26,027	20,576
Impairment of mineral properties	-	-	-	2,035
LOSS BEFORE OTHER ITEMS	(235,226)	(685,397)	(669,375)	(1,060,471)
FOREIGN CURRENCY GAIN (LOSS)	2,794	(2,797)	2,095	17,003
INTEREST INCOME	-	22	-	135
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(232,432)	(688,172)	(667,280)	(1,043,333)
DEFICIT, BEGINNING OF PERIOD	(3,814,615)	(2,428,854)	(3,379,767)	(2,073,693)
DEFICIT, END OF PERIOD	$ (4,047,047)	$ (3,117,026)	$ (4,047,047)	$ (3,117,026)
BASIC AND DILUTED LOSS PER SHARE	$ (0.00)	$ (0.02)	$ (0.01)	$ (0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	47,471,308	42,084,771	46,110,827	36,663,376

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

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended February 28, 2011	For the Three Months Ended February 28, 2010	For the Nine Months Ended February 28, 2011	For the Nine Months Ended February 28, 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	$ (232,432)	$ (688,172)	$ (667,280)	$ (1,043,333)
Adjusted for items not involving cash:				
- amortization	2,524	2,022	5,745	5,928
- stock-based compensation	7,182	457,706	52,169	464,800
- impairment of mineral properties	-	-	-	2,035
	(222,726)	(228,444)	(609,366)	(570,570)
Changes in working capital items:				
- GST recoverable	(17,621)	(2,184)	(42,747)	10,591
- prepaid expenses	(1,210)	3,768	39,599	,11,157
- accounts payable and accrued liabilities	242,225	(68,955)	191,439	(10,480)
- due to related parties	43,548	-	72,503	-
Cash flows used in operating activities	44,216	(295,815)	(348,572)	(559,302)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition and exploration of resource properties	(406,639)	(427,519)	(701,904)	(1,905,555)
Purchase of equipment	-	(1,882)	-	(1,882)
Cash flows used in investing activities	(406,639)	(429,401)	(701,904)	(1,907,437)
CASH FLOWS FROM FINANCING ACTIVITIES				
Shares issued for cash	224,505	258,887	624,505	2,554,422
Loans payable	86,000	-	86,000	-
Cash flows from financing activities	310,505	258,887	710,505	2,554,422
INCREASE (DECREASE) IN CASH	(51,918)	(466,329)	(339,971)	87,683
CASH, BEGINNING OF PERIOD	88,177	605,479	376,230	51,467
CASH, END OF PERIOD	$ 36,259	$ 139,150	$ 36,259	$ 139,150

SUPPLEMENTAL CASH-FLOW INFORMATION (Note 8)

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

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Oroco Resource Corp. (the "Company") was incorporated on July 7, 2006 under the Business Corporations Act of British Columbia and is in the business of acquiring, exploring and evaluating mineral resource properties in Mexico. The Company is in the exploration stage and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration expenditures are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the mineral properties and upon future profitable production or proceeds from the disposition thereof.

These financial statements have been prepared on a going concern basis which implies that the Company will continue realizing assets and discharging liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate, further adjustments to carrying values of assets and liabilities may be required. On February 28, 2011 the Company had a working capital deficit of $528,618 and an accumulated deficit of $4,047,047. Accordingly, the ability of the Company to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing as needed and ultimately on generating future profitable operations.

The Company expects it will need to raise capital to continue operations through its next fiscal year which raises uncertainty as to the ability of the Company to continue as a going concern.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and the following subsidiaries. All intercompany transactions and balances have been eliminated.

	Country of Incorporation	Percentage ownership February 28, 2011	Percentage ownership February 28, 2010
Minera Xochipala S.A. de C.V. ("Minera Xochipala") (note 3b)	Mexico	100%	100%
Minas de Oroco S.A. de C.V. ("Minas de Oroco") (note 3a)	Mexico	100%	100%
Minera Polimetalicos Mexicanos S.A. ("Polimetalicos") (note 3a)	Panama	100%	100%

Polimetalicos is a Panamanian holding company 100% owned directly by the Company. It holds 98% (49 out of 50 shares) of Minas de Oroco, a Mexican company (the other 2%, being 1 share, is held by Minera Xochipala). Minera Xochipala, a Mexican company, is 98% (49 of 50 shares) directly owned by the Company, with 2% (1 share of 50) held by Minas de Oroco.

Cash and cash equivalents

The Company classifies cash and short-term investments with original maturities less than or equal to three months as cash and cash equivalents. At February 28, 2011 and 2010 the Company did not hold any cash equivalents.

Resource Properties

The Company records its interests in mineral properties at the lower of cost or estimates of recoverable value. Where specific exploration programs are planned and budgeted by management, the cost of mineral properties and related exploration expenditures are capitalized until the properties are placed into commercial production, sold, abandoned or determined by management to be impaired in value. These costs will be amortized over the estimated useful lives of the properties following the commencement of production or written off if the properties are sold or abandoned.

The costs include the cash or other consideration and the assigned value of shares issued, if any, on the acquisition of mineral properties. Costs related to properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The Company does not accrue estimated future costs of maintaining its mineral properties in good standing.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalized costs as reported on the balance sheet represent costs incurred to date and may not reflect actual, present, or future values. Recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the mineral interests.

Management evaluates each mineral interest on a reporting period basis or as events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to which costs are capitalized or charged as impairment charges. Write-downs due to impairment in value are charged to operations.

Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on results of exploration work, management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

General exploration costs not related to specific properties and general administrative expenses are charged to operations in the year in which they are incurred.

The Company follows Emerging Issues Committee Abstract 174 - Mining Exploration Costs which amends EIC-126 - Accounting by Mining Enterprises for Exploration Costs, which provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs are required.

Property and Equipment
Property and equipment is stated at cost less accumulated amortization. Amortization is provided for using the declining-balance method at the following rates per annum:

Computer equipment	30%
Furniture and fixtures	20%
Leasehold improvements	20%
Automotive equipment	10%

Amortization is recorded at one-half the normal rate in the year of acquisition

Impairment of long-lived assets
The Company reviews the carrying amount of long-lived and intangible assets for impairment annually and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable or have been impaired. The determination of impairments is based on a comparison of undiscounted estimated future cash flows anticipated to be generated during the remaining life of the asset to the net carrying value of the asset. If impairment is determined, the long lived asset is written down to fair value.

Asset retirement obligations
The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of tangible long-lived assets, including rights to explore or exploit natural resources, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

Mineral property related retirement obligations are capitalized as part of deferred exploration and development costs.

Environment costs
Environmental expenditures that related to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

Foreign currency translation
The Company's functional and reporting currency is the Canadian dollar and the Company uses the temporal method of foreign currency translation for translating the operations of its integrated subsidiaries. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates that prevailed at the balance sheet date. Non-monetary items are translated at historical exchange rates, except for items carried at market value, which are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property interests and the determination of fair value for stock based transactions. Where estimates have been used, financial results as determined by actual events could differ from those estimates.

Risk management
The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations; however it is not possible to be certain that all aspects of environmental issues affecting the Company, if any, have been fully determined or resolved.

The Company is not exposed to significant credit concentration or interest rate risk.

Stock-based compensation
The Company recognizes compensation expense for stock options using the fair value based method in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this method, the fair value of options granted is estimated at the date of grant using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, volatility factor of the expected market price of the Company's stock, and the weighted average expected life of the options. The estimated fair value of the options is determined at the date of grant and recorded over the options' vesting period. Any consideration paid on amounts attributable to stock options is credited to share capital upon exercise together with amounts previously allocated to contributed surplus arising from the initial value recorded.

Loss per share
The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per common share is recognized from the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Basic loss per share figures have been calculated using the weighted average number of shares outstanding during the respective periods. Diluted loss per share figures are equal to those of basic loss per share for each year since the effects of the share purchase warrants and stock options have been excluded as they are anti-dilutive.

Future income taxes
Future income taxes are recorded using the asset and liability method whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent the Company does not consider it to be more likely than not that a future tax asset will be recovered; it provides a valuation allowance against the excess. The Company has not recognized potential future benefit amounts as the criteria for recognition under Canadian generally accepted accounting principles have not been met.

Comprehensive income (loss)
Comprehensive income (loss) is defined as the change in equity from transactions and other events from non owner sources. Other comprehensive income (loss) refers to items recognized in comprehensive income (loss) that are excluded from net income (loss) calculated in accordance with generally accepted accounting principles.

For the periods ended February 28, 2011 and 2010 the Company did not have other comprehensive income or loss, therefore the comprehensive loss for the year is equal to the net loss for the year.

Financial instruments
Under Section 3855, financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as held-for-trading, available for sale financial assets, held to maturity, loans and receivables, or other financial liabilities as follows:

- Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period.
- Available for sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet.
- Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.
- Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period unless the instrument is a cash flow hedge and hedge accounting applies in which case changes in fair value are recognized in other comprehensive income.

The Company's financial instruments consist of cash, GST recoverable, accounts payable and amounts due to related parties. The value of the Company's arm's length short term financial instruments is estimated by management to approximate their carrying values due to their immediate or short-term maturity.

The Company designated its cash as held-for-trading, which is measured at fair value. GST recoverable is classified as loans and receivables, which are measured at amortized cost. Accounts payable and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

Comparative Figures
Certain figures presented for comparative purposes have been reclassified to conform with the presentation adopted for the current year.

New Accounting Standards Not Yet Adopted

Business Combination, Non-Controlling Interest, and Consolidation
In January 2009, the CICA issued Handbook Sections 1582, Business Combination ("Section 1582"), 1601, Consolidated Financial Statements. ("Section 1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS.

Section 1582 is applicable for the Company's business combinations and acquisition dates on or after January 1, 2011. Early adoption of this section is permitted. These sections are applicable for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. If the Company chooses to early adopt any one of these sections, the other sections must also be adopted at the same time.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

International Financial Reporting Standards (IFRS)
In 2006, the AcSB ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by public companies, with International Financial Reporting Standards ("IFRS") over a transitional period. The AcSB has developed and published a detailed implementation plan, with a changeover date for fiscal years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company's financial statements has yet to be determined.

The Company expects that by the second calendar quarter of 2011 management will have assessed conversion and first time adoption implications. Additional disclosures and analysis of impacts will be provided leading up to adoption commencing in the first quarter ending August 30, 2011.

NOTE 3 –INTEREST IN MINERAL PROPERTIES

For the nine months ended February 28, 2011

	Cerro Prieto Properties
Balance at May 31, 2010	$ 6,927,316
Acquisition costs	
Share consideration	110,000
Cash	16,080
Deferred exploration expenditures	
Assessment and taxes	37,604
Economic assessment and planning	302,097
Engineering	83,090
Royalty payments	91,183
Sampling	111,657
Geologists	60,193
Total for period	685,824
Balance at February 28, 2011	$ 7,739,220

For the year ended May 31, 2010

	Cerro Prieto Properties
Balance at June 1, 2009	$ 4,737,732
Acquisition costs	
Share consideration	72,500
Deferred exploration expenditures	
Assessment and taxes	105,678
Drilling	1,332,644
Royalty payments	146,887
Sampling	220,576
Geologists	311,299
	2,117,084
Balance at May 31, 2010	$ 6,927,316

NOTE 3 –INTEREST IN MINERAL PROPERTIES (continued)

(a) Cerro Prieto Properties, Sonora State, Mexico

The Cerro Prieto Property, located in the Cucurpe Mining District, Sonora, Mexico, is comprised of the San Felix (205 ha), San Francisco (10 ha), Cerro Prieto "North" (2,508 ha) and Argonauta 6 (4,120 ha) mineral concessions.

(i) San Felix and San Francisco Concessions ("SF Concessions")

The SF Concessions are located 150 kilometres northeast of the city of Hermosillo, and consists of two concessions covering a total area of 215 hectares. Of these two concessions, the San Francisco concession, consisting of 10 hectares, covers the underground workings of the Cerro Prieto Mine. The San Felix concession, consisting of 205 hectares, surrounds the San Francisco concession on all sides.

On August 26, 2006, as amended on December 15, 2006 and May 18, 2007, the Company entered into an assignment agreement (the "Assignment Agreement") whereby ATM Mining Corp. ("ATM") and Salvador Rivero Cortina ("Rivero") assigned their rights and interests in the SF Concessions and the Celia Gene and Celia Genrosa concessions (the "Xochipala Property") to the Company. Under the Assignment Agreement, the Company paid $69,000 to ATM for costs associated with the Xochipala Property, accepted share subscriptions from ATM to purchase 5,350,000 common shares of the Company and assumed ATM's obligation to issue 3,150,000 common shares to Rivero.

The SF Concessions are held by Minas de Oroco. Both Polimetalicos and Minas de Oroco were formed by the vendors of the SF Concession (the "SF Concession Vendors") to facilitate the Company's acquisition of the SF Concessions and its operations in Mexico. In connection with the Assignment Agreement, the Company entered into an agreement with the SF Concession Vendors to purchase their shares of Polimetalicos in consideration for $2,756,376 ($2,500,000 USD) (paid).

The SF Concessions are subject to a 2% net smelter royalty in favour of the SF Concession Vendors, with a minimum royalty payment of US$30,000 per quarter payable from April 1, 2009 until royalty payments commence from production.

(ii) Cerro Prieto "North" Concession

The Cerro Prieto "North" concession is a 2,507 hectare property located in the Cucurpe Municipality of Sonora State, Mexico. It was staked on behalf of the Company for a total cost of $96,041. Minas de Oroco acquired registered title to the concession pursuant to an agreement with Mr. Canas dated March 9, 2009.

(iii) Argonauta 6 Concession

The Company entered into an agreement dated May 5, 2009 with Yamana Gold Inc. ("Yamana") wherein Yamana agreed to cause its Mexican subsidiary, Minera Meridian Minerales S. de R.L. de C.V. ("Meridian") to grant Minas de Oroco an option (the "Argonauta Option") to acquire a 100% interest, subject to a 2% net smelter return royalty, in a 4,120 hectare portion of its larger Argonauta 5 Fraccion 1 mineral concession bordering the Company's SF Concessions to the north, south, west and east.

The Company agreed to issue 500,000 common shares to Yamana upon the granting of the Argonauta Option (issued). To maintain the option in good standing, the Company was required to drill at least 1,500 metres on the optioned property before December 31, 2010 (completed), and to reimburse Yamana for any property taxes paid by Yamana with regard to the optioned property. Upon completion of the drilling, Minas de Oroco became entitled to exercise the Argonauta Option, upon which event Oroco was required to issue an additional 500,000 common shares to Yamana.

Minas de Oroco has exercised the Argonauta Option and Oroco has issued the additional 500,000 common shares to Yamana. Pursuant to a concession transfer agreement dated September 13, 2010 between Minas de Oroco and Meridian, the Company has acquired a 100% interest in the optioned property (now called the Argonauta 6 concession), subject to a 2% net smelter return royalty payable to Meridian.

NOTE 3 –INTEREST IN MINERAL PROPERTIES (continued)

(iv) Elba, Reyna de Plata and Huerto de Oro

Pursuant to a Promise Agreement dated December 27, 2010, the Company, through Minas de Oroco, has committed to purchase the Elba, Ruena de Plata and Huerto de Oro mineral concessions in Sonora Mexico for the price of MX$875,000 pesos, against which the Company has paid a MX$200,000 peso deposit.

(b) Celia Gene and Celia Generosa Concessions (the "Xochipala Property")

The Xochipala Property is two contiguous concessions, with a combined area of 193 ha, located in Guerrero State, Mexico. The Company's title to the Xochipala Property is subject to the successful registration of Minera Xochipala's interest with the Public Registry of Mines ("PRM"). The Company received notice from the PRM on October 14, 2009 advising that it was rejecting the Minera Xochipala's application for registration of its interest in the Xochipala Property on the grounds that such registration would adversely affect the rights of the third party lien holders. The Company and its Mexican legal counsel are of the opinion that the PRM position is wrong and not supported by Mexican law. The Company has appealed the PRM initial decision to the Federal Court of Fiscal and Administrative Justice. The Company expects to receive a decision from the Federal Court by the end May, 2011.

The Company has decided to place this property into abeyance pending the final outcome of its application for registered title. Accordingly, the Company has written off $224,303 attributed to the costs of the Xochipala property in fiscal 2009.

(c) Salvador Property

The Salvador Property is a 100 hectare mining concession 100% owned by Minera Xochipala which is located in Guerrero State, Mexico. The Company has fully impaired the carrying value of $113,080 attributed to the property as at May 31, 2009.

NOTE 4 – PROPERTY AND EQUIPMENT

	February 28, 2011		
	Cost	Accumulated amortization	Net book value
Automotive equipment	$ 15,948	$ 6,270	$ 9,678
Computer equipment	23,110	13,515	9,595
Leaseholds	10,017	3,886	6,131
Office furniture	3,070	1,445	1,625
Total	$ 52,145	$ 25,116	$ 27,029

	May 31, 2010		
Automotive equipment	$ 15,948	$ 4,679	$ 11,269
Computer equipment	23,110	10,729	12,381
Leaseholds	10,017	2,805	7,212
Office furniture	3,070	1,158	1,912
Total	$ 52,145	$ 19,371	$ 32,774

NOTE 5 – SHARE CAPITAL

(a) Authorized

100,000,000 common shares of no par value

(b) Issued and outstanding

	Shares	Price	Amount
Balance at May 31, 2008 and 2009	27,593,521		$ 6,389,531
Private placement - July 16 & July 31, 2009	6,807,200	$ 0.15	970,500
Reallocation of estimated fair value of warrants			(174,500)
Issued pursuant to the Yamana option (note 3(a)(iii))	500,000	$ 0.15	72,500
Private placement - November 16 & December 3, 2009	7,176,700	$ 0.225	1,560,075
Warrants exercised	100,000	$ 0.25	25,000
Warrants exercised	2,480,000	$ 0.25	620,000
Reallocation on exercise of warrants			38,700
Balance at May 31, 2010	44,657,421		9,501,806
Shares issued for debt	70,000	$ 0.25	17,500
Issued pursuant to the Yamana option (note 3(a)(iii))	500,000	$ 0.22	110,000
Private placement – October 18, 2010	2,000,000	$ 0.20	400,000
Reallocation of estimated fair value of warrants			(40,000)
Warrants exercised	748,350	$ 0.30	224,505
Reallocation on exercise of warrants			16,058
Balance at February 28, 2011	47,975,771		$ 10,229,869

On July 16 and July 31, 2009, the Company completed a private placement of 5,800,000 units and 700,000 units respectively, at a price of $0.15 per unit. Each unit consisted of one common share and one non-transferable common share purchase warrant exercisable into one additional common share for a period of nine months at a price of $0.25 per share. The Company paid finders' fees consisting of $4,500 cash and 307,200 Finders Units, wherein each Finders Unit is comprised of one common share of the Company and one warrant exercisable for one year at $0.40. The fair value of the warrants attached to this private placement was estimated by management to be $97,500, being 10% of the unit offering price, an amount which management believes accurately represents the value ascribed by subscribers to the unit offering.

On November 17, 2009 and December 3, 2009 the Company completed a private placement of 5,720,500 units and 1,279,500 units respectively, at a price of $0.225 per unit. Each unit consisted of one common share and one-half of one non-transferable common share purchase warrant. Each whole warrant is exercisable into one additional common share for a period of eighteen months at a price of $0.30 per share. If the volume weighted average trading price of the Company's shares is $0.50 or greater for ten consecutive days, the Company may, upon notice to the warrant holder, reduce the expiry date to 30 days from the date of notice. The Company paid a finders' fee consisting of $14,925 cash and 176,700 units, with each such unit being the same as the units sold in the private placement. The fair value of the warrants attached to this private placement was estimated to be $77,000. Fair value was estimated to be 10% of the unit offering price, an amount which management believes accurately represents the value ascribed by subscribers to the unit offering.

On June 4, 2010, the Company issued 70,000 common shares at a deemed value of $0.25 per share, in settlement of $17,500 of debt.

On September 13, 2010, pursuant to the terms of the head letter agreement dated May 5, 2009 between the Company and Yamana, the Company issued 500,000 common shares to Yamana upon the exercise by Minas de Oroco of of its option to acquire the Argonauta 6 concession from Yamana's Mexican subsidiary, Meridian (See Note 3 – Interest in Mineral Properties (iii) Yamana Property).

On October 18, 2010, the Company completed a private placement of 2,000,000 units at a price of $0.20 per unit to raise gross proceeds of $400,000. Each unit consisted of one common share and one half of one non-transferable common share purchase

NOTE 5 – SHARE CAPITAL (continued)

warrant with each whole warrant exercisable into one additional common share for a period of eighteen months at a price of $0.30 per share. The fair value of the warrants attached to this private placement was estimated to be $40,000. Fair value was estimated to be 10% of the unit offering price, an amount which management believes accurately represents the value ascribed by subscribers to the unit offering.

(c) Warrants

(i) Share purchase warrant transactions:

For the period ended February 28, 2011

	Number	Weighted average exercise price		Weighted average life remaining (years)
Balance of warrants at May 31, 2009	4,101,760	$	0.90	0.29
Issued	10,395,550		0.27	
Exercised	(2,580,000)		0.25	
Expired	(8,021,760)		0.58	
Balance of warrants at May 31, 2010	3,895,550		0.31	0.90
Issued	1,000,000		0.30	
Exercised	(748,350)		0.30	
Expired at July 16, 2010	307,200		0.40	
Balance of warrants at February 28, 2011	3,840,000	$	0.30	0.46

(ii) Summary of warrants outstanding at May 31, 2010:

Number of warrants	Exercise price		Expiry date
2,948,600	$	0.30	17-May-11
639,750		0.30	3-Jun-11
307,200	$	0.40	16-Jul-10
3,895,550			

(iii) Summary of warrants outstanding at February 28, 2011:

Number of warrants	Exercise price	Expiry date
2,200,250	0.30	17-May-11
639,750	0.30	3-Jun-11
1,000,000	0.30	14-Apr-12
3,840,000		

(d) Stock Options

The Company has a rolling stock option plan, whereby from time to time, at the direction of the Board of Directors, stock options may be granted to employees, consultants, directors and officers. The number of shares reserved for issuance under the

NOTE 5 – SHARE CAPITAL (continued)

plan shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options may be granted for a maximum of five years and vesting is determined by the Board of Directors.

	Number of stock options	Weighted Average Exercise Price
Balance outstanding, May 31, 2009	2,400,000	$ 0.50
Options granted	2,710,000	0.25
Options expired/forfeited	(1,825,000)	0.55
Balance outstanding, May 31, 2010	3,285,000	0.27
Options expired/forfeited	(310,000)	0.49
Balance, February 28, 2011	2,975,000	$ 0.25

The weighted average grant date fair value of options granted during the year ended May 31, 2010 was $0.21. No options were granted during the period ended February 28, 2011.

During the fiscal year ending May 31, 2008, a total of 2,650,000 stock options were granted to certain employees, officers, directors and consultants of the Company at a price of $0.55 per share, exercisable for a term of five years. The fair value of these options at the date of grant, totalling $243,889, was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of five years; risk-free interest rate of 3.84%; expected dividend yield of 0%; and an expected volatility of 40.05%. The estimated fair value of these compensation options was recorded as compensation expense on a straight-line basis over the one year vesting period of the underlying options. During the year ended May 31, 2010 $Nil (2009 - $142,029) was recorded as compensation expense related to the options granted in fiscal 2008 and the remaining $20,204 relates to options granted in fiscal 2008 that were cancelled or forfeited prior to vesting.

During fiscal year ending May 31, 2009, a total of 475,000 stock options were granted to certain employees, officers, directors and consultants of the Company at prices ranging from $0.15 to $0.55 per share, exercisable for a term of five years. The fair value of theses options at the date of grant totalling $73,803 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of five years; risk-free interest rate of 2.90%; expected dividend yield of 0% and an expected volatility of 93.6%. The estimated fair value of these was recorded as compensation expensed on a straight-line basis over the applicable vesting period of the underlying options. During the year ended May 31, 2010, $21,282 (2009 - $32,946) was recorded as compensation expense related to the options granted in fiscal 2009 and the remaining $19,575 relates to options granted in fiscal 2009 that were cancelled or forfeited prior to vesting.

During the fiscal year ending May 31, 2010, a total of 2,710,000 stock options were granted to certain employees, officers, directors and consultants of the Company at a price of $0.25 per share, exercisable for terms ranging from two to five years. The fair value of these options at the date of grants, totalling $566,800, was estimated using the Black-Scholes option pricing model with the following assumptions: expected life of two to five years; risk-free interest rate of between 1.81% - 3.16%; expected dividend yield of 0%; and an expected volatility of between 117.30 - 126.9%. The estimated fair value of these options is recorded as compensation expensed in a straight-line basis over the applicable vesting period of the underlying options. During the year ended May 31, 2010, $493,729 was recorded as compensation expense related to options granted during this period. A further $52,169 was recorded during the nine month period ending February 28, 2011. The remaining $20,902 will be recorded upon the vesting of the related options in the respective future periods.

NOTE 5 – SHARE CAPITAL (continued)

The following tables summarize information about stock options outstanding and exercisable at February 28, 2011:

Expiry Date	Exercise prices $	Number outstanding at February 28, 2011	Remaining contractual life (years)
1-Nov-13	0.15	75,000	2.92
7-May-14	0.25	250,000	3.44
11-Dec-14	0.25	2,025,000	4.03
16-Dec-14	0.25	375,000	4.05
22-Apr-15	0.25	125,000	4.15
		2,850,000	3.74

At February 28, 2011 fully vested stock options totalled 2,850,000 with a weighted average exercise price of $0.247.

(e) Contributed Surplus

	February 28, 2011	May 31, 2010
Balance, beginning of year	$ 978,698	$ 327,887
Stock-based compensation	52,169	515,011
Allocation of fair value of warrants	40,000	174,500
Exercise of warrants	(16,058)	(38,700)
Balance, end of period	$ 1,054,809	$ 978,698

NOTE 6 – RELATED PARTY TRANSACTIONS

The following expenses were incurred with directors and officers of the Company

	For the nine months ended February 28, 2011	For the nine months ended February 28, 2010
Management and director fees	$ 128,750	$ 408,189
Deferred resource expenditures	23,999	29,880
Consulting fees	-	2,400
Professional fees	80,310	134,003
Total	$ 233,059	$ 574,472

Professional fees include $1,680 (2010 - $69,930) in stock-based compensation expense which pertains to related parties. Management and director fees include (2010 - $315,000) in stock-based compensation expense which pertains to related parties.

As at February 28, 2011 $210,063 (2010 - $136,441) was owing to officers and directors for management, director, legal, consulting and geologist fees. The loans payable at February 28, 2011 include $30,000 owing to a related party.

The related party transactions were in the normal course of operations and are measured at fair value being their exchange amounts.

NOTE 7 – COMMITMENTS

The Company has entered into an agreement to lease office space until August 31, 2013 which requires the following annual payments:

2011	88,250
2012	88,250
2013	22,981

NOTE 8 – SUPPLEMENTAL CASH FLOW INFORMATION

	For the nine months ended February 28, 2011	For the nine months ended February 28, 2010
Interest paid	$ -	$ -
Taxes paid	$ -	$ -
Non-cash transactions not included in investment or financing activities		
Acquisition of mineral properties by the issuance of shares	$ 110,000	$ 72,500
Shares issued for debt	$ 17,500	$ -

NOTE 9 – CAPITAL MANAGEMENT

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises shareholders' equity. There has been no significant change in the Company's objectives, policies and processes for managing its capital during the nine months ended February 28, 2011.

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

The Company's investment policy is to invest its cash in financial instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

NOTE 10 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Management of Industry Risk

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations; however it is not possible to be certain that all aspects of environmental issues affecting the Company, if any, have been fully determined or resolved.

Management of Financial Risk

The Company's financial instruments are exposed to certain financial risks, which include credit risk, liquidity risk, and market risk.

NOTE 10 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT cont'd

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts. The bank accounts are mainly held with a major Canadian bank and this minimizes the risk to the Company.

Liquidity risk
Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above.

The Company monitors its ability to meet its short-term exploration and administrative expenditures by raising additional funds through share issuance when required. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits.

Foreign Exchange Risk
The Company's property interests in Mexico make it subject to foreign currency fluctuations which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian dollar and foreign functional currencies. The Company does not invest in derivatives to mitigate these risks.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk.

NOTE 11 – SUBSEQUENT EVENTS

On March 11, 2011, the Company completed a private placement of 3,941,334 units at a price of $0.30 per unit to raise gross proceeds of $1,182,400. Each unit consisted of one common share and one half of one non-transferable common share purchase warrant with each whole warrant exercisable into one additional common share for a period of eighteen months at a price of $0.45 per share.

On March 11, 2011, the outstanding loans in the amount of $86,000, including $30,000 from a related party, were converted to payment for shares in the above noted private placement.

Subsequent to February 28, 2011, an aggregate total of 170,000 warrants were exercised at a price of $0.30 per share for proceeds of $51,000.