OROCO RESOURCE CORP.

CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Oroco Resource Corp.

We have audited the accompanying consolidated financial statements of Oroco Resource Corp. which comprise the consolidated balance sheets as at May 31, 2011 and 2010, and the consolidated statements of loss, comprehensive loss and deficit, and cash flows for the years then ended, 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 Canadian generally accepted accounting principles, 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.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oroco Resource Corp. and its subsidiaries as at May 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe certain conditions that give rise to doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from this uncertainty.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
September xx, 2011

OROCO RESOURCE CORP.
CONSOLIDATED BALANCE SHEETS

	May 31, 2011	May 31, 2010
ASSETS		
CURRENT		
Cash	$ 558,766	$ 376,230
HST recoverable	91,880	24,179
Prepaid expenses	17,704	48,712
Loan receivable from related party (Note 6)	255,000	-
	923,350	449,121
INTEREST IN RESOURCE PROPERTIES (Note 3)	8,142,698	6,927,316
PROPERTY AND EQUIPMENT (Note 4)	25,384	32,774
	$ 9,091,432	$ 7,409,211
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 113,831	$ 153,414
Due to related parties (Note 6)	150,385	155,060
	264,216	308,474
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	11,999,751	9,501,806
SUBSCRIPTIONS (Note 5)	60,000	-
CONTRIBUTED SURPLUS (Note 5)	1,207,252	978,698
DEFICIT	(4,439,787)	(3,379,767)
	8,827,216	7,100,737
	$ 9,091,432	$ 7,409,211

GOING CONCERN CONTINGENCY (Note 1)
COMMITMENTS (Note 7)
SUBSEQUENT EVENTS (Note 12)

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

	Year ended May 31, 2011	Year ended May 31, 2010
EXPENSES		
Amortization	$ 7,390	$ 8,093
Consulting fees	119,754	212,331
Interest and finance fees	25,984	1,440
Management and director fees (note 6)	275,247	496,359
Office and general	84,326	69,626
Professional fees (note 6)	289,659	215,271
Rent	40,955	42,744
Shareholder communications and investor relations (note 6)	125,265	185,254
Transfer agent and filing fees	37,609	43,644
Travel	48,586	45,750
LOSS BEFORE OTHER ITEMS	(1,054,775)	(1,320,512)
FOREIGN CURRENCY GAIN (LOSS)	(5,245)	14,304
INTEREST INCOME	-	134
NET LOSS AND COMPREHENSIVE LOSS	(1,060,020)	(1,306,074)
DEFICIT, BEGINNING OF YEAR	(3,379,767)	(2,073,693)
DEFICIT, END OF YEAR	$ (4,439,787)	$ (3,379,767)
BASIC AND DILUTED LOSS PER SHARE	$ (0.02)	$ (0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-BASIC AND DILUTED	47,572,012	38,358,971

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

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended May 31, 2011	Year ended May 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (1,060,020)	$ (1,306,074)
Adjusted for items not involving cash:		
- amortization	7,390	8,093
- stock-based compensation	133,519	515,011
	(919,111)	(782,970)
Changes in working capital items:		
- HST recoverable	(67,701)	4,469
- prepaid expenses	31,008	(32,244)
- accounts payable and accrued liabilities	(39,583)	18,691
- due to related parties	12,825	60,208
Cash flows used in operating activities	(982,562)	(731,846)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and exploration of resource properties	(1,105,382)	(2,117,084)
Loan to related party	(255,000)	-
Purchase of equipment	-	(1,882)
Cash flows used in investing activities	(1,360,382)	(2,118,966)
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares and subscriptions issued for cash	2,525,480	3,175,575
Cash flows from financing activities	2,525,480	3,175,575
INCREASE IN CASH	182,536	324,763
CASH, BEGINNING OF YEAR	376,230	51,467
CASH, END OF YEAR	$ 558,766	$ 376,230

SUPPLEMENTAL CASH-FLOW INFORMATION (Note 9)

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 evaluating, acquiring, exploring and developing mineral resource properties in Mexico. The Company has as its main asset a property which it is currently developing with the intent of constructing an open pit, heap leach gold mine and refinery. As such, the outlook for the Company is strongly tied to its ability to raise the financing necessary to continue its operations through its next fiscal year and to construct the mine and attain profitable operations thereafter. There can be no assurance this will occur, which creates uncertainty as to the ability of the Company to continue as a going concern, and if the Company does not achieve this, the net realizable value of the Company's assets may be materially less than the amounts recorded in these financial statements. The Company is confident in its ability to raise new funding by way of offerings of new equity and debt, or a combination thereof. Solicitation of such funding will be structured so as to, at minimum, adequately cover ongoing costs for the entirety of fiscal 2012.

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. On May 31, 2011 the Company had working capital of $659,134 and an accumulated deficit of $4,439,787. 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.

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 upon consolidation.

	Country of Incorporation	Percentage ownership
Minera Xochipala S.A. de C.V. ("Minera Xochipala") (note 3b)	Mexico	100%
Minas de Oroco S.A. de C.V. ("Minas de Oroco") (note 3a)	Mexico	100%
Minera Polimetalicos Mexicanos S.A. ("Polimetalicos") (note 3a)	Panama	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 May 31, 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
Resource properties (continued)

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.

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.

As at May 31, 2011, the Company had no asset retirement obligations.

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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, estimated useful lives of assets and the future tax rates to determine future income taxes and realization of future income tax assets. Where estimates have been used, financial results as determined by actual events could differ from those estimates.

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 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 years ended May 31, 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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
Financial instruments (continued)

- 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 does not engage in any form of derivative or hedging instruments.

The Company's financial instruments consist of cash, amounts due from related party, 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. Amounts due from related party are 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.

CICA Handbook Section 3862 requires disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 - Inputs that are not based on observable market data.

Also see Note 11.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Section 1601 is applicable for the Company's interim and annual financial statements for its fiscal year beginning 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.

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. Due to the Company's May 31 fiscal year-end, the transition date for the Company is June 1, 2011. Therefore, the IFRS adoption will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2010.

The Company has completed an internal IFRS scoping study, including a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and has identified a number of differences. The Company has begun to assess its requirements and first time adoption methodologies, including its internal training and resource needs and first time adoption implications.

NOTE 3 –INTEREST IN RESOURCE PROPERTIES

For the year ended May 31, 2011

	Cerro Prieto Properties
Balance at May 31, 2010	$ 6,927,316
Acquisition costs	
Share consideration	110,000
Cash	16,080
	126,080
Deferred exploration expenditures:	
Assessment and taxes	106,566
Economic assessment and planning	606,804
Engineering	83,168
Royalty payments	119,897
Sampling	118,290
Geologists	54,577
	1,089,302
Balance at May 31, 2011	$ 8,142,698

For the year ended May 31, 2010

	Cerro Prieto Properties
Balance at May 31, 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 RESOURCE 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 second concession, San Felix, 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 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 titles to 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 RESOURCE 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 $16,080 (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 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 appealed the PRM initial decision to the Federal Court of Fiscal and Administrative Justice, which handed down its decision on July 14, 2011. While nullifying PRM’s rejection of the Company’s application for registration on technical grounds, the court agreed with what was assumed to be the basis for PRM’s decision. As a result of the Federal Court’s decision, PRM is required to reconsider the Company’s application. The Company and its Mexican legal counsel are of the opinion that the Federal Courts position on the assumed basis for PRM’s rejection of the Company’s application is wrong at law and the Company has filed an appeal of that portion of the Federal Court decision. The Company also intends to make submissions directly to PRM for their consideration when reconsidering the Company’s application for registration of its interest in the Xochipala Property.

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, Guerrero State, Mexico

The Salvador Property is a 100 hectare mining concession 100% owned by Minera Xochipala. The Company has no immediate plans to explore the Salvador Property and fully impaired the carrying value of $113,080 attributed to the property as at May 31, 2009.

NOTE 4 – PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	Net book value
		May 31, 2011	
Automotive equipment	$ 15,948	$ 6,531	$ 9,417
Computer equipment	23,110	14,443	8,667
Leaseholds	10,017	4,247	5,770
Office furniture	3,070	1,540	1,530
Total	$ 52,145	$ 26,761	$ 25,384
		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, 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	$ 0.250	25,000
Warrants exercised	2,480,000	$ 0.250	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
Private placement – March 11, 2011	3,941,334	$ 0.30	1,182,400
Warrants exercised	2,943,600	$ 0.30	883,080
Reallocation of estimated fair value of warrants	-	-	(158,200)
Reallocation on exercise of warrants	-	-	63,165
Balance at May 31, 2011	54,112,355		$ 11,999,751

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 to be $97,500. 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 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 was 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 was $0.50 or greater for ten consecutive days, the Company could have, upon notice to the warrant holder, reduced 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 fair value of $0.25 per share, in settlement of $17,500 of debt.

On September 13, 2010, pursuant to the terms of the 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 its option to acquire the Argonauta 6 concession from Yamana's Mexican subsidiary, Meridian (See Note 3 – Interest in Mineral Properties (iii) Yamana Property).

NOTE 5 – SHARE CAPITAL (continued)
(b) Issued and outstanding (continued)

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 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.

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-transferrable 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. The fair value of the warrants attached to this private placement was estimated to be $118,200. 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.

Funds in the amount of $60,000 were received in advance of the July 2011 private placement. (Note 12).

(c) Warrants

(i) Share purchase warrant transactions:

	Number	Weighted average exercise price	Weighted average life remaining (years)
Balance of warrants at May 31, 2009	4,101,760	$ 0.90	.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	2,970,667	0.40	-
Exercised	(2,943,600)	0.30	-
Expired	(817,200)	0.34	-
Balance of warrants at May 31, 2011	3,105,417	$ 0.40	1.04

(ii) Summary of warrants outstanding at May 31, 2011:

Number of warrants	Exercise price	Expiry date
134,750	$ 0.30	3-Jun-2011
1,000,000	$ 0.30	14-Apr-2012
1,970,667	$ 0.45	12-Aug-2012
3,105,417		

(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 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.

NOTE 5 – SHARE CAPITAL (continued)

(d) Stock Options (continued)

	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 cancelled	(1,825,000)	0.55
Balance outstanding, May 31, 2010	3,285,000	0.27
Options granted	420,000	0.35
Options expired/forfeited	(310,000)	0.49
Balance outstanding, May 31, 2011	3,395,000	$ 0.26

The weighted average grant date fair value of options granted during the year was $0.22 (2010 - $0.21).

During the 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 one year of the underlying options. During the year ended May 31, 2011, $Nil (2010 - $21,282) 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 periods of between six months and two years of the underlying options. During the year ended May 31, 2011, $53,269 (2010, $493,729) was recorded as compensation expense related to options granted during this period and the remaining $19,800 will be recorded upon remaining vesting periods of these options.

During the fiscal year ending May 31, 2011, a total of 420,000 stock options were granted to certain employees, officers, directors and consultants of the Company at a price of $0.35 per share, exercisable for terms ranging from three to five years. The fair value of these options at the date of grants totalling $100,200 was estimated using the Black-Scholes option pricing model with the following assumptions: expected life of three to five years, risk-free interest rate of between 2.01% - 2.53%; expected dividend yield of 0% and an expected volatility of between 105.32% – 107.39%. The estimated fair value of these options is recorded as compensation expensed in a straight-line basis over the applicable vesting periods of between grant date and one year of the underlying options. During the year ended May 31, 2011, $80,250 (2010, $Nil) was recorded as compensation expense related to options granted during this period and the remaining $19,950 will be recorded upon remaining vesting periods of these options.

NOTE 5 – SHARE CAPITAL (continued)

The following tables summarize information about stock options outstanding at May 31, 2011 and 2010:

Expiry Date	Exercise prices $	Number outstanding at May 31, 2011	Remaining contractual life (years)
1-Nov-13	0.15	75,000	2.42
7-May-14	0.25	250,000	2.94
11-Dec-14	0.25	2,025,000	3.53
16-Dec-14	0.25	375,000	3.55
22-Apr-15	0.25	250,000	3.90
18-May-14	0.25	120,000	2.97
18-May-16	0.55	300,000	4.97
		3,395,000	3.60

Expiry Date	Exercise prices $	Number outstanding at May 31, 2010	Remaining contractual life (years)
1-Nov-13	0.15	75,000	3.42
7-May-14	0.25	250,000	3.94
11-Dec-14	0.25	2,025,000	4.53
16-Dec-14	0.25	375,000	4.55
22-Apr-15	0.25	250,000	4.90
7-May-12	0.25	60,000	1.94
08-Jan-13	0.55	250,000	2.64
		3,285,000	4.30

At May 31, 2011 fully vested stock options totalled 3,195,000 with a weighted average exercise price of $0.26.

(e) Contributed Surplus

	May 31, 2011	May 31, 2010
Balance, beginning of year	$ 978,698	$ 327,887
Stock-based compensation	133,519	515,011
Allocation of fair value of warrants	158,200	174,500
Exercise of warrants	(63,165)	(38,700)
Balance, end of year	$ 1,207,252	$ 978,698

NOTE 6 – RELATED PARTY TRANSACTIONS

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

	For the year ended May 31, 2011	For the year ended May 31, 2010
Management and director fees	$ 252,147	$ 496,358
Deferred resource expenditures	27,800	42,000
Professional fees	109,310	129,954
Investor relations	1,800	3,000
Total	$ 384,557	$ 671,312

Management fees include $98,100 (2010 – $354,900) in stock-based compensation which pertains to related parties. Professional fees include $Nil in stock based compensation (2010 - $47,250).

As at May 31, 2011 $150,385 (2010 - $155,060) was owing to officers and directors for management, director, legal, consulting and geologist fees. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

NOTE 6 – RELATED PARTY TRANSACTIONS (continued)

The related party transactions were in the normal course of operations and are measured at their exchange amounts being the amount of consideration as agreed to between the related parties.

On May 18, 2011, with the approval of the TSX-Venture Exchange, the Company loaned $255,000 to a related party in furtherance of a potential transaction. The loan is a refundable advance, bears interest at the rate of prime plus 1%, and is secured by a pledge of security comprised of a promissory note payable on demand with 30 days notice and a pledge of 1,200,000 common shares of the Company held by the related party.

NOTE 7 – COMMITMENTS

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

2012	$ 88,250
2013	$ 58,832

NOTE 8 – INCOME TAXES

The actual income tax provisions differ from the expected amounts calculated by applying the Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	May 31, 2011	May 31, 2010
Loss before income taxes	$ (1,060,020)	$ (1,306,073)
Corporate tax rate	27%	29%
Expected tax expense (recovery) at statutory rates	(286,205)	(378,761)
Increase (decrease) resulting from:		
Effect of decrease in tax rate and other	26,650	40,929
Share issue costs	-	(26,316)
Unrecognized items for tax purposes	36,050	149,353
Change in valuation allowance	223,505	214,795
Future income tax provision	$ -	$ -

The Company's tax-effected future income tax assets are estimated as follows:

	May 31, 2011	May 31, 2010
Future income tax assets (liabilities)		
Non-capital losses carried forward	$ 1,038,119	$ 767,241
Equipment costs in excess of tax value	3,806	(1,313)
Mineral properties in excess of tax value	(123,960)	(103,301)
Share issue costs	42,360	74,193
	960,325	736,820
Valuation allowance	(960,325)	(736,820)
	$ -	$ -

Due to the uncertainty of realization of these loss carryforwards and resource expenditures, the result is not reflected in the financial statements as the Company has provided a full valuation allowance for the potential future tax assets resulting from tax losses and resource pools.

NOTE 8 – INCOME TAXES (continued)

At May 31, 2011 the Company and its subsidiaries had non-capital losses remaining to be carried forward of approximately $4,069,000 which may be available to offset future year's taxable income and which expire commencing in 2018 in Mexico and 2027 in Canada. The losses expire approximately as follows:

2027	$ 203,000
2028	1,038,000
2029	859,000
2030	919,000
2031	1,050,000
	$ 4,069,000

The Company evaluates the recoverability of its future tax assets based on projected future operations. When circumstances change and this cause a change in management's judgment about the recoverability of future tax assets, the impact of the change in the valuation allowance is reflected in current income.

NOTE 9 – SUPPLEMENTAL CASH FLOW INFORMATION

	For the year ended May 31, 2011	For the year ended May 31, 2010
Interest paid	$ -	$ -
Taxes paid	$ -	$ -
Non-cash transactions not included in investing or financing activities		
Acquisition of mineral properties by the issuance of shares	$ 110,000	$ 72,500
Shares issued to settle debt	$ 17,500	$ -

NOTE 10 – 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 year ended May 31, 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 excess 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 11 - 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.

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 12 – SUBSEQUENT EVENTS

On June 15, 2011 the Company signed an indicative term sheet with a New York-based, private institutional investor (the "NY Investor") with regard to a US$18 million gold prepayment agreement (the "Gold Prepayment"). Proceeds from the prepayment agreement, after deduction of a 3% procurement fee and reimbursement of associated expenses, to a maximum expected to be in the range of US$200,000, incurred by the buyer, will be used to develop the Cerro Prieto Project. Pursuant to the indicative terms, repayment will be made by the delivery to the NY Investor of 21,000 ounces of gold, subject to pricing adjustments, over the 24 month period commencing as of the thirteenth month after closing. The Company will also grant 350 gold warrants per month for 24 months beginning 24 months after closing (8,400 ounces total) at an exercise price of $1,550 per ounce, with each warrant exercisable 2 business days after the first delivery of the respective calendar month, but no later than the 15th business day of the month.

By a loan agreement dated June 15, 2011 (the "Loan Agreement"), the Company borrowed US$750,000 (the "Bridge Loan") from a wholly owned subsidiary of the NY Investor for the purpose of paying the first instalment of the lease rate for the surface rights as set out below. The Bridge Loan is for a term of 180 days unless otherwise repaid earlier from the proceeds of the Gold Prepayment, and is secured by a general security agreement on the assets of the Company and a pledge of its shares in its subsidiaries. The Company paid an origination fee of US$45,000 to the lender, but the Bridge Loan bears no interest during its term.

NOTE 12 – SUBSEQUENT EVENTS (continued)

On June 17, 2011, the Company entered into a lease agreement (the "Lease Agreement") for a seven year lease of a 1,000 hectare parcel of surface rights over the Cerro Prieto Project, with the option for two consecutive five year extensions. Pursuant to the Lease Agreement, the Company paid the lessor the aggregate lease rate of US$2,000,000 in advance for the initial seven year term in two instalments: US$600,000 at the time of signing and the remaining US$1,400,000 on September 9, 2011.

On July 26, 2011, the Company completed a private placement of 4,250,000 units at a price of $0.28 per unit to raise gross proceeds of $1,190,000. Each unit consists 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 fifteen months at a price of $0.42 per share.

By an agreement dated August 18, 2011 ("the EPCM Agreement"), the Company retained Sonoran Resources, LLP and its wholly owned Mexican subsidiary ("Sonoran"), to provide equipment procurement and construction management services for the construction of an open pit, heap leach gold mine and refinery at the Company's Cerro Prieto property. Under the terms of the EPCM Agreement, Sonoran will provide all necessary engineering, procurement and construction management services related to the construction of the mine and refinery through to "first-pour". In consideration, the Company will pay Sonoran a flat monthly fee of US$260,900, to a maximum aggregate of US$3,130,800 and, subject to the approval of the TSX-Venture Exchange and the successful completion of a series of milestones, up to an aggregate total of 1,000,000 common shares of the Company and 500,000 options to purchase common shares of the Company at a price of $0.30 per share for a period of 3 years from the date of the EPCM Agreement.

On August 29, 2011, the New York Investor exercised its option under the Loan Agreement to advance a further bridge loan, and advanced a further US$1,721,440, being sufficient funds to pay the second instalment of US$1,400,000 due under the Lease Agreement, the associated 16% value added tax and the lender's 6% origination fee.