OROCO RESOURCE CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOVEMBER 30, 2012

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.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
(unaudited)

	November 30, 2012	May 31, 2012
ASSETS		
CURRENT		
Cash	$ 668,168	$ 1,128,011
HST recoverable	132,720	89,631
Prepaid expenses	5,781	8,931
Deposits	4,595	-
	811,264	1,226,573
VAT RECOVERABLE	527,687	469,482
EXPLORATION AND EVALUATION ASSETS (Note 4)	13,858,477	13,294,048
PROPERTY AND EQUIPMENT (Note 5)	18,767	20,382
	$ 15,216,195	$ 15,010,485
LIABILITIES		
CURRENT		
Trade payables and accrued liabilities (Note 6)	$ 776,819	$ 191,557
Due to related parties (Note 9)	248,594	218,704
Convertible debentures (Note 6)	3,334,374	3,198,832
	4,359,787	3,609,093
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8)	15,527,701	15,527,701
SHARE SUBSCRIPTIONS (Note 8)	634,250	-
RESERVES (Note 8)	2,312,148	2,212,448
DEFICIT	(7,617,691)	(6,338,757)
	10,856,408	11,401,392
	$ 15,216,195	$ 15,010,485

GOING CONCERN CONTINGENCY (Note 1)
COMMITMENTS (Notes 9 and 10)
SUBSEQUENT EVENTS (Note 13)

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.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
(unaudited)

	For the Three Months Ended November 30, 2012	For the Three Months Ended November 30, 2011	For the Six Months Ended November 30, 2012	For the Six Months Ended November 30, 2011
EXPENSES				
Amortization	$ 808	$ 1,184	$ 1,615	$ 2,434
Consulting fees (Note 9)	24,089	58,283	60,288	320,202
Finance fees and interest	488,781	575	651,236	1,283
Management and director fees (Note 9)	63,250	44,750	123,500	90,750
Office and general	24,498	24,482	65,331	55,764
Professional fees (Note 9)	121,117	80,846	195,242	162,721
Rent	22,559	18,414	45,118	29,462
Shareholder communications and investor relations	78,706	119,259	123,534	141,150
Transfer agent and filing fees	7,414	14,408	11,310	26,500
Travel	10,237	28,754	22,138	34,938
LOSS FROM OPERATIONS	(841,459)	(390,955)	(1,299,312)	(865,204)
FOREIGN CURRENCY GAIN (LOSS)	12,460	(53,495)	20,378	(107,555)
INTEREST INCOME	-	1,302	-	4,236
NET LOSS AND COMPREHENSIVE LOSS	(828,999)	(443,148)	(1,278,934)	(968,523)
DEFICIT, BEGINNING OF PERIOD	(6,788,692)	(4,980,008)	(6,338,757)	(4,454,633)
DEFICIT, END OF PERIOD	(7,617,691)	(5,423,156)	(7,617,691)	(5,423,156)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	69,376,155	58,729,432	69,376,155	57,267,568

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

OROCO RESOURCE CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

	Share Capital						
	Number	Amount	Stock option and warrant reserve	Equity component of convertible debt reserve	Subscription receipts	Deficit	Total
May 31, 2010	44,657,421	$ 9,501,806	$ 990,063	$ -	$ -	$ (3,391,132)	$ 7,100,737
Shares for debt	70,000	17,500	-	-	-	-	17,500
Stock based compensation	-	-	137,000	-	-	-	137,000
Issued pursuant to Yamana option	500,000	110,000	-	-	-	-	110,000
Private placement – Oct. 18/10	2,000,000	400,000	-	-	-	-	400,000
Private placement – Mar. 11/11	3,941,334	1,182,400	-	-	-	-	1,182,400
Reallocation of estimated fair value of warrants	-	(158,200)	158,200	-	-	-	-
Exercise of warrants	2,943,600	883,080	-	-	-	-	883,080
Reallocation on exercise of warrants	-	63,165	(63,165)	-	-	-	-
Subscriptions received	-	-	-	-	60,000	-	60,000
Net loss for the year	-	-	-	-	-	(1,063,501)	(1,063,501)
May 31, 2011	54,112,355	11,999,751	1,222,098	-	60,000	(4,454,633)	8,827,216
Private placement - Jul 26/11	4,250,000	1,190,000	-	-	(60,000)	-	1,130,000
Private placement – Nov 23/11	4,772,000	1,193,000	-	-	-	-	1,193,000
Reallocation of estimated fair value of warrants	-	(238,300)	238,300	-	-	-	-
Stock based compensation	-	-	21,444	-	-	-	21,444
Net loss for the period	-	-	-	-	-	(968,523)	(968,523)
November 30, 2011	63,134,355	14,144,451	1,481,842	-	-	(5,423,156)	10,203,137
Private placement – Mar 22/12	5,991,800	1,467,500	-	-	-	-	1,467,500
Reallocation of estimated fair value of warrants	-	(146,750)	146,750	-	-	-	-
Stock based compensation	-	-	170,948	-	-	-	170,948
Reallocation of fair value of warrant extension	-	-	30,000	-	-	-	30,000
Shares issued for services	250,000	62,500	-	-	-	-	62,500
Equity portion of convertible debt	-	-	-	516,608	-	-	516,608
Deferred income tax recovery	-	-	-	(133,700)	-	-	(133,700)
Net loss for the period	-	-	-	-	-	(915,601)	(915,601)
May 31, 2012	69,376,155	15,527,701	1,829,540	382,908	-	(6,338,757)	11,401,392
Subscriptions received	-	-	-	-	634,250	-	634,250
Stock based compensation	-	-	45,000	-	-	-	45,000
Reallocation of fair value of warrant extension	-	-	54,700	-	-	-	54,700
Net loss for the period	-	-	-	-	-	(1,278,934)	(1,278,934)
November 30, 2012	69,376,155	$ 15,527,701	$ 1,929,240	$ 382,908	$ 634,250	$ (7,617,691)	$ 10,856,408

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

OROCO RESOURCE CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(unaudited)

	For the Three Months Ended November 30, 2012	For the Three Months Ended November 30, 2011	For the Six Months Ended November 30, 2012	For the Six Months Ended November 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	$ (828,999)	$ (443,148)	$ (1,278,934)	$ (968,523)
Adjusted for items not involving cash:				
- amortization	808	1,184	1,615	2,434
- stock-based compensation	45,000	6,866	45,000	21,444
- unrealized foreign exchange gain	-	103,553	-	102,578
- non-cash finance fees	54,700	-	54,700	-
- accrued interest and accretion	68,105	-	135,542	-
	(660,386)	(331,545)	(1,042,077)	(842,067)
Changes in working capital items:				
- HST recoverable	(25,502)	65,192	(43,089)	36,232
- VAT recoverable	(34,140)	(257,126)	(58,205)	(343,075)
- prepaid expenses	1,575	595,702	3,150	12,191
- deposits	(137)	-	(4,595)	-
- loan receivable from related party	-	255,000	-	255,000
- trade payables and accrued liabilities	368,562	126,859	447,479	181,131
- due to related parties	61,437	15,770	29,890	32,514
Cash flows used in operating activities	(288,591)	469,852	(667,447)	(668,074)
CASH FLOWS FROM INVESTING ACTIVITIES				
Exploration and evaluation expenditures	(98,756)	(2,644,672)	(370,396)	(3,564,591)
Cash flows used in investing activities	(98,756)	(2,644,672)	(370,396)	(3,564,591)
CASH FLOWS FROM FINANCING ACTIVITIES				
Shares issued and subscriptions received	634,250	1,193,000	634,250	2,323,000
Loans payable	-	-	-	2,419,032
Debenture costs	-	-	(56,250)	-
Cash flows from financing activities	634,250	1,193,000	578,000	4,742,032
INCREASE (DECREASE) IN CASH	246,903	(981,820)	(459,843)	509,367
CASH, BEGINNING OF PERIOD	421,265	2,049,953	1,128,011	558,766
CASH, END OF PERIOD	$ 668,168	$ 1,068,133	$ 668,168	$ 1,068,133

SUPPLEMENTAL CASH-FLOW INFORMATION (Note 11)

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

NOTE 1 - NATURE OF OPERATIONS

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 developing mineral resource properties in Mexico. The Company is listed on the TSX Venture Exchange (the "TSX-V"). 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.

The Company's head office and principal address is located at #789 - 999 West Hastings Street, Vancouver, British Columbia, Canada.

NOTE 2 – BASIS OF PRESENTATION AND FIRST TIME ADOPTION OF IFRS

Statement of Compliance

These unaudited condensed consolidated financial statements, including comparative figures, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The financial statements were authorized by the audit committee and board of directors of the Company on January 29, 2013.

Going Concern

These financial statements have been prepared on a going concern basis which implies that the Company will continue realizing its assets and discharging its liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate, further adjustments to the carrying values of assets and liabilities may be required. On November 30, 2012 the Company had a working capital deficit of $3,548,523 and an accumulated deficit of $7,617,691 and further losses are expected in the future which must be funded by additional debt or equity financings. 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 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 construct the mine and attain profitable operations thereafter. On April 13, 2012 the Company signed an indicative term sheet with a US-based, private institutional investor (the "US Investor") with regard to a $3.75 million convertible debenture (the "Debenture"), a US$15 million gold prepayment agreement (the "Gold Prepayment"), a US$1 million Cost Overrun Facility (the "Facility") and a Off-take Agreement for the Cerro Prieto Project. This agreement requires the Company to finance the balance of the capital necessary to construct the mine as a precondition to the release to the Company of some or all of the gold prepayment funds. It is important that the Company meet the conditions for release of the gold prepayment funds in order for it to construct the mine, initiate production and attain positive cash flows. There can be no assurance this will occur 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. In addition, the Company expects it will need to raise capital to continue its other operations through its next fiscal year. These uncertainties may cast significant doubt as to the ability of the Company to continue as a going concern. 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 2013.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at June 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

Basis of Consolidation and Presentation
The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

These consolidated financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

	Country of Incorporation	Percentage ownership
Minera Xochipala S.A. de C.V. ("Minera Xochipala")	Mexico	100%
Minas de Oroco S.A. de C.V. ("Minas de Oroco")	Mexico	100%
Minera Polimetalicos Mexicanos S.A. ("Polimetalicos")	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 November 30, 2012 and 2011 the Company did not hold any cash equivalents.

VAT recoverable
VAT recoverable is comprised of value added tax credits refundable from the Government of Mexico ("IVA") and is currently calculated as 16% of expenditures in Mexico.

Exploration and evaluation assets
Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. All costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are charged to operations.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

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 does not have any producing mineral properties and all of its efforts to date have been exploratory in nature. Upon the establishment of commercial production, carrying values of deferred acquisition and exploration costs are amortized over the estimated life of the mine using the units of production method.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss. The Company had no measurable rehabilitation obligations as at November 30, 2012, and 2011.

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. The Company had no other provisions as at November 30, 2012, and 2011.

Impairment

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

Where an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Property and equipment

Property and equipment is stated at cost less accumulated amortization. The cost of property, and equipment at June 1, 2010, the date of transition to IFRSs, was determined by reference to its historical cost less accumulated amortization as previously reported under Canadian generally accepted accounting principals ("CGAAP").

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 functional currency of the Company and each of its subsidiaries is the currency of the primary economic environment in which they operate. The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. The functional currency determinations were conducted through an analysis of the consideration factors indentified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*. Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Non-monetary items are translated into Canadian dollars at the exchange rate in effect on the respective transaction dates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and warrants issued in private placements, the recoverability and measurement of deferred tax assets, decommissioning, restoration and similar liabilities and contingent liabilities.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include the classification of expenditures as exploration and evaluation expenditures or operating expenses and the classification of financial instruments.

Stock-based compensation

The fair value of options granted is recognized as stock-based compensation expense with a corresponding increase in reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to capital stock and the fair value of the options is reclassified from reserves to share capital

The Company accounts for the granting of stock options and direct awards of stock to employees, directors and non-employees using the fair value method whereby all awards will be recorded at fair value on the date of grant. Stock-based compensation awards are calculated using the Black-Scholes option pricing model. Compensation expense is recognized immediately for past services and pro rata for future services over the options vesting period with a corresponding increase in reserves.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share
The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Income taxes
Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial position reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the financial position reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Financial assets
All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities
All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. The Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade payables and accrued liabilities and convertible debentures are classified as other financial liabilities.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

New standards, amendments and interpretations not yet effective:
A number of new standards, amendments to standards and interpretations are not yet effective as of November 30, 2012 and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

Accounting standards effective January 1, 2012

Financial instruments disclosure
In October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Income taxes
In December 2010, the IASB issued an amendment to IAS 12 – Income taxes; it provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Accounting standards anticipated to be effective January 1, 2013

Joint ventures
In May 2011 IASB published IAS 28 - Investments in Associates and Joint Ventures. IAS 28 applies to all investments in which an investor has significant influence but not control or joint control except for investments held by a venture capital organization, mutual fund, unit trust, and similar entity that are designated under IAS 39 to be at fair value with fair value changes recognized in profit or loss. The Company does not anticipate this new standard to have a significant impact on its consolidated financial statements.

Interests in Other Entities
In May 2011 IASB published IFRS 12 - Disclosure of Interests in Other Entities. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate:
- the nature of, and risks associated with, its interests in other entities
- the effects of those interests on its financial position, financial performance and cash flows.

The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Consolidation
In May 2011 IASB published IFRS 10 – Consolidated Financial Statements. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at FVTPL, financial guarantees and certain other exceptions. The IASB has issued exposure drafts addressing impairment of financial instruments, hedge accounting and the offsetting of financial assets and liabilities, with comments due in March and April of 2011. In December 2011 the effective date was amended to January 1, 2015. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

NOTE 4 –EXPLORATION AND EVALUATION ASSETS

For the six months ended November 30, 2012

	Cerro Prieto Properties	Xochipala Properties	Total
Balance at May 31, 2012	$ 13,294,048	$ -	$ 13,294,048
Acquisition costs			
Share consideration	-	-	-
Royalty payments	59,640	-	59,640
	59,640	-	59,640
Deferred exploration expenditures:			
Lease payment, assessment fees and taxes	75,351	133	75,484
Mine planning and development costs	307,055	-	307,055
Engineering	9,179	-	9,179
Sampling	23,781	10,057	33,838
Geologists	53,174	26,059	79,233
Total for period ended November 30, 2012	528,180	36,249	564,429
Balance at November 30, 2012,	$ 13,822,228	$ 36,249	$ 13,858,477

	May 31, 2012
Balance, beginning of year	$ 8,142,698
Acquisition costs	
Share consideration	-
Cash	52,262
Royalty payments	122,471
	174,733
Deferred exploration expenditures:	
Lease payment, assessment fees and taxes	2,427,249
Economic assessment	-
Mine planning and development costs	1,586,669
Engineering	125,095
Sampling	47,940
Geologists	191,620
Drilling	598,044
Total for year ended May 31, 2012	4,976,617
Balance, May 31, 2012	$ 13,294,048

NOTE 4 –EXPLORATION AND EVALUATION ASSETS (continued)

(a) Cerro Prieto Property, Sonora State, Mexico

The Cerro Prieto Property, located in the Municipality of Cucurpe, Sonora, Mexico, 150 kilometres northeast of the city of Hermosillo, is comprised of the San Felix (205 ha), San Francisco (10 ha), Cerro Prieto "North" (2,508 ha), Argonauta 6 (4,224 ha), Elba (5.82 ha), Reyna de Plata (9.79 ha) and Huerto De Oro (20 ha) mineral concessions. The titles to all of these concessions are held by Minas de Oroco.

Lease payment, assessment fees and taxes include $1,973,947 paid for a seven-year lease of a 1,000 hectare parcel of surface rights over the Cerro Prieto Project. See Note 10.

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

The SF Concessions were the first of the Cerro Prieto Property concessions to be acquired by the Company. The San Francisco Concession, consisting of 10 hectares, covers the underground workings of the Cerro Prieto Mine. The second concession, San Felix surrounds the San Francisco Concession on all sides. The SF Concessions are subject to a 2% net smelter royalty in favour of the 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

Minas de Oroco acquired a 100% interest in the Cerro Prieto "North" concession, which is located to the north of the SF Concessions, on March 9, 2009.

(iii) Argonauta 6 Concession

Minas de Oroco acquired a 100% interest, subject to a 2% net smelter return royalty (the "Argonauta NSR"), in the Argonauta 6 concession from Minera Meridian Minerales, S. de R.L. de C.V. ("Meridian"), a subsidiary of Yamana Gold Inc. ("Yamana") on September 13, 2010. The acquisition was made further to an agreement dated May 5, 2009 between the Company and Yamana (the "Yamana Agreement") pursuant to which Yamana caused Meridian to grant to Minas de Oroco an option (the "Argonauta Option") to acquire what is now the Argonauta 6 Concession. Pursuant to the Yamana Agreement, the Company issued and delivered to Yamana 500,000 common shares with a value of $72,500 upon the granting of the Argonauta Option and a further 500,000 common shares with a value of $110,000 upon its exercise by Minas de Oroco of the Argonauta Option. Pursuant to the Argonauta Option, Minas de Oroco conducted 1,500 meters of drilling to maintain the Argonauta Option and granted to Meridian the Argonauta NSR.

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

Minas de Oroco acquired a 100% interest in the Elba, Huerta de Oro, Reyna de Plata concessions on December 23, 2011 for the price of MX$875,000 (C$68,342 - paid). The Elba Concession is located within the area of the San Felix concession, immediately to the south of and on strike from the current delineated resource. The Reyna de Plata and Huerto de Oro concessions lie approximately 4 kilometers east of the SF Concessions.

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

The Xochipala Concessions, two contiguous concessions with a combined area of 193 ha, are located in the Municipality of Chilpancingo, Guerrero State, Mexico. Minera Xochipala acquired a 100% interest in the Xochipala Concessions in January, 2007, including the interest purchased from the estate of a Mexican citizen, Carlos Camacho (the "Camacho Estate"), which constituted fifty percent (50%) of the Celia Gene concession and all (100%) of the Celia Generosa concession (collectively, the "Camacho Interest"). Minera Xochipala applied for registration of its acquisition in March, 2008. In October, 2009, the PRM rejected Minera Xochipala's application for reasons which were considered incorrect at law by Minera Xochipala's legal counsel. Minera Xochipala filed an appeal of the PRM decision in November, 2009. In a decision rendered in July, 2011, the Federal Tribunal of Tax and Administrative Justice (the "Federal Tribunal") nullified the rejection and sent the matter back to the PRM for reconsideration. The PRM registered the Xochipala Concessions to Minera Xochipala on July 12, 2012.

NOTE 4 –EXPLORATION AND EVALUATION ASSETS (continued)

However, in 2010, while Minera Xochipala's application was before the Federal Tribunal, a judgment debtor against the Camacho Estate applied to a Guerrero State court (the "State Court") for enforcement of his judgment. Unaware that the Camacho Estate had sold the Camacho Interest to Minera Xochipala in 2007, and without notice to Minera Xochipala, the State Court attached the Camacho Interest in February of 2010 (when it no longer was an asset of the Camacho Estate), auctioned the Camacho Interest in July, 2011, and issued an order to the PRM to register the Camacho Interest in the name of the winning bidder. In July, 2012, in possession of both the Federal Tribunal decision to reconsider Minera Xochipala's application and the State Court's order to transfer the Camacho Interest to the winning bidder, the PRM registered a 100% interest in the Xochipala Concessions in the name of Minera Xochipala. Though successful in obtaining PRM registration of its 100% interest in the Xochipala Concessions, Minera Xochipala, for reason of the existence of the State Court order, subsequently took the precautionary step of filing an "amparo" petition with the Federal Court of Mexico to have the State Court's order struck altogether. As part of that process, Minera Xochipala also obtained an injunction prohibiting the PRM from complying with any order of the State Court with regard to the Camacho Interest.

On October 15, 2012, Minera Xochipala was served with notice of an "amparo" petition seeking to overturn the registration of the Xochipala Concessions to Minera Xochipala. The PRM was in possession of the Guerrero Order at the time it registered the Xochipala Concessions to Minera Xochipala, but it determined that Minera Xochipala's application had priority over the Guerrero Order. The Petitioner's amparo is based on the PRMs resolution to not comply with the Guerrero Order in registering the concessions to Minera Xochipala. On October 30, 2012, the Federal Court joined the two amparo petitions in order to resolve both in a single decision. The "constitutional hearing" of the presentation of evidence and final arguments is scheduled to occur on February 15, 2013. Once this hearing takes place, the court will be in a position to issue a decision.

The Company previously wrote off the carrying value of $224,303 attributed to the costs of the Xochipala Concessions in fiscal 2009, leaving a $nil balance.

(c) Salvador Concession

Minera Xochipala was granted the 100 hectare Salvador Concession, located in the Municipality of Chilpancingo, Guerrero State, Mexico, on August 2, 2007. The Company previously wrote off the carrying value of $113,080 attributed to the property in fiscal 2009 leaving a $nil balance.

NOTE 5 – PROPERTY AND EQUIPMENT

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
Cost:					
At May 31, 2011	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Additions	-	-	-	-	-
At May 31, 2012	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
At November 30, 2012	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Depreciation:					
At May 31, 2011	$ 6,531	14,443	4,247	$ 1,540	$ 26,761
Charge for the period	942	2,600	1,154	306	5,002
At May 31, 2012	7,473	17,043	5,401	1,846	31,763
Charge for the period	424	607	462	122	1,615
At November, 2012	$ 7,897	$ 17,650	$ 5,863	$ 1,968	$ 33,378
Net book value:					
At May 31, 2011	$ 9,417	$ 8,667	$ 5,770	$ 1,530	$ 25,384
At May 31, 2012	$ 8,475	$ 6,067	$ 4,616	$ 1,224	$ 20,382
At November 30, 2012	$ 8,051	$ 5,460	$ 4,154	$ 1,102	$ 18,767

NOTE 6 – CONVERTIBLE DEBENTURES

Balance May 31, 2011	$	-
Principal advanced during the year		3,750,000
Finders' fees		(56,250)
Equity component, inclusive of share of fees		(516,608)
Accretion expense for the year		21,690
Balance May 31, 2012		3,198,832
Accretion expense for the period		135,542
Balance November 30, 2012	$	3,334,374

On May 2, 2012, per the indicative term sheet signed on April 13, 2012 between the Company and the US Investor (see Note 2), the Company issued two debentures (the "Debentures"), in the aggregate amount of $3,750,000, to affiliates of the US Investor (the "Holders"). The Debentures have a term of two years and bear interest at a rate of 10% per annum payable semi-annually. The Holders may declare the principal amount due and payable if: (i) the first tranche of funds under the Gold Prepayment Agreement has not been drawn prior to November 1, 2012 (requiring the Company to first enter into the Gold Prepayment Agreement); (ii) the Company provides notice to the Holder that it will not complete the Gold Prepayment Agreement; or (iii) the Company completes one or more equity financings greater than $4 million in the aggregate other than an equity offering intended to finance the balance of the capital necessary to construct the mine at Cerro Prieto (an "Equity Offering"). In the event of any of (i) to (iii) above, the Company shall also be required to pay a break fee to the Holders in the total amount of $270,000 (the "Break Fee"). The Company did not pay the interest due on the Debentures on October 30, 2012 and it did not draw the first tranche of funds under the Gold Prepayment Agreement prior to November 1, 2012 and therefore the Break Fee clause was triggered. The Company has received a notice of default from the Holders with regard to the outstanding interest due and the break fee. The Company paid the Break Fee and the related interest subsequent to period end. The Debentures are convertible into units at a price of $0.25 per unit, with each unit being comprised of one common share of the Company and one half of one share purchase warrant. Each whole warrant will entitle the holder to purchase one common share of the Company at a price of $0.40 per share for a period of two years from the date of issuance of the Debenture. The Debentures will also grant the Holders a right of first refusal to participate in such equity offering as is made by the Company for the purpose of raising the balance of the funds necessary to fund the capital expenditures required to complete and commission a mine at Cerro Prieto (an "Equity Offering"), for that number of shares as will give the Holders, including subsidiaries and affiliates, a total shareholding of not more than 19.9% of the Company's issued and outstanding common shares. If a Holder exercises its right of first refusal to participate in any Equity Offering, the Holder may declare that amount of the principal amount of the Debenture equal to the total purchase price of the equity it is purchasing pursuant to its right of first refusal to be immediately due. The Company paid finders' fees of $56,250 in connection with the issuance of the debentures.

At issuance, the proceeds of the Debentures were allocated between the equity and liability components of the convertible debentures. This allocation was made by determining the estimated fair value of the liability component and applying the residual balance of the proceeds to the equity component. The fair value of the liability component was determined by estimating the fair value interest rate that would apply to comparable debt without the associated conversion feature. This fair value interest rate was estimated to be 18% which resulted in a fair value of the liability component of $3,225,525 and the residual value assigned to the equity component of $524,475. In addition, the finders' fees were allocated on a relative basis between the liability ($48,383) and equity ($7,867) components.

Also at issuance, the Company recorded a deferred income tax liability relating to the difference between the Company's accounting and tax basis of the convertible debt. The amount of this deferred tax liability of $133,700 was recorded as an addition to the equity component of the convertible debt as described above.

The liability component is presented on an amortized cost basis and will be accreted to its face amount over the term to maturity of the convertible debentures at an effective interest rate (not including the contractual interest rate) of approximately 8.3%.

The contractual interest at 10% per annum on the debenture and, as of November 1, 2012, the Break Fee is recorded in trade payables and accrued liabilities of which $221,054 has been accrued as of November 30, 2012.

NOTE 7 - LOAN PAYABLE

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 a New York-based, private institutional investor (the "Lender") for the purpose of paying the first instalment of the lease rate for the surface rights for the Cerro Prieto Project as set out in Note 10. The Bridge Loan was for a term of 180 days unless otherwise repaid earlier from the proceeds of the Gold Prepayment as described in Note 2, and was 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.

On August 29, 2011, the Lender exercised its option under the Loan Agreement and advanced a further bridge loan totalling US$1,721,440 (the "Second Advance"), being sufficient funds to pay the second instalment of US$1,400,000 due under a surface rights lease agreement, the associated 16% value added tax and the Lender's origination fee of US$97,440. In accordance with the terms of the Loan Agreement, upon the Lender advancing the further US$1,721,440, the Bridge Loan and the Second Advance became due upon demand from the Lender.

Interest at a rate of 12% per annum commenced on each of the Bridge Loan and the Second Advance 180 days from the date of respective advance of each,

On April 18, 2012, the Lender demanded payment of the Bridge Loan. On May 2, 2012, the Company repaid the Bridge Loan principal and interest accrued thereon in the total amount of $2,515,270 comprised of US$2,471,440 of principal and US$71,548 of accrued interest. These amounts were repaid directly from the proceeds of the Debentures described in Note 6.

On November 19, 2012 the Company entered into a term sheet (the "Term Sheet") with Waterton Global Value L.P. ("Waterton") whereby Waterton committed to provide to the Company a secured $5 million dollar convertible debt facility (the "Facility"). Pursuant to the Term Sheet, the 2 year Facility will have a coupon rate of 10% and will be convertible into common shares of the Company at a price of $0.25 per share. If the Company prepays the Facility, the amount of pre-payment will be 115% of the amount being prepaid, which would increase to 130% if the Company were to lose the current amparo petitions with regard to the Xochipala property (the "Amparos"). If the Company prepays the Facility or if there is a change of ownership of the Xochipala property other than as a result of the Amparos, the Company will transfer a 12.5% interest in the Xochipala property to Waterton and grant it an option to earn a further 10% interest by funding $1,250,000 of exploration expenditures on the Xochipala property. Waterton is entitled to a break fee in the amount of $150,000 and reimbursement of costs if the Facility agreement is not executed by the parties within 60 days of the date of the Term Sheet.

NOTE 8 – SHARE CAPITAL

Authorized:
Unlimited common shares of no par value.

On June 4, 2010, the Company issued 70,000 common shares with a 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 with a value of $110,000 to Yamana upon the exercise by Minas de Oroco of its option to acquire the Argonauta 6 concession from Yamana's Mexican subsidiary, Meridian.

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 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

NOTE 8 – SHARE CAPITAL (continued)

value was estimated to be 10% of the unit offering price, an amount which management believes represents the value ascribed by subscribers to the unit offering.

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. The fair value of the warrants attached to this private placement was estimated to be $119,000. Fair value was estimated to be 10% of the unit offering price, an amount which management believes represents the value ascribed by subscribers to the unit offering.

On November 23, 2011, the Company completed a private placement of 4,772,000 units at a price of $0.25 per unit to raise gross proceeds of $1,193,000. 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 eighteen months at a price of $0.40 per share. The fair value of the warrants attached to this private placement was estimated to be $119,300. Fair value was estimated to be 10% of the unit offering price, an amount which management believes represents the value ascribed by subscribers to the unit offering.

On March 22, 2012, the Company completed a private placement of 5,991,800 units (including 121,800 units paid as finders fees) at a price of $0.25 per unit to raise gross proceeds of $1,467,500. 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 eighteen months at a price of $0.40 per share. The fair value of the warrants attached to this private placement was estimated to be $146,750. Fair value was estimated to be 10% of the unit offering price, an amount which management believes represents the value ascribed by subscribers to the unit offering.

On May 3, 2012, the Company issued 250,000 common shares with a value of $0.25 per share in exchange for $62,500 in services rendered under the EPCM Agreement (as defined in Note 10 - Commitments).

Warrants

Share purchase warrant transactions:

	Number	Weighted average exercise price		Weighted average life remaining (years)
Balance of warrants at May 31, 2011	3,105,417	$	0.40	1.04
Issued	7,506,900		0.41	-
Exercised	-		-	-
Expired	(134,750)		0.30	-
Balance of warrants at May 31, 2012	10,477,567	$	0.40	0.76
Issued	-		-	-
Exercised	-		-	-
Expired	(1,000,000)		0.30	-
Balance of warrants at November 30, 2012	9,477,567	$	0.41	0.52

On April 12, 2012 the Company, with the approval of the TSX-V, amended the terms of 1,000,000 outstanding warrants by extending their term from April 14, 2012 to October 14, 2012. There has been no change to the exercise price of $0.30 per share. A finance fee expense with a value of $30,000 on extension was estimated using the Black-Scholes option pricing model assuming an average expected remaining life of 1/2 a year, a risk-free interest rate of 1.02%, a nil dividend yield and an expected volatility of 63%.

On September 12, 2012 the Company, with the approval of the TSX V, amended the terms of 1,970,667 outstanding warrants by extending their term from September 12, 2012 to March 12, 2013. There has been no change to the exercise price of $0.45 per share.

On October 17, 2012, the Company, with the approval of the TSX-V, amended the terms of 2,125,000 outstanding warrants by extending their expiry date from October 26, 2012 to April 26, 2013. There has been no change to the exercise price of $0.42 per share. A finance fee expense with a value of $54,700 was estimated on these two extensions using the Black-

NOTE 8 – SHARE CAPITAL (continued)

Scholes option pricing model assuming an average expected remaining life of 1/2 a year, a risk-free interest rate of 1.03%, a nil dividend yield and an expected volatility of 75%.

Summary of warrants outstanding at November 30, 2012:

Number of warrants	Exercise price		Expiry date
1,970,667	$	0.45	12-Mar-2013
2,125,000	$	0.42	26-Apr-2013
2,386,000	$	0.40	23-May-2013
1,640,000	$	0.40	5-Sep-2013
1,355,900	$	0.40	22-Sep-2013
9,477,567			

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.

	Number of stock options	Weighted Average Exercise Price	
Balance outstanding, May 31, 2011	3,395,000	$	0.26
Options granted	750,000		0.30
Options cancelled	(300,000)		0.35
Balance outstanding, May 31, 2012	3,845,000		0.26
Options granted	250,000		0.28
Options expired/forfeited/cancelled	(670,000)		0.29
Balance outstanding November 30, 2012	3,425,000	$	0.26

The weighted average grant date fair value of options granted during the year ended May 31, 2012 was $0.17.

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 totaling $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%. A portion of the stock options outstanding vest in instalments, whereby each instalment is accounted for as a separate arrangement (also know as "Graded Vesting"). During the year ended May 31, 2011, 459,998 options vested on various schedules and 240,000 options vested during the fiscal year ending May 31, 2012.

During the fiscal year ending May 31, 2012, a total of 750,000 stock options were granted to certain employees, officers, directors and consultants of the Company at a price of $0.30 per share, exercisable for a term of five years and fully vested on grant. The fair value of these options at the date of grants totaling $167,315 was estimated using the Black-Scholes option pricing model with the following assumptions: expected life of five years, risk-free interest rate of 1.45%; expected dividend yield of 0% and an expected volatility of 133%. During the year ended May 31, 2012, $167,315 was recorded as compensation expense related to options granted. During the six months ended November 30, 2012, 670,000 options expired.

During the six month period ending November 30, 2012, a total of 250,000 stock options were granted to certain consultants of the Company at a price of $0.275 per share, exercisable for five years. The fair value of these options at the grant date totaling $45,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected life of five years, risk-free interest rate of 1.40%; expected dividend yield of 0% and an expected volatility of 88%.

The following tables summarize information about stock options outstanding at November 30, 2012:

NOTE 8 – SHARE CAPITAL (continued)

Expiry Date	Exercise prices $	Number outstanding at November 30, 2012	Remaining contractual life (years)
1-Nov-13	0.15	75,000	.92
7-May-14	0.25	250,000	1.43
11-Dec-14	0.25	2,025,000	2.03
16-Dec-14	0.25	375,000	2.04
1-Dec-16	0.30	450,000	4.01
25-Jul-17	0.275	187,500	4.65
		3,362,500	2.41

At November 30, 2012 fully vested stock options totalled 3,362,500 with a weighted average exercise price of $0.26.

Reserves

At November 30, 2012, the Company had a Stock Option and Warrant Reserve balance of $1,929,240 (2011 – $1,222,098) consisting of warrant valuations on warrants attached to various private placements and stock-based compensation associated with stock option grants to employees, consultants, directors and officers.

At November 30, 2012, the Company had an Equity Component of Convertible Debt Reserve of $382,908, consisting of the equity portion of the convertible debt of $516,608 and the related deferred income tax recovery of $133,700.

NOTE 9 – RELATED PARTY TRANSACTIONS

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

	For the six months ended November 30, 2012	For the six months ended November 30, 2011
Management and director fees	$ 123,500	$ 90,750
Geologist fees	10,200	11,787
Consulting	6,000	30,000
Professional fees	51,000	47,250
Total	$ 190,700	$ 179,787

As at November 30, 2012 $248,594 (November 30, 2011 - $182,899) 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.

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.

The Company is party to the following contracts with key management personnel:

a) the Company entered into an agreement with ATM Mining Corp. ("ATM") and Craig Dalziel whereby ATM provides Mr. Dalziel's services and Mr. Dalziel serves as the President and Chief Executive Officer of the Company at a monthly fee of $12,500 plus applicable taxes. The Company has also granted Mr. Dalziel 450,000 stock options exercisable at a price of $0.25 per share.
b) the Company entered into an agreement with David Rose whereby Mr. Rose is engaged to perform legal and management services for the Company and serves as its Corporate Secretary at a monthly fee of $11,000 plus applicable taxes. The Company has also granted Mr. Rose 425,000 stock options exercisable at prices of $0.25 and $0.30 per share; and
c) the Company entered into an agreement with Roger Scammell whereby Mr. Scammell is engaged to serve as Vice-President of the Company and to oversee the construction of the planned mine at the Company's Cerro Prieto Project in Sonora, Mexico at a per diem fee of $1,000 per day plus applicable taxes, with a minimum aggregate monthly total of

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

$6,000 plus applicable taxes. The Company also granted Mr. Scammell 300,000 stock options exercisable at a price of $0.30 per share. Mr. Scammell resigned on September 30, 2012 and the 300,000 stock options granted to him also expired on that date.

On May 18, 2011, with the approval of the TSX-V, the Company loaned $255,000 to a related party in furtherance of a potential transaction. The loan was a refundable advance on a potential transaction, bore interest at the rate of prime plus 1%, and was 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. During fiscal 2012 the loan was repaid in full with interest of $3,986.

NOTE 10 – COMMITMENTS

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

2012	$ 90,236
2013	$ 22,559

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 C$1,973,947 (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.

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 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 30 months from the date of the EPCM Agreement. The payments begin on commencement of mine construction. On May 3, 2012, the Company issued and delivered the first instalment of the common shares to Sonoran upon the achievement of the first milestone (see Note 8 – Share Capital).

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

	For the six months ended November 30, 2012	For the six months ended November 30, 2011
Interest paid	$ -	$ -
Taxes paid	$ -	$ -
Non-cash transactions not included in investing or financing activities		
Acquisition of exploration and evaluation assets by the issuance of shares	$ -	$ -
Shares issued to settle debt	$ -	$ -
Shares issued for services	$ -	$ -

NOTE 12 – FINANCIAL INSTRUMENT RISK AND CAPITAL

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 six months ended November 30, 2012.

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.

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 13 – SUBSEQUENT EVENTS

On December 21, 2012, the Company completed a private placement of 3,571,250 units at a price of $0.20 per unit to raise gross proceeds of $714,250. 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 eighteen months at a price of $0.35 per share.

On January 24, 2013 the Company entered into a binding letter agreement with Goldgroup Mining Inc., pursuant to which the Company agreed to sell to Goldgroup a 100% interest in Minas de Oroco in consideration of an aggregate purchase price of $18,000,000 U.S. dollars (the "Purchase Price"). In addition, Goldgroup will subscribe for 5 million units in the equity of the Company at a price of $0.20 per unit, for an aggregate price of $1,000,000. Each unit will be comprised of one common share and one share purchase warrant which will be exercisable into one additional common share for a period of 2 years at a price of $0.25. The Purchase Price is to be comprised of: (i) an initial payment of US$4,500,000 on closing; and (ii) US$150 per ounce for each of the first 90,000 ounces of gold produced from Minas de Oroco's mineral concessions (the "Properties"), subject to minimum quarterly payments (the "Minimum Payments") of US$625,000 (for a total of US$2,500,000 per year) commencing one year after closing, payable until either the entire Purchase Price has been paid or, following commencement of production, all mining activities at the Properties are stopped. However, if the Cerro Prieto project is not in production by January 1, 2014, the minimum quarterly payment for the first two quarters of 2014 shall be reduced to US$250,000 per quarter, with the aggregate annual minimum of US$2,500,000 remaining due. The sale is subject to Oroco obtaining binding lock-up agreements from shareholders representing not less than 22% of the outstanding shares of the Company, the approval of the shareholders of the Company, regulatory approval, including that of the TSX Venture and the Toronto Stock Exchange, and standard material adverse change exceptions. If the Company does not complete the transaction by June 30, 2013, it will pay a break fee to Goldgroup in the amount of $500,000.