OROCO RESOURCE CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

AUGUST 31, 2014

(expressed in Canadian dollars)

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 INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
(Unaudited)

	August 31, 2014	May 31, 2014
ASSETS		
Current		
Cash	$ 41,419	$ 130,322
Receivables	172,604	130,174
Prepaid expenses	6,726	13,598
First Note receivable (Note 5 and 6)	1,630,950	1,358,375
	1,851,699	1,632,469
Available for sale securities (Note 5 and 7)	598,455	830,900
First Note receivable (Note 5 and 6)	-	271,675
Second Note receivable (Note 5 and 6)	2,722,500	3,300,000
Exploration and evaluation assets (Note 4)	190,482	179,240
Equipment (Note 8)	13,385	13,999
	$ 5,376,521	$ 6,228,283
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade payables and accrued liabilities	$ 544,127	$ 564,236
Convertible debentures (Note 9)	-	-
	544,127	564,236
Deferred tax liability (Note 13)	13,443	13,443
	557,570	577,679
Shareholders' equity		
Share capital (Note 10)	16,973,847	16,973,847
Reserves (Note 10)	2,164,659	2,317,979
Deficit	(14,319,555)	(13,641,222)
	4,818,951	5,650,604
	$ 5,376,521	$ 6,228,283

Nature of operations and going concern (Note 1)
Contingency (Note 16)
Subsequent events (Note 17)

Approved on behalf of the Board:

"Craig Dalziel"	*"Steve Vanry"*
Craig Dalziel – Director	Steve Vanry – Director

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

OROCO RESOURCE CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS and COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
(Unaudited)

	For the Three Months Ended August 31, 2014	For the Three Months Ended August 31, 2013
EXPENSES		
Depreciation	$ 614	$ 789
Consulting fees	25,040	39,190
Finance fees and interest (Notes 6 and 9)	397	30,060
Foreign currency (gain) loss	(3,477)	-
Management and director fees	48,500	60,250
Office and general	25,611	40,299
Professional fees	50,769	117,909
Rent	8,783	22,886
Shareholder communications and investor relations	240	9,895
Transfer agent and filing fees	3,483	6,592
Travel	5,500	-
TOTAL EXPENSES	(165,460)	(327,870)
Interest income (Note 6)	32,496	-
Gain on sale of available for sale assets (Note 7)	20,332	-
Gain (loss) on valuation of Second Note receivable (Note 6)	(577,500)	-
Royalty revenue	11,799	-
	(512,873)	-
Income (loss) before discontinued operations	(678,333)	(327,870)
Loss from discontinued operations		
From operations (Note 5)	-	(9,604)
From disposal (Note 5)	-	(14,321)
	-	(23,925)
Income (Loss) for the period	(678,333)	(351,795)
Gain (loss) on fair value of available for sale securities (Note 7)	(153,320)	-
Comprehensive Income (Loss) for the period	$ (831,653)	$ (351,795)
Basic and diluted Income (Loss) per common share	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding - basic and diluted	77,947,405	77,947,405

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

OROCO RESOURCE CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share Capital		Reserve				
	Number	Amount	Other Comprehensive income	Stock option and warrant	Equity component of convertible debt	Deficit	Total
		$	$	$	$	$	$
May 31, 2013	77,947,405	16,973,847	-	2,110,254	516,608	(15,840,843)	3,759,866
Loss for the period	-	-	-	-	-	(351,795)	(351,795)
August 31,2013	77,947,405	16,973,847	-	2,110,254	516,608	(16,192,638)	3,408,071
Transfer of equity component on convertible debt payout	-	-	-	-	(516,608)	516,608	-
Unrealized gain on available for sale securities	-	-	207,725	-	-	-	207,725
Income for the period	-	-	-	-	-	2,034,808	2,034,808
May 31, 2014	77,947,405	16,973,847	207,725	2,110,254		(13,641,222)	5,650,604
Unrealized gain on available for sale securities	-	-	(153,320)	-	-	-	(153,320)
Loss for the period	-	-	-	-	-	(678,333)	(678,333)
August 31, 2014	77,947,405	16,973,847	54,405	2,110,254	-	(14,319,555)	4,818,951

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

OROCO RESOURCE CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited)

	For the Three Months Ended August 31, 2014	For the Three Months Ended August 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) for the period	$ (678,333)	$ (351,795)
Adjusted for items not involving cash:		
Depreciation	614	789
Loss on disposal of discontinued operations	-	14,321
Gain on disposition of available for sale securities	(20,332)	-
Gain on valuation of Second Note receivable	577,500	-
Accrued royalty income	(10,806)	-
Unrealized foreign exchange loss	(1,379)	-
Accrued interest income	(32,496)	-
Changes in working capital items:		
Receivables	1,351	52,652
Prepaid expenses	6,872	2,286
Trade payables and accrued liabilities	(20,109)	(86,625)
Net cash used in operating activities	(117,118)	(368,372)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(11,242)	(40,471)
Proceeds on disposal of discontinued operations (Note 5)	-	4,747,842
Proceeds on disposition of shares	99,457	-
Net cash provided by (used in) investing activities	88,215	(4,707,371)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payout of convertible debt	-	(3,750,000)
Cash flows provided by (used in) financing activities	-	(3,750,000)
Increase (decrease) in cash	(88,903)	588,999
Cash, beginning of period	103,322	59,477
Cash, end of period	$ 41,419	$ 648,476

Supplemental cash-flow information (Note 14)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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's head office and principal address is located at #1502 – 1166 Alberni Street, Vancouver, British Columbia, Canada V6E 3Z3.

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 exploration and evaluation assets and related deferred exploration expenditures are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the mineral properties and upon future profitable production or proceeds from the disposition thereof.

These consolidated 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. 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.

During the year ended May 31, 2014, the Company sold its Cerro Prieto Property ("the Transaction") to Goldgroup Mining Inc. ("Goldgroup") (Note 5). The Company's remaining exploration and evaluation assets consist of a property in Guerrero State (the "Xochipala Property") to which the Company's title is subject to a legal challenge and a second property in Guerrero State (the "Salvador Property"). The outlook for the Company is tied to successfully collecting payment of the First Note and the Second Note and realizing on the value of the shares of Goldgroup it holds in order to finance its operations with regard to these properties, to raise the financing necessary to maintain operations thereafter, and ultimately on generating future profitable operations. These uncertainties may cast significant doubt as to the ability of the Company to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These 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 October 29, 2014.

Functional and presentation currency

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*.

2. BASIS OF PRESENTATION (cont`d...)

Significant estimates

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.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Share-based payments - The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data and which involves uncertainty and subjectivity in estimates used by management in the assumptions. Changes in the input assumptions can materially affect the fair value estimate of stock options.

Recovery of deferred tax assets - Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Valuation of First Note receivable and Second Note receivable/IVA - The value of the First Note receivable and the IVA are based on management's assessment of collectability and probability of recovery as disclosed in Note 5 and 6. The Second Note receivable is a note receivable with an embedded derivative and is valued based on the lesser of the net present value of cash inflows and the fair value consideration of Goldgroup shares.

Valuation of production royalty – The Company is entitled to royalty income as disclosed in Note 5. The Company has estimated the value of the production royalty to be $Nil due to lack of certainty of future ongoing production and values.

The carrying value and the recoverability of exploration and evaluation assets – Management has determined that exploration, evaluation and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probably mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

Significant judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

2. BASIS OF PRESENTATION (cont`d...)
Significant judgments (cont'd...)

Determination of functional currency - In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates" management determined that the functional currency of the parent Company as well as the Company's subsidiaries is the Canadian dollar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies for the three-months ended August 31, 2014 remained unchanged from those in use during and reported in the audited consolidated financial statements for the year ending May 31, 2014.

Newly adopted standards, interpretations and amendments

A number of new standards, amendments to standards and interpretations were adopted during the period ended May 31, 2014 and have been applied. The adoption of these new and revised standards did not have a material effect on these consolidated financial statements.

Effective for annual periods beginning on or after January 1, 2013:

- Amendments to IAS 27 and IAS 28 Separate Financial Statements and Investments in Associates and Joint Ventures
    - Addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10, 11, 12 and 13.
- Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement
- New standard IFRS 10 Consolidated Financial Statements
    - Provides a new single consolidation model that identifies control as the basis for consolidation for all types of entities, and replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities.
- New standard IFRS 11 Joint Arrangements
    - Improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. Such a principle-based approach will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understand ability of the reporting of these arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled
    - Entities-Non-Monetary Contributions by Venturers.
- New standard IFRS 12 Disclosure of Interests in Other Entities
    - Combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont`d...)

- New standard IFRS 13 Fair Value Measurement
  - Defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value.
- New standards IAS32 and IFRS9
  - The Company has not early adopted these revised standards and is currently assessing the impact that these standards could have on future financial statements.

New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of August 31, 2014, and have not been applied in preparing these consolidated financial statements.

Effective for annual periods beginning on or after January 1, 2014

- Amendments to IAS 32, Financial Instruments: Presentation

  IAS 32 is amended to clarify requirements for offsetting of financial assets and financial liabilities.

Indefinitely postponed, with a proposed effective date of January 1, 2018

- New standard IFRS 9, Financial Instruments

  Partial replacement of IAS 39, Financial Instruments: Recognition and Measurement. This standard simplifies the current measurement model for financial instruments under IFRS and establishes two measurement categories for financial assets: amortized cost, and fair value. The existing IAS 39 categories of loans and receivables, held to maturity investments, and available for sale financial assets will be eliminated.

The Company has not early adopted these revised standards and none of these standards are expected to have a material effect on the financial statements.

(Expressed in Canadian Dollars)

4. EXPLORATION AND EVALUATION ASSETS

	Cerro Prieto Property	Xochipala Property	Total
Balance at May 31, 2014	$ -	$ 179,240	$ 179,240
Acquisition costs			
Royalty payments	-	-	-
	-	-	-
Deferred exploration expenditures:			
Lease payments, assessment fees and taxes	-	2,378	2,378
Mine planning and development costs	-	-	-
Engineering	-	6,528	6,528
Sampling	-	-	-
Geologists	-	-	-
IVA	-	2,336	2,336
	-	11,242	11,242
Balance at August 31, 2014	$ -	$ 190,482	$ 190,482

	Cerro Prieto Property	Xochipala Property	Total
Balance at May 31, 2013	$ 8,048,850	$ 119,132	$ 8,167,982
Acquisition costs			
Royalty payments	10,923	-	10,923
	10,923	-	10,923
Deferred exploration expenditures:			
Lease payment, assessment fees and taxes	-	4,600	4,600
Mine planning and development costs	-	-	-
Engineering	-	-	-
Sampling	-	436	436
Geologists	-	40,025	40,025
IVA	2,390	15,047	17,437
	2,390	60,108	62,498
Sale of property	(8,062,163)	-	(8,062,163)
Balance at May 31, 2014	$ -	$ 179,240	$ 179,240

4. EXPLORATION AND EVALUATION ASSETS (cont'd...)

(a) The Xochipala Property (Celia Gene and Celia Generosa Concessions)

The Xochipala Property, located in Guerrero State, Mexico, is comprised of the contiguous Celia Gene and Celia Generosa concessions. Minera Xochipala acquired a 100% interest in the Xochipala Property in January, 2007, including the interest purchased from the estate of Carlos Adame Camacho (the "Adame Estate"), which constituted fifty percent (50%) of the Celia Gene concession and all (100%) of the Celia Generosa concession (collectively, the "Adame Interest"). Minera Xochipala's application for registration of its acquisition was rejected by the Public Registry of Mining (the "PRM") in October, 2009. Minera Xochipala filed an appeal (the "PRM Appeal") of the PRM's decision with the Federal Tribunal of Tax and Administrative Justice (the "Federal Tribunal"). In July, 2011, the Federal Tribunal nullified the rejection and sent the matter back to the PRM for reconsideration. The PRM registered the Xochipala Property to Minera Xochipala on July 12, 2012, with deemed effect as of March, 2008.

However, in 2011, while the PRM Appeal was before the Federal Tribunal, a Guerrero State court auctioned the Adame Interest (the "Court Auction") in enforcement of a judgement debt of the Adame Estate. The Guerrero State court then issued an order (the "Guerrero Court Order") to the PRM to register the Adame Interest to the winning bidder ("Bautista"). The PRM was in possession of both the Guerrero Court Order and the Federal Tribunal's decision when it registered Minera Xochipala's acquisition of a 100% interest in the Xochipala Property.

Minera Xochipala, for reason of the continued existence of the Guerrero Order, subsequently filed an "amparo" petition with the Federal Court of Mexico (the "MX Amparo") to have the Guerrero Order and the associated legal proceedings struck altogether. Bautista also filed an amparo challenging the PRM's failure to comply with the Guerrero Court Order in registering the Adame Interest to Minera Xochipala. The two amparo's were subsequently joined.

On May 16, 2013, the Federal Court denied Minera Xochipala's amparo petition and dismissed Bautista's amparo petition. In June, 2013, both Minera Xochipala and Bautista filed appeals of the decision of the Federal Court. On February 5, 2014, the Federal Appeal Court of Mexico granted the Company's appeal of the decision of the lower Federal Court which had denied the Company's amparo petition to set aside all aspects of the Court Auction. In granting the Company's appeal, the Appeal Court ordered that all aspects of the 2010 Attachment and the Court Auction be set aside. The decision of the Appeal Court confirms that the Company's subsidiary, Minera Xochipala, S.A. de C.V., is the sole owner of 100% of each of the Celia Gene and Celia Generosa concessions.

The Appeal Court also dismissed the appeal by Bautista of the decision of the Federal Court which had dismissed his amparo petition for enforcement of his claim to the Adame Interest arising from the Court Auction. The Appeal Court determined that, upon granting the Company's amparo and setting aside the entire Court Auction process, Bautista had no legal claim or interest in the concessions and thus had no legal standing to petition the courts. The decisions of the Appeal Court are final, with no appeal available.

(c) Salvador Property, Guerrero State, Mexico

The Salvador Property is a mining concession 100% owned by Minera Xochipala.

4. EXPLORATION AND EVALUATION ASSETS (cont'd...)

a) Cerro Prieto Property, Sonora State, Mexico

The Cerro Prieto Property, located in Sonora, Mexico, is comprised of the San Felix, San Francisco, Cerro Prieto "North", Argonauta 6, Elba, Reyna de Plata and Huerto De Oro mineral concessions.

Sale of Cerro Prieto Property

On August 30, 2013, the Company sold its interest in the Cerro Prieto Property (Note 5).

5. DISCONTINUED OPERATIONS - SALE OF CERRO PRIETO PROPERTY

On August 30, 2013, the Company closed the Transaction with Goldgroup pursuant to an Amended and Restated Debt Assignment and Share Purchase Agreement (the "Amended Agreement"), effecting the sale of the Cerro Prieto Property by way of the sale of Polimetalicos and its subsidiary Minas de Oroco, the owner of the mineral concessions making up the Cerro Prieto Property.

Pursuant to the terms of the Amended Agreement, the following occurred on closing:

a) Goldgroup made payment of:

   i) $4,748,850 (US$4,500,000);

   ii) $66,666 in reimbursement of interest accrued on the Company's outstanding debentures since June 28, 2013;

   iii) 5,500,000 common shares in the capital of Goldgroup valued at $825,000;

   iv) a promissory note (the "First Note") in the principal amount of US$1,500,000 bearing 8% simple interest and payable in six equal monthly instalments of US$250,000 each, commencing on the later of either January 31, 2015 or the first day of the month following the date the Property achieves Commercial Production (after 1,000 ounces of gold have been produced from the Property); and

   v) a second promissory note (the "Second Note") in the principal amount of US$4,125,000, bearing no interest. The principal amount of the Second Note will be repayable on the second anniversary of the Transaction closing date. Goldgroup may elect to pay the principal of the Second Note by issuing and delivering to Oroco 16,500,000 Goldgroup common shares in lieu of cash.

b) In addition, Goldgroup agreed to pay to Oroco a production royalty (the "Production Royalty") quarterly in arrears. The Production Royalty, payable for each month in which the monthly average of the daily PM London gold fix is in excess of US$1,250 per ounce, is calculated at the rate of 20% of the dollar value of that excess for each ounce of gold Produced from the Property during that month, to a maximum royalty of US$90 per ounce. This Production Royalty will be payable for each and every of the greater of:

   i) the first 90,000 ounces of gold produced from the Property; and

   ii) all ounces of gold produced from the Property until the completion of five full years of Commercial Production.

(Expressed in Canadian Dollars)

5. DISCONTINUED OPERATIONS - SALE OF CERRO PRIETO PROPERTY (cont'd...)

c) Minas de Oroco has, with the consent of Goldgroup, assigned to Oroco all of Minas de Oroco's rights and interest in and to all value added taxes paid by Minas de Oroco in the years 2008 through 2012, and all refunds in relation thereto (collectively, "the IVA Refund"), in consideration of the settlement of US$500,000 of the debt owed by Minas de Oroco to Oroco at the time of the IVA assignment. The IVA Refund at August 31, 2013 was $535,325. The Company has assigned a fair value of zero to the IVA Refund as collectability is uncertain.

Goldgroup also agreed to assume from Oroco all obligations with respect to the 2% (two percent) NSR on the property.

On February 4, 2013, as a condition precedent to the Transaction, Goldgroup purchased 5,000,000 units of the Company at a price of $0.20 per unit. Each unit consisted of one common share and one non-transferrable share purchase warrant with each warrant exercisable into one additional common share for a period of two years at a price of $0.25 per share. See Note 9.

On August 30, 2013, in furtherance of closing the Transaction, the Company entered into a subordination agreement (the "2013 Subordination Agreement) with Goldgroup and the agent for the holders of the Company's outstanding Debentures, who are also the lenders to Goldgroup of a $4.25 million dollar senior secured loan facility (the "Loan Facility). Pursuant to the Subordination Agreement, the Company will not accept any payment related to the First Note, the Second Note and the Production Royalty until after the Loan Facility has been repaid. However, if Goldgroup elects to pay the Second Note with 16,500,000 of its common shares in lieu of cash, the Company may accept those shares.

The following table shows the fair value of the proceeds on the date of disposition:

Proceeds	Agreement Amount in US$	Fair Value Recorded CAN$
Cash	$ 4,500,000	$ 4,748,850
Shares (5,500,000)	-	825,000
First Note receivable	1,500,000	-
Second Note receivable	4,125,000	2,475,000
Production Royalty up to	8,100,000	-
		$ 8,048,850

The estimated Fair Value of Consideration received as at August 30, 2013 was determined as follows:

Cash – recorded at face value;

Goldgroup common shares – recorded at market value as at August 31, 2013 ($0.15/share);

First Note – no value was attributed as this promissory note was considered to be a contingent asset under IAS37. Realization of the promissory note is dependent upon several uncertain future events not wholly within the control of the Company (see Note 6);

Second Note – the value of the Second Note was determined as the lesser of the present value of the note and the market value of Goldgroup shares at the time of the transaction, which may be issued to the Company at Goldgroup's election to settle the note, including an assessment of the likelihood that the note is settled with the issuance of Goldgroup shares. The present value of the note was calculated using a discount rate of 25%. The likelihood of Goldgroup settling the note by issuing shares in the future (at a fixed value of $0.25/share) was projected by utilizing a stock price probability calculator employing an implied volatility of 67% (see Note 6);

(Expressed in Canadian Dollars)

5. DISCONTINUED OPERATIONS - SALE OF CERRO PRIETO PROPERTY (cont'd...)

Production Royalty – no value was attributed as the royalty was considered to be a contingent item under IAS37. Realization of the proceeds from the royalty is dependent upon several uncertain future events not wholly within the control of the Company.

The loss on the sale of the Cerro Prieto Property was as follows:

Total estimated fair value of consideration received	$	8,048,850
Carrying value of assets sold		
Cash	$	1,008
Exploration and evaluation assets		8,062,163
	$	8,063,171
Loss on sale	$	(14,321)

The results of discontinued operations of Polimetalicos and Minas de Oroco to the date of disposition are as follows:

	For the three months ended August 31, 2014		For the three months ended August 31, 2013	
Bank charges	$	-	$	88
Professional fees		-		14,851
Foreign currency (gain) loss		-		(5,335)
	$	-	$	9,604

6. NOTES RECEIVABLE

Pursuant to the sale of the Cerro Prieto Property, the Company received a contingent US$1,500,000 First Note and the US$4,125,000 Second Note (Note 5) which were valued on the date of sale as $Nil and $2,475,000 respectively. In February 2014, Goldgroup achieved production levels triggering realization of the contingent First Note receivable resulting in a gain of $1,664,550.

As at August 31, 2014 the estimated fair value of notes receivable was calculated as follows:

First Note – the value of the First Note receivable was recorded as the principal amount of the note and allocated $1,630,950 (US$1,500,000) to current assets. Accrued interest receivable on the note of $130,476 (US$120,000) at August 31, 2014 was recorded together with the principal amount in current assets.

Second Note – the value of the Second Note was determined as the lesser of the present value of the note ($3,585,331) using a 25% discount rate, and the market value at August 31, 2014 ($0.165 per share) of 16,500,000 common shares of Goldgroup ($2,722,500), which Goldgroup may elect to issue to the Company in lieu of cash to settle the note.

7. AVAILABLE FOR SALE SECURITIES

Pursuant to the sale of the Cerro Prieto Property, the Company received 5,500,000 shares of Goldgroup (Note 5). During quarter ended August 31, 2014, the Company sold 527,500 of these shares resulting in a gain on sale of $20,332. As at August 31, 2014, the remaining shares had a fair value of $598,455 resulting in a loss of fair value of available for sale securities of $153,320.

(Expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
Cost:					
At May 31, 2013	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
At May 31, 2014	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
At August 31, 2014	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Depreciation:					
At May 31, 2013	8,321	18,256	6,324	2,091	34,992
Charge for the year	763	1,456	739	196	3,154
At May 31, 2014	9,084	19,712	7,063	2,287	38,146
Charge for the period	172	255	148	39	614
At August 31, 2014	$ 9,256	$ 19,967	$ 7,211	$ 2,326	$ 38,760
Net book value:					
At May 31, 2013	$ 7,627	$ 4,854	$ 3,693	$ 979	$ 17,153
At May 31, 2014	$ 6,864	$ 3,398	$ 2,954	$ 783	$ 13,999
At August 31, 2014	$ 6,692	$ 3,143	$ 2,806	$ 744	$ 13,385

9. CONVERTIBLE DEBENTURES

Balance May 31, 2013	$ 3,750,000
Paid out (August 31, 2013)	(3,750,000)
Balance May 31, 2014 and August 31, 2014	$ -

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 had a term of two years and bore interest at a rate of 10% per annum payable semi-annually. The Holders were entitled to declared the principal amount due and payable if: (i) the first tranche of funds under the Gold Prepayment Agreement had not been drawn prior to November 1, 2012 (requiring the Company to first enter into the Gold Prepayment Agreement); (ii) the Company provided notice to the Holder that it would not complete the Gold Prepayment Agreement; or (iii) the Company completed 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 the Cerro Prieto Property (an "Equity Offering"). In the

9. CONVERTIBLE DEBENTURES (cont'd...)

event of any of (i) to (iii) above, the Company was also required to pay a break fee to the Holders in the total amount of $270,000 (the "Break Fee"). The Company did not draw the first tranche of funds under the Gold Prepayment Agreement prior to November 1, 2012 and it did not pay the interest due on the Debentures on October 30, 2012 and therefore the Break Fee clause was triggered. The Company received a notice of default from the Holders with regard to the failure to take the first tranche of funds under the Gold Prepayment Agreement and the outstanding interest due. The Company paid the Break Fee and the related interest during fiscal 2013. The Debentures were 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 entitled 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 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 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 was accreted to its face amount over the term to maturity of the Debentures at an effective interest rate (not including the contractual interest rate) of approximately 8.3% per annum. On June 27, 2013, the Company received notice that the Holders were confirming default and were declaring that all monies outstanding under the Debentures were due and payable. Accordingly and effective May 31, 2013, the accelerated accretion of $275,127 was recorded in finance fees and interest to bring the debenture's balance up to the balance due and payable, and the deferred tax liability of $133,700 was reversed.

On August 30, 2013, the Company paid out the Debentures, including accrued interest, in the amount of $4,068,750 from the proceeds of sale of the Cerro Prieto Property.

10. SHARE CAPITAL AND RESERVES

Authorized:

Unlimited common shares of no par value.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES (cont'd...)

Warrants

	Number	Weighted average exercise price	
Balance of warrants at May 31, 2013	9,781,525	$	0.31
Issued	-		0.00
Expired	(2,995,900)		0.40
Balance of warrants at May 31, 2014	6,785,625	$	0.28
Issued	-		0.00
Expired	(1,785,625)		0.35
Balance of warrants at August 31, 2014	5,000,000	$	0.25

Summary of warrants outstanding at August 31, 2014:

Number of warrants	Exercise price		Expiry date
5,000,000	$	0.25	4-Feb-2015

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, 2013	3,175,000	$	0.25
Options granted	-		0.00
Options expired/forfeited/cancelled	(325,000)		0.23
Balance outstanding, May 31, 2014	2,850,000	$	0.26
Options granted	-		0.00
Options expired/forfeited/cancelled	(450,000)		0.25
Balance outstanding August 31, 2014	2,400,000	$	0.26

No options were granted during the period ended August 31, 2014.

During the fiscal year ending May 31, 2013, 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, estimated at $45,000 using the Black-Scholes option pricing model with the following assumptions: expected

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES (cont'd...)

life of five years, risk-free interest rate of 1.40%; expected dividend yield of 0% and an expected volatility of 88%, was recorded in shareholder communications and investor relations. The contract with the consultant was terminated and these options expired March 7, 2013 as a result of this termination.

The following table summarizes information about stock options outstanding at August 31, 2014:

Expiry Date	Exercise prices $	Number outstanding at August 31, 2014
11-Dec-14	0.25	1,575,000
16-Dec-14	0.25	375,000
1-Dec-16	0.30	450,000
		2,400,000

At August 31, 2014 fully vested stock options totalled 2,400,000.

Reserves

At August 31, 2014, the Company had a Stock Option and Warrant Reserve balance of $2,110,254 (2013 – $2,110,254) 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 August 31, 2014, the Company had an Equity Component of Convertible Debt Reserve of $Nil, (2013 - $516,608).

At August 31, 2014, the Company had an Other Comprehensive Income balance of $54,405 (2013 – Nil) consisting of the adjustment of available for sale securities to fair value at August 31, 2014.

11. RELATED PARTY TRANSACTIONS

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

	For the three Months ended August 31, 2014	For the three Months ended August 31, 2013
Management and director fees	$ 48,500	$ 60,250
Consulting	2,250	-
Professional fees	26,655	26,655
Total	$ 77,405	$ 86,905

As at August 31, 2014 included in accounts payable and accrued liabilities was $234,508 (2013 - $272,934) owing to officers and directors. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

(Expressed in Canadian Dollars)

12. SEGMENTED INFORMATION

The Company operates in one segment being the acquisition and exploration of exploration and evaluation assets located in Mexico. Geographic information is as follows:

As at August 31, 2014

	Canada	Mexico	Total
Equipment	$ 6,693	$ 6,692	$ 13,385
Exploration and evaluation assets	-	190,482	190,482
Other assets	5,161,523	11,131	5,172,654
Total assets	$ 5,168,216	$ 208,305	$ 5,376,521

As at August 31, 2013

	Canada	Mexico	Total
Equipment	$ 8,928	$ 7,436	$ 16,364
Exploration and evaluation assets	-	146,290	146,290
Other assets	3,971,605	-	3,971,605
Total assets	$ 3,980,533	$ 153,726	$ 4,134,259

13. SUPPLEMENTAL CASH FLOW INFORMATION

	For the three months ended August 31, 2014	For the three months ended August 31, 2013
Interest paid	$ -	$ 252,084
Taxes paid	$ -	$ -
Non-cash transactions not included in investing or financing activities		
Exploration and evaluation assets included in accounts payable	$ 7,539	$ 24,102
Shares issued for services	$ -	$ -

14. FINANCIAL INSTRUMENT RISK AND CAPITAL

The Company's classification of financial instruments measured at fair value and its exposure to financial risk during the three-months ended August 31, 2014 remained unchanged from those reported in the audited consolidated financial statements for the year ending May 31, 2014.

15. CONTINGENCY

The Company and Goldgroup are subject to a legal action related to a terminated service agreement for the Cerro Prieto Property. The Plaintiff is seeking damages in excess of $3,000,000. The Company has agreed to indemnify and defend Goldgroup in this action. The Company believes the claims for damages to be without merit.

16. SUBSEQUENT EVENTS

On September 19, 2014, the Company entered into a debt assignment agreement with Goldgroup, pursuant to which the Company assigned to Goldgroup the Company's IVA Refund. In consideration of the assignment, Goldgroup will pay the Company 1,200,000 common shares and 50% of all IVA Refund in excess of CDN$400,000, which amounts Goldgroup may elect to pay in Goldgroup shares valued at the five day, volume weighted trading average at the time. The Company will reimburse Goldgroup 60% of any amount less than CDN$400,000 of IVA Refund recovered by August 30, 2015, though it will remain entitled to recover that amount back from any future IVA recoveries.

On September 19, 2014, the Company entered into a subordination agreement (the "Subordination Agreement") with Goldgroup and RMB Resources Inc. ("RMB") with regard to the production royalty, the $1.5 million interest bearing promissory note and the $4.125 million promissory note remaining to be paid by Goldgroup pursuant to the terms and conditions of the sale of the Cerro Prieto Property to Goldgroup on August 30, 2013 (the "MOR Sale Agreement"). Pursuant to the Subordination Agreement, Goldgroup shall pay the production royalty and redeem the $1.5 million promissory note in accordance with the terms of the MOR Sale Agreement. However, Goldgroup may only redeem the $4.125 million promissory note with either: (a) cash proceeds from the sale of Goldgroup shares; or (b) 16,500,000 Goldgroup common shares in lieu of cash (as is Goldgroup's right pursuant to the terms of that promissory note). The terms of the $4.125 million promissory note have also been amended such that the Company shall have the right, in the event that Goldgroup does not redeem the promissory note on time, to demand payout by way of the 16,500,000 Goldgroup common shares in lieu of cash. However, other than with regard to the demand for payout of the $4.125 million promissory note with shares, the Company may only demand or enforce payment of any of the Goldgroup payment obligations after either the current credit facility has been repaid in full or RMB has granted its consent, which consent is not to be unreasonably withheld.

On September 19, 2014, the Company was released from the 2013 Subordination Agreement. See Note 5.