OROCO RESOURCE CORP.

CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2014

(expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Oroco Resource Corp.

We have audited the accompanying consolidated financial statements of Oroco Resource Corp., which comprise the consolidated statements of financial position as at May 31, 2014 and 2013, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Oroco Resource Corp. as at May 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Oroco Resource Corp.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Accountants

September 19, 2014

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT MAY 31

	2014	2013
ASSETS		
Current		
Cash	$ 130,322	$ 59,477
Receivables	130,174	63,610
Prepaid expenses	13,598	14,457
First Note receivable (Note 5 and 6)	1,358,375	-
	1,632,469	137,544
Available for sale securities (Note 5 and 7)	830,900	-
First Note receivable (Note 5 and 6)	271,675	-
Second Note receivable (Note 5 and 6)	3,300,000	-
Exploration and evaluation assets (Note 4)	179,240	8,167,982
Equipment (Note 8)	13,999	17,153
	$ 6,228,283	$ 8,322,679
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade payables and accrued liabilities	$ 564,236	$ 812,813
Convertible debentures (Note 9)	-	3,750,000
	564,236	4,562,813
Deferred tax liability (Note 13)	13,443	-
	577,679	4,562,813
Shareholders' equity		
Share capital (Note 10)	16,973,847	16,973,847
Reserves (Note 10)	2,317,979	2,626,862
Deficit	(13,641,222)	(15,840,843)
	5,650,604	3,759,866
	$ 6,228,283	$ 8,322,679

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

Approved on behalf of the Board:

"Craig Dalziel"
Craig Dalziel – Director

"Steve Vanry"
Steve Vanry – Director

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

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) and COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian Dollars)
YEAR ENDED MAY 31

	2014	2013
EXPENSES		
Depreciation	$ 3,154	$ 3,229
Consulting fees	142,819	114,000
Finance fees and interest (Notes 6 and 9)	97,476	1,446,957
Foreign currency (gain) loss	52,337	21
Management and director fees	233,500	259,000
Office and general	123,755	113,096
Professional fees	335,934	386,471
Rent	37,003	90,266
Shareholder communications and investor relations	6,179	174,384
Transfer agent and filing fees	25,022	36,254
Travel	6,358	30,005
TOTAL EXPENSES	(1,063,537)	(2,653,683)
Recovery from Goldgroup (Note 5)	66,666	-
Interest income (Note 6)	97,578	628
Gain on sale of available for sale assets (Note 7)	103,151	-
Gain on valuation of Second Note receivable (Note 6)	825,000	-
Royalty revenue	26,973	-
Realization of contingent gain (Note 6)	1,664,550	-
	2,783,918	628
Income (loss) before income taxes and discontinued operations	1,720,381	(2,653,055)
Deferred income tax expense (Note 13)	(13,443)	(133,700)
Income (Loss) before discontinued operations	1,706,938	(2,786,755)
Loss from discontinued operations		
From operations (Note 5)	(9,604)	(43,741)
Impairment of exploration and evaluation assets (Note 4)	-	(6,671,590)
From disposal (Note 5)	(14,321)	-
	(23,925)	(6,715,331)
Income (Loss) for the year	1,683,013	(9,502,086)
Gain on fair value of available for sale securities (Note 7)	207,725	-
Comprehensive Income (Loss) for the year	$ 1,890,738	$ (9,502,086)
Basic and diluted Income (Loss) per common share	$ 0.02	$ (0.13)
Weighted average number of common shares outstanding - basic and diluted	77,947,405	72,621,121

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

OROCO RESOURCE CORP.
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, 2012	69,376,155	15,527,701	-	1,829,540	382,908	(6,338,757)	11,401,392
Private placement – Dec 12/12	3,571,250	681,860	-	-	-	-	681,860
Private placement – Feb 4/13	5,000,000	1,000,000	-	-	-	-	1,000,000
Stock based compensation	-	-	-	45,000	-	-	45,000
Fair value of warrants	-	(235,714)	-	235,714	-	-	-
Deferred income tax expense	-	-	-	-	133,700		133,700
Loss for the year	-	-	-	-	-	(9,502,086)	(9,502,086)
May 31, 2013	77,947,405	16,973,847	-	2,110,254	516,608	(15,840,843)	3,759,866
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 year	-	-	-	-	-	1,683,013	1,683,013
May 31, 2014	77,947,405	$ 16,973,847	$ 207,725	$2,110,254	$ -	$ (13,641,222)	$ 5,650,604

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

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
YEAR ENDED MAY 31

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) for the year	$ 1,683,013	$ (9,502,086)
Adjusted for items not involving cash:		
Depreciation	3,154	3,229
Accrued interest and accretion	-	551,168
Loss on disposal of discontinued operations	14,321	-
Stock based compensation	-	45,000
Deferred income tax expense	13,443	133,700
Gain on disposition of available for sale securities	(103,151)	-
Gain on valuation of Second Note receivable	(825,000)	-
Realization of contingent gain	(1,664,550)	-
Accrued royalty income	(26,973)	-
Unrealized foreign exchange loss	34,500	-
Impairment of exploration and evaluation assets	-	6,671,590
Accrued interest income	(97,578)	-
Changes in working capital items:		
Receivables	57,987	26,021
Prepaid expenses	859	(5,526)
Trade payables and accrued liabilities	(181,704)	142,163
Net cash used in operating activities	(1,091,679)	(1,934,741)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(140,294)	(815,653)
Proceeds on disposal of discontinued operations (Note 5)	4,748,850	-
Cash given up on disposal of discontinued operations (Note 5)	(1,008)	-
Proceeds on disposition of shares	304,976	-
Net cash provided by (used in) investing activities	4,912,524	(815,653)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	1,714,250
Payout of convertible debt	(3,750,000)	-
Share issue costs	-	(32,390)
Cash flows provided by (used in) financing activities	(3,750,000)	1,681,860
Increase (decrease) in cash	70,845	(1,068,534)
Cash, beginning of year	59,477	1,128,011
Cash, end of year	$ 130,322	$ 59,477

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"). As such, the outlook for the Company is tied to successfully maintain its title to the Xochipala Property and raise the financing necessary to maintain operations thereafter. 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 September 19, 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.

The Company has not recorded any deferred tax assets.

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 accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

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 direct wholly-owned subsidiaries. Control exists when the Company possess power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. Intercompany transactions and balances have been eliminated in preparing the consolidated financial statements.

During the year, the Company disposed of exploration and evaluation asset through the sale of Minera Polimetalicos Mexicanos, S.A. ("Polimetalicos") and its subsidiary Minas de Oroco Resources, S.A. de C.V. ("Minas de Oroco") on August 30, 2013.

Name of Subsidiary	Country of Incorporation	Percentage ownership
Minera Xochipala S.A. de C.V. ("Minera Xochipala")	Mexico	100%
Xochipala Gold, S.A. de C.V. (« Xochipala Gold »)	Mexico	100%
0973496 B.C. Ltd.	Canada	100%

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)
Exploration and evaluation assets (cont'd...)

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.

Provisions

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the rehabilitation 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 rehabilitation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized rehabilitation 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 May 31, 2014, and 2013.

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 May 31, 2014, and 2013.

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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs.

Where an impairment subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have

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

been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Equipment

Equipment is stated at cost less accumulated depreciation.

Depreciation 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%

Foreign currency translation

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.

Share-based payments

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 vesting period with a corresponding increase in reserves.

Income (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. There was no dilutive effect for the years presented.

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

Share capital

Common shares are classified as share capital. Incremental costs, net of tax effects, directly attributable to the issue of common shares are recognized as a deduction from equity.

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 tax 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.

Embedded derivatives

Derivatives may be embedded in other financial instruments (the “host instrument”). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in gains or losses on derivative instruments in profit or loss.

The Second Note receivable from Goldgroup as outlined in Note 6 contains an embedded derivative. Income from this receivable is directly correlated to changes in the share price of Goldgroup.

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 and Second Note receivable are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company’s receivables and First Note receivable are classified as loans and receivables.

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

Financial assets (cont'd…)

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. Marketable securities have been classified as available for sale assets.

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.

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.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Newly adopted standards, interpretations and amendments

A number of new standards, amendments to standards and interpretations were adopted during the year 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont`d...)
Newly adopted standards, interpretations and amendments (cont'd...)

- 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.

- 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 May 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont`d...)
New standards, interpretations and amendments not yet effective (cont'd...)

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, 2013	$ 8,048,850	$ 119,132	$ 8,167,982
Acquisition costs			
Royalty payments	10,923	-	10,923
	10,293	-	10,923
Deferred exploration expenditures:			
Lease payments, 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

	Cerro Prieto Property	Xochipala Property	Total
Balance at May 31, 2012	$ 13,763,530	$ -	$ 13,763,530
Acquisition costs			
Royalty payments	121,442	-	121,442
	121,442	-	121,442
Deferred exploration expenditures:			
Lease payment, assessment fees and taxes	94,576	2,290	96,866
Mine planning and development costs	570,682	-	570,682
Engineering	47,680	-	47,680
Sampling	-	18,063	18,063
Geologists	56,687	74,908	131,595
IVA	65,843	23,871	89,714
Impairment of property	(6,671,590)	-	(6,671,590)
	(5,856,122)	119,132	(5,716,990)
Balance at May 31, 2013	$ 8,048,850	$ 119,132	$ 8,167,982

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.

Lease payments, assessment fees and taxes include $1,973,947 paid for a seven-year lease of surface rights over the Cerro Prieto Property.

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

The SF Concessions covers the underground workings of the Cerro Prieto Mine and specific surrounding property. The SF Concessions are subject to a 2% net smelter royalty ("NSR") 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, on March 9, 2009.

iii) Argonauta 6 Concession

Minas de Oroco acquired a 100% interest, subject to a 2% NSR, in the Argonauta 6 concession on September 13, 2010. To acquire its interest, the Company issued 1,000,000 common shares with a value of $182,500 and conducted 1,500 meters of drilling.

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.

Sale of Cerro Prieto Property

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

(b) 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.

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

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.

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;

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

a) Goldgroup made payment of: (cont'd...)

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.

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.

(Expressed in Canadian Dollars)

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

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);

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)

(Expressed in Canadian Dollars)

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

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

	For the year ended May 31, 2014	For the year ended May 31, 2013
Consulting	$ -	$ 13,652
Bank charges	88	658
Office and general	-	253
Finance fees	-	11,305
Professional fees	14,851	48,369
Foreign currency (gain) loss	(5,335)	(30,496)
	$ 9,604	$ 43,741

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 May 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 $1,358,395 (US$1,250,000) to current assets and $271,675 (US$250,000) to non-current assets respectively. Accrued interest receivable on the note of $97,578 (US$90,000) at May 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 ($3,392,052) and the market value at May 31, 2014 of 16,500,000 common shares of Goldgroup ($3,300,000), which Goldgroup may elect to issue to the Company in lieu of cash to settle the note. The present value of the note was calculated using a discount rate of 25%.

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 fiscal year 2014, the Company sold 1,345,500 of these shares resulting in a gain on sale of $103,151. As at May 31, 2014, the remaining shares had a fair value of $830,900 resulting in other comprehensive income of $207,725.

(Expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
Cost:					
At May 31, 2012	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Additions	-	-	-	-	-
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
Depreciation:					
At May 31, 2012	7,473	17,043	5,401	1,846	31,763
Charge for the year	848	1,213	923	245	3,229
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
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

9. CONVERTIBLE DEBENTURES

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

Balance May 31, 2012	$ 3,198,832
Accretion expense for the year	551,168
Balance May 31, 2013	$ 3,750,000

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

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 the Cerro Prieto Property (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 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 has 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 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 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 will be 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 are 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.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES

Authorized:

Unlimited common shares of no par value.

On December 12, 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. The fair value of the warrants attached to this private placement was estimated to be $35,714. Finders fees of $32,390 were paid.

On February 4, 2013, the Company completed a private placement to Goldgroup of 5,000,000 units at a price of $0.20 per unit to raise gross proceeds of $1,000,000. Each unit consists of one common share and one non-transferable common 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. The fair value of the warrants attached to this private placement was estimated to be $200,000.

Warrants

	Number	Weighted average exercise price	
Balance of warrants at May 31, 2012	10,477,567	$	0.40
Issued	6,785,625		0.28
Expired	(7,481,667)		0.41
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

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.

Summary of warrants outstanding at May 31, 2014:

Number of warrants	Exercise price		Expiry date
1,635,625	$	0.35	12-Jun-2014
150,000	$	0.35	20-Jun-2014
5,000,000	$	0.25	4-Feb-2015
6,785,625			

(Expressed in Canadian Dollars)

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

Stock options

The Company has a rolling stock option plan, whereby from time to time, at the direction of the Board of Directors, stock options may be granted to employees, consultants, directors and officers. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options may be granted for a maximum of five years and vesting is determined by the Board of Directors.

	Number of stock options		Weighted Average Exercise Price
Balance outstanding, May 31, 2012	3,845,000	$	0.26
Options granted	250,000		0.28
Options expired/forfeited/cancelled	(920,000)		0.29
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

No options were granted during the year ended May 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 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 May 31, 2014:

Expiry Date	Exercise prices $	Number outstanding at May 31, 2014
11-Dec-14	0.25	2,025,000
16-Dec-14	0.25	375,000
1-Dec-16	0.30	450,000
		2,850,000

At May 31, 2014 fully vested stock options totalled 2,850,000.

Reserves

At May 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.

(Expressed in Canadian Dollars)

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

At May 31, 2014, the Company had an Equity Component of Convertible Debt Reserve of $Nil, (2013 - $516,608).

At May 31, 2014, the Company had an Other Comprehensive Income balance of $207,725 (2013 – Nil) consisting of the adjustment of available for sale securities to fair value at May 31, 2014.

11. RELATED PARTY TRANSACTIONS

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

	For the year ended May 31, 2014	For the year ended May 31, 2013
Management and director fees	$ 233,500	$ 259,000
Geologist fees	-	10,200
Consulting	1,500	6,000
Professional fees	106,620	102,000
Total	$ 341,620	$ 377,200

As at May 31, 2014 included in accounts payable and accrued liabilities was $255,985 (2013 - $232,585) owing to officers and directors. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

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 May 31, 2014

	Canada	Mexico	Total
Equipment	$ 7,135	$ 6,864	$ 13,999
Exploration and evaluation assets	-	179,240	179,240
Other assets	6,026,531	8,513	6,035,044
Total assets	$ 6,033,666	$ 194,617	$ 6,228,283

As at May 31, 2013

	Canada	Mexico	Total
Equipment	$ 9,526	$ 7,627	$ 17,153
Exploration and evaluation assets	-	8,167,982	8,167,982
Other assets	121,105	16,439	137,544
Total assets	$ 130,631	$ 8,192,048	$ 8,322,679

(Expressed in Canadian Dollars)

13. DEFERRED INCOME TAX

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2014	2013
Income (Loss) for the year before income taxes and discontinued operations	$ 1,720,381	$ (2,653,055)
Expected income tax (recovery)	$ 447,000	$ (663,000)
Change in statutory, foreign tax, foreign exchange rates and other	3,000	549,700
Sale of Subsidiary	(48,000)	-
Permanent difference	(553,000)	(11,000)
Impact of initial recognition of 7.5% mining tax royalty tax	13,443	-
Share issue cost	0	(22,000)
Adjustment to prior years provision versus statutory tax returns	(710,000)	-
Change in unrecognized deductible temporary differences	861,000	258,000
Total income tax expense	$ 13,443	$ 133,700

The Company's deferred income tax liability relates to the new Mexican mining royalty at the rate of 7.5% , which was enacted in Mexico from January 1, 2014 on a prospective basis and applies to earnings before the deduction of interest, taxes, depreciation and amortization as follows:

The significant components fo the Company's deferred tax liabilities are as follows:

	2014	2013
Deferred tax liabilities		
Exploration and evaluation assets – Mexican mining royalty	13,443	-
	13,443	-

The significant components of the Company's unrecorded deferred tax assets are as follows:

	2014	2013
Deferred tax assets (liabilities)		
Exploration and evaluation assets	$ 798,000	$ -
Property and Equipment	1,000	-
Share issue costs	9,000	24,000
Marketable securities	(27,000)	-
Second Note receivable	(107,000)	-
Allowable capital loss	48,000	-
Non-capital losses available for future period	1,781,000	1,617,000
	2,503,000	1,643,000
Unrecognized deferred tax assets	(2,503,000)	(1,643,000)
Net deferred tax assets	$ -	$ -

(Expressed in Canadian Dollars)

13. DEFERRED INCOME TAXES (cont'd...)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

		2014	Expiry Date Range		2013	Expiry Date Range
Temporary differences						
Exploration and evaluation assets	$	3,069,000	No expiry date		5,000	No expiry date
Property and equipment		3,000	No expiry date	$	-	No expiry date
Share issue costs		35,000	2015-2016		92,000	2014 to 2016
Allowable capital losses		185,000	No expiry date		-	No expiry date
Non-capital losses available for future period		6,842,000	2015 to 2034		6,212,000	2014 to 2033
Canada		6,787,000	2015 to 2034		6,121,000	2014 to 2033
Mexico		55,000	2015 to 2024		91,000	2014 to 2033

Tax attributes are subject to review, and potential adjustment, by tax authorities.

14. SUPPLEMENTAL CASH FLOW INFORMATION

		For the year ended May 31, 2014		For the year ended May 31, 2013
Interest paid	$	318,750	$	186,986
Taxes paid	$	-	$	-
Non-cash transactions not included in investing or financing activities				
Exploration and evaluation assets included in accounts payable	$	193,516	$	260,389
Shares issued for services	$	-	$	-
Receipt of available for sale securities	$	825,000	$	-
Second Note receivable on sale of discontinued operations	$	2,475,000	$	-
Transfer of equity component on convertible debt payout	$	516,608	$	-
First Note receivable contingency realized	**$**	1,664,550	**$**	**-**

15. 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 year ended May 31, 2014.

15. FINANCIAL INSTRUMENT RISK AND CAPITAL (cont'd...)

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.

Fair value hierarchy

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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 as well as changes in foreign government policy. 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 carrying value of cash, receivables, and accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments. Cash and available for sale securities are measured at a level 1 of the fair value hierarchy. Second Note receivable derivative is measured using level 3 of the fair value hierarchy based on estimates as disclosed in Note 6. 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.

15. FINANCIAL INSTRUMENT RISK AND CAPITAL (cont'd...)

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 currencies. The Company does not invest in derivatives to mitigate these risks. The effect of a 1% change in the foreign exchange rate on the cash held in foreign currencies at May 31, 2014 is nominal.

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.

16. 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.

17. 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.

17. SUBSEQUENT EVENTS (cont'd...)

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