OROCO RESOURCE CORP.

CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2012

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Oroco Resource Corp.

We have audited the accompanying consolidated financial statements of Oroco Resource Corp., which comprise the consolidated statements of financial position as at May 31, 2012, 2011 and June 1, 2010, and the consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years ended May 31, 2012 and 2011, 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.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oroco Resource Corp. as at May 31, 2012, 2011 and June 1, 2010, and its financial performance and its cash flows for the years ended May 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes matters and conditions 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.

"DMCL"

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
September 28, 2012

An independent firm associated with
Moore Stephens International Limited
MOORE STEPHENS

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	May 31, 2012	May 31, 2011 (Note 15)	June 1, 2010 (Note 15)
ASSETS			
CURRENT			
Cash	$ 1,128,011	$ 558,766	$ 376,230
HST recoverable	89,631	91,880	24,179
Prepaid expenses	8,931	17,704	48,712
Loan receivable from related party (Note 9)	-	255,000	-
	1,226,573	923,350	449,121
VAT RECOVERABLE	469,482	-	-
EXPLORATION AND EVALUATION ASSETS (Note 4)	13,294,048	8,142,698	6,927,316
PROPERTY AND EQUIPMENT (Note 5)	20,382	25,384	32,774
	$ 15,010,485	$ 9,091,432	$ 7,409,211
LIABILITIES			
CURRENT			
Trade payables and accrued liabilities (Note 6)	$ 191,557	$ 113,831	$ 153,414
Due to related parties (Note 9)	218,704	150,385	155,060
Convertible debentures (Note 6)	3,198,832	-	-
	3,609,093	264,216	308,474
SHAREHOLDERS' EQUITY			
SHARE CAPITAL (Note 8)	15,527,701	11,999,751	9,501,806
SHARE SUBSCRIPTIONS (Note 8)	-	60,000	-
RESERVES (Note 8)	2,212,448	1,222,098	990,063
DEFICIT	(6,338,757)	(4,454,633)	(3,391,132)
	11,401,392	8,827,216	7,100,737
	$ 15,010,485	$ 9,091,432	$ 7,409,211

GOING CONCERN CONTINGENCY (Note 1)
COMMITMENTS (Notes 9 and 10)
SUBSEQUENT EVENTS (Note 14)

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 COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Year Ended May 31, 2012	Year Ended May 31, 2011 (Note 15)
EXPENSES		
Amortization	$ 5,002	$ 7,390
Consulting fees (Note 9)	515,655	135,329
Finance fees and interest	309,272	25,984
Foreign currency loss	63,113	5,245
Management and director fees (Note 9)	234,867	265,404
Office and general	110,804	82,075
Professional fees (Note 9)	306,863	289,659
Rent	74,315	40,955
Shareholder communications and investor relations (Note 9)	264,577	125,265
Transfer agent and filing fees	67,822	37,609
Travel	69,770	48,586
LOSS FROM OPERATIONS	(2,022,0608)	(1,063,501)
INTEREST INCOME	4,236	-
LOSS BEFORE INCOME TAXES	(2,017,824)	(1,063,501)
DEFERRED INCOME TAX RECOVERY (Note 6)	133,700	-
NET LOSS AND COMPREHENSIVE LOSS	(1,884,124)	(1,063,501)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.03)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	61,518,410	47,572,012

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						
	Number	Amount	Stock option and warrant reserve	Equity component of convertible debt reserve	Subscription receipts	Deficit	Total
May 31, 2010	44,657,421	$ 9,501,806	$ 990,063	$ -	-	$ (3,391,132)	$ 7,100,737
Shares for debt	70,000	17,500	-	-	-	-	17,500
Stock based compensation	-	-	137,000	-	-	-	137,000
Issued pursuant to Yamana option	500,000	110,000	-	-	-	-	110,000
Private placement – Oct. 18/10	2,000,000	400,000	-	-	-	-	400,000
Private placement – Mar. 11/11	3,941,334	1,182,400	-	-	-	-	1,182,400
Reallocation of estimated fair value of warrants	-	(158,200)	158,200	-	-	-	-
Exercise of warrants	2,943,600	883,080	-	-	-	-	883,080
Reallocation on exercise of warrants	-	63,165	(63,165)	-	-	-	-
Subscriptions received	-	-	-	-	60,000	-	60,000
Net loss for the year	-	-	-	-	-	(1,063,501)	(1,063,501)
May 31, 2011	54,112,355	11,999,751	1,222,098	-	60,000	(4,454,633)	8,827,216
Private placement - Jul 26/11	4,250,000	1,190,000	-	-	(60,000)	-	1,130,000
Private placement – Nov 23/11	4,772,000	1,193,000	-	-	-	-	1,193,000
Private placement – Mar 22/12	5,991,800	1,467,500	-	-	-	-	1,467,500
Reallocation of estimated fair value of warrants	-	(385,050)	385,050	-	-	-	-
Stock based compensation	-	-	192,392	-	-	-	192,392
Reallocation of fair value of warrant extension	-	-	30,000	-	-	-	30,000
Shares issued for services	250,000	62,500	-	-	-	-	62,500
Equity portion of convertible debt	-	-	-	516,608	-	-	516,608
Deferred income tax recovery	-	-	-	(133,700)	-	-	(133,700)
Net loss for the year	-	-	-	-	-	(1,884,124)	(1,884,124)
May 31, 2012	69,376,155	$ 15,527,701	$ 1,829,540	$ 382,908	$ -	$ (6,338,757)	$ 11,401,392

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, 2012	Year Ended May 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (1,884,124)	$ (1,063,501)
Adjusted for items not involving cash:		
- deferred income tax recovery	(133,700)	-
- amortization	5,002	7,390
- stock-based compensation	192,392	137,000
- non-cash services and finance fees	92,500	-
- accrued interest and accretion	52,512	-
	(1,675,418)	(919,111)
Changes in working capital items:		
- HST recoverable	(1,534)	(63,918)
- VAT recoverable	(465,699)	(3,783)
- prepaid expenses	8,773	31,008
- loan receivable from related party	255,000	(255,000)
- trade payables and accrued liabilities	46,904	(39,583)
- due to related parties	68,319	12,825
Cash flows used in operating activities	(1,763,655)	(1,237,562)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(5,151,350)	(1,105,382)
Cash flows used in investing activities	(5,151,350)	(1,105,382)
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares issued and subscriptions received	3,790,500	2,525,480
Convertible debentures payable	3,693,750	-
Cash flows from financing activities	7,484,250	2,525,480
INCREASE IN CASH	569,245	182,536
CASH, BEGINNING OF YEAR	558,766	376,230
CASH, END OF YEAR	$ 1,128,011	$ 558,766

SUPPLEMENTAL CASH-FLOW INFORMATION (Note 12)

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

NOTE 1 - NATURE OF OPERATIONS

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

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

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

Statement of Compliance

These 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 disclosures concerning the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS are included in Note 15. The financial statements were authorized by the audit committee and board of directors of the Company on September 28, 2012.

Going Concern

These financial statements have been prepared on a going concern basis which implies that the Company will continue realizing its assets and discharging its liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate, further adjustments to the carrying values of assets and liabilities may be required. On May 31, 2012 the Company had a working capital deficit of $2,382,520 and an accumulated deficit of $6,338,757 and further losses are expected in the future which must be funded by additional debt or equity financings. Accordingly, the ability of the Company to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing as needed and ultimately on generating future profitable operations.

The Company has as its main asset a property, which it is currently developing with the intent of constructing an open pit, heap leach gold mine and refinery. As such, the outlook for the Company is strongly tied to its ability to raise the financing necessary to construct the mine and attain profitable operations thereafter. On April 13, 2012 the Company signed an indicative term sheet with a US-based, private institutional investor (the "US Investor") with regard to a $3.75 million convertible debenture (the "Debenture"), a US$15 million gold prepayment agreement (the "Gold Prepayment"), a US$1 million Cost Overrun Facility (the "Facility") and a Off-take Agreement for the Cerro Prieto Project. This agreement requires the Company to finance the balance of the capital necessary to construct the mine as a precondition to the release to the Company of some or all of the gold prepayment funds. It is important that the Company meet the conditions for release of the gold prepayment funds in order for it to construct the mine, initiate production and attain positive cash flows. There can be no assurance this will occur and if the Company does not achieve this, the net realizable value of the Company's assets may be materially less than the amounts recorded in these financial statements. In addition, the Company expects it will need to raise capital to continue its other operations through its next fiscal year. These uncertainties may cast significant doubt as to the ability of the Company to continue as a going concern. The Company is confident in its ability to raise new funding by way of offerings of new equity and debt, or a combination thereof. Solicitation of such funding will be structured so as to, at minimum, adequately cover ongoing costs for the entirety of fiscal 2013.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Consolidation and Presentation

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

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

	Country of Incorporation	Percentage ownership
Minera Xochipala S.A. de C.V. ("Minera Xochipala")	Mexico	100%
Minas de Oroco S.A. de C.V. ("Minas de Oroco")	Mexico	100%
Minera Polimetalicos Mexicanos S.A. ("Polimetalicos")	Panama	100%

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

Cash and cash equivalents

The Company classifies cash and short-term investments with original maturities less than or equal to three months as cash and cash equivalents. At May 31, 2012 and 2011 the Company did not hold any cash equivalents.

VAT recoverable

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

Exploration and evaluation assets

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

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

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

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

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss. The Company had no measurable rehabilitation obligations as at May 31, 2012, 2011 or June 1, 2010.

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, 2012, 2011 or June 1, 2010.

Impairment

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

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

Property and equipment

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

Amortization is provided for using the declining-balance method at the following rates per annum:

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Environment costs
Environmental expenditures that related to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

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

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

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

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

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

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

Income taxes

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

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

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

Financial assets

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

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

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

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

Financial liabilities

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New standards, amendments and interpretations not yet effective:
A number of new standards, amendments to standards and interpretations are not yet effective as of May 31, 2012 and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

Accounting standards effective January 1, 2012

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

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

Accounting standards anticipated to be effective January 1, 2013

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

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

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTE 4 –EXPLORATION AND EVALUATION ASSETS

(a) Cerro Prieto Property, Sonora State, Mexico

	May 31, 2012	May 31, 2011
Balance, beginning of year	$ 8,142,698	$ 6,927,316
Acquisition costs		-
Share consideration	-	110,000
Cash	52,262	16,080
Royalty payments	122,471	119,897
	174,733	245,977
Deferred exploration expenditures:		
Lease payment, assessment fees and taxes	2,427,249	106,566
Economic assessment	-	606,804
Mine planning and development costs	1,586,669	-
Engineering	125,095	83,168
Sampling	47,940	118,290
Geologists	191,620	54,577
Drilling	598,044	-
	4,976,617	969,405
Balance, end of year	$ 13,294,048	$ 8,142,698

The Cerro Prieto Property, located in the Municipality of Cucurpe, Sonora, Mexico, 150 kilometres northeast of the city of Hermosillo, is comprised of the San Felix (205 ha), San Francisco (10 ha), Cerro Prieto "North" (2,508 ha), Argonauta 6 (4,120 ha), Elba (5.82 ha), Reyna de Plata (9.79 ha) and Huerto De Oro (20 ha) mineral concessions. The titles to all of these concessions are held by Minas de Oroco.

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

NOTE 4 –EXPLORATION AND EVALUATION ASSETS (continued)

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

The SF Concessions were the first of the Cerro Prieto Property concessions to be acquired by the Company. The San Francisco Concession, consisting of 10 hectares, covers the underground workings of the Cerro Prieto Mine. The second concession, San Felix surrounds the San Francisco Concession on all sides. The SF Concessions are subject to a 2% net smelter royalty in favour of the vendors, with a minimum royalty payment of US$30,000 per quarter payable from April 1, 2009 until royalty payments commence from production.

(ii) Cerro Prieto "North" Concession

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

(iii) Argonauta 6 Concession

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

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

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

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

The Xochipala Concessions, two contiguous concessions with a combined area of 193 ha, are located in the Municipality of Chilpancingo, Guerrero State, Mexico. Minera Xochipala acquired a 100% interest in the Xochipala Concessions in January, 2007, but was unsuccessful in its application to have its interest registered with the Public Registry of Mines ("PRM") until July 12, 2012, after successful court challenges of the PRM's initial refusal to register Minera Xochipala's interest in the concessions. The Company previously wrote off $224,303 attributed to the costs of the Xochipala property in fiscal 2009 leaving a $nil balance.

(c) Salvador Concession

Minera Xochipala was granted the 100 hectare Salvador Concession, located in the Municipality of Chilpancingo, Guerrero State, Mexico, on August 2, 2007. The Company wrote-off the carrying value of $113,080 attributed to the property as at May 31, 2009.

NOTE 5 – PROPERTY AND EQUIPMENT

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
Cost:					
At June 1, 2010	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Additions	-	-	-	-	-
At May 31, 2011	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
At May 31, 2012	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Depreciation:					
At June 1, 2010	$ 4,679	10,729	2,805	$ 1,158	$ 19,371
Charge for the period	1,852	3,714	1,442	382	7,390
At May 31, 2011	6,531	14,443	4,247	1,540	26,761
Charge for the period	942	2,600	1,154	306	5,002
At May 31, 2012	$ 7,473	17,043	5,401	$ 1,846	$ 31,763
Net book value:					
At June 1, 2010	$ 11,269	$ 12,381	$ 7,212	$ 1,912	$ 32,774
At May 31, 2011	$ 9,417	$ 8,667	$ 5,770	$ 1,530	$ 25,384
At May 31, 2012	$ 8,475	$ 6,067	$ 4,616	$ 1,224	$ 20,382

NOTE 6 – CONVERTIBLE DEBENTURES

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

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 if: (i) the first tranche of funds under the Gold Prepayment has not been drawn prior to November 1, 2012, (ii) the Company provides notice to the Holder that it will not complete the Gold Prepayment; or (iii) the Company completes one or more equity financings greater than $4 million in the aggregate other than an equity offering intended to finance the balance of the capital necessary to construct the mine at Cerro Prieto (an "Equity Offering"). In the event of any of (i) to (iii) above, the Company shall also be required to pay a break fee to the Holders in the total amount of $270,000. The Debentures are convertible into units at a price of $0.25 per unit, with each unit being comprised of one common share of the Company and one half of one share purchase warrant. Each whole warrant will entitle the holder to purchase one common share of the Company at a price of $0.40 per share for a period of two years from the date of issuance of the Debenture. The Debentures will also grant the Holders a right of first refusal to participate in such equity offering as is made by the Company for the purpose of raising the balance of the funds necessary to fund the capital expenditures required to complete and commission a mine at Cerro Prieto (an "Equity Offering"), for that number of shares as will give the Holders, including subsidiaries and affiliates, a total shareholding of not more than 19.9% of the Company's issued and outstanding common shares. If a Holder exercises its right of first refusal to participate in any Equity Offering, the Holder may declare that amount of the principal amount of the Debenture equal to the total purchase price of the equity it is purchasing pursuant in the Equity Offering to be immediately due. The Company paid finders' fees of $56,250 in connection with the issuance of the debentures.

NOTE 6 – CONVERTIBLE DEBENTURES (continued)

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

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

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

The contractual interest at 10% per annum is recorded in trade payables and accrued liabilities of which $30,822 has been accrued as of May 31, 2012.

NOTE 7 - LOAN PAYABLE

By a loan agreement dated June 15, 2011 (the "Loan Agreement"), the Company borrowed US$750,000 (the "Bridge Loan") from a wholly owned subsidiary of a New York-based, private institutional investor (the "Lender") for the purpose of paying the first instalment of the lease rate for the surface rights for the Cerro Prieto Project as set out in Note 10. The Bridge Loan was for a term of 180 days unless otherwise repaid earlier from the proceeds of the Gold Prepayment as described in Note 2, and was secured by a general security agreement on the assets of the Company and a pledge of its shares in its subsidiaries. The Company paid an origination fee of US$45,000 to the Lender.

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

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

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

NOTE 8 – SHARE CAPITAL

Authorized:
Unlimited common shares of no par value.

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

On September 13, 2010, pursuant to the terms of the letter agreement dated May 5, 2009 between the Company and Yamana, the Company issued 500,000 common shares with a value of $110,000 to Yamana upon the exercise by Minas de Oroco of its option to acquire the Argonauta 6 concession from Yamana's Mexican subsidiary, Meridian.

NOTE 8 – SHARE CAPITAL (continued)

On October 18, 2010, the Company completed a private placement of 2,000,000 units at a price of $0.20 per unit to raise gross proceeds of $400,000. Each unit consisted of one common share and one half of one non-transferable common share purchase warrant with each whole warrant exercisable into one additional common share for a period of eighteen months at a price of $0.30 per share. The fair value of the warrants attached to this private placement was estimated to be $40,000. Fair value was estimated to be 10% of the unit offering price, an amount which management believes represents the value ascribed by subscribers to the unit offering.

On March 11, 2011, the Company completed a private placement of 3,941,334 units at a price of $0.30 per unit to raise gross proceeds of $1,182,400. Each unit consisted of one common share and one half of one non-transferrable common share purchase warrant with each whole warrant exercisable into one additional common share for a period of eighteen months at a price of $0.45 per share. The fair value of the warrants attached to this private placement was estimated to be $118,200. Fair value was estimated to be 10% of the unit offering price, an amount which management believes represents the value ascribed by subscribers to the unit offering.

On July 26, 2011, the Company completed a private placement of 4,250,000 units at a price of $0.28 per unit to raise gross proceeds of $1,190,000. Each unit consists of one common share and one half of one non-transferable common share purchase warrant with each whole warrant exercisable into one additional common share for a period of fifteen months at a price of $0.42 per share. The fair value of the warrants attached to this private placement was estimated to be $119,000. Fair value was estimated to be 10% of the unit offering price, an amount which management believes represents the value ascribed by subscribers to the unit offering.

On November 23, 2011, the Company completed a private placement of 4,772,000 units at a price of $0.25 per unit to raise gross proceeds of $1,193,000. Each unit consists of one common share and one half of one non-transferable common share purchase warrant with each whole warrant exercisable into one additional common share for a period of eighteen months at a price of $0.40 per share. The fair value of the warrants attached to this private placement was estimated to be $119,300. Fair value was estimated to be 10% of the unit offering price, an amount which management believes represents the value ascribed by subscribers to the unit offering.

On March 22, 2012, the Company completed a private placement of 5,991,800 units (including 121,800 units paid as finders fees) at a price of $0.25 per unit to raise gross proceeds of $1,467,500. Each unit consists of one common share and one half of one non-transferable common share purchase warrant with each whole warrant exercisable into one additional common share for a period of eighteen months at a price of $0.40 per share. The fair value of the warrants attached to this private placement was estimated to be $146,750. Fair value was estimated to be 10% of the unit offering price, an amount which management believes represents the value ascribed by subscribers to the unit offering.

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

Warrants

Share purchase warrant transactions:

	Number	Weighted average exercise price		Weighted average life remaining (years)
Balance of warrants at May 31, 2010	3,895,550	$	0.31	0.90
Issued	2,970,667		0.40	-
Exercised	(2,943,600)		0.30	-
Expired	(817,200)		0.34	-
Balance of warrants at May 31, 2011	3,105,417	$	0.40	1.26
Issued	7,506,900		0.41	-
Exercised	-		-	-
Expired	(134,750)		0.30	-
Balance of warrants at May 31, 2012	10,477,567	$	0.40	0.76

NOTE 8 – SHARE CAPITAL (continued)

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

Summary of warrants outstanding at May 31, 2012:

Number of warrants	Exercise price	Expiry date
1,000,000	$ 0.30	14-Oct-2012
1,970,667	$ 0.45	12-Sep-2012
2,125,000	$ 0.42	26-Oct-2012
2,386,000	$ 0.40	23-May-2013
1,640,000	$ 0.40	5-Sep-2013
1,355,900	$ 0.40	22-Sep-2013
10,477,567		

Stock Options

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

	Number of stock options	Weighted Average Exercise Price
Balance outstanding, May 31, 2010	3,285,000	$ 0.27
Options granted	420,000	0.35
Options cancelled	(310,000)	0.49
Balance outstanding, May 31, 2011	3,395,000	0.26
Options granted	750,000	0.30
Options expired/forfeited/cancelled	(300,000)	0.35
Balance outstanding May 31, 2012	3,845,000	$ 0.26

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

During the fiscal year ending May 31, 2011, a total of 420,000 stock options were granted to certain employees, officers, directors and consultants of the Company at a price of $0.35 per share, exercisable for terms ranging from three to five years. The fair value of these options at the date of grants totalling $100,200 was estimated using the Black-Scholes option pricing model with the following assumptions: expected life of three to five years, risk-free interest rate of between 2.01% - 2.53%; expected dividend yield of 0% and an expected volatility of between 105.32% – 107.39%. A portion of the stock options outstanding vest in instalments, whereby each instalment is accounted for as a separate arrangement (also know as "Graded Vesting"). During the year ended May 31, 2011, 459,998 options vested on various schedules and 240,000 options vested during the fiscal year ending May 31, 2012.

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

NOTE 8 – SHARE CAPITAL (continued)

The following tables summarize information about stock options outstanding at May 31, 2012 and 2011:

Expiry Date	Exercise prices $	Number outstanding at May 31, 2012	Remaining contractual life (years)
1-Nov-13	0.15	75,000	1.42
7-May-14	0.25	250,000	1.93
11-Dec-14	0.25	2,025,000	2.53
16-Dec-14	0.25	375,000	2.55
22-Apr-15	0.25	250,000	2.89
18-May-14	0.35	120,000	1.96
1-Dec-16	0.30	750,000	4.51
		3,845,000	2.86

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

At May 31, 2012 fully vested stock options totalled 3,845,000 with a weighted average exercise price of $0.26.

Reserves

At May 31, 2012, the Company had a Stock Option and Warrant Reserve balance of $1,829,540 (2011 – $1,207,252) 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 May 31 2012, the Company had an Equity Component of Convertible Debt Reserve of $382,908, consisting of the equity portion of the convertible debt of $516,608 and the related deferred income tax recovery of $133,700.

NOTE 9 – RELATED PARTY TRANSACTIONS

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

	For the year ended May 31, 2012	For the year ended May 31, 2011
Management and director fees	$ 224,250	$ 252,147
Geologist fees	18,651	27,800
Consulting	126,500	-
Professional fees	92,250	109,310
Investor relations	-	1,800
Total	$ 461,651	$ 391,057

Management fees include $44,617 (2011 – $98,100) in stock-based compensation, which pertains to related parties. Consulting fees include $66,926 (2011 – $Nil) in stock-based compensation, which pertains to related parties.

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

As at May 31, 2012 $218,704 (2011 - $150,385) was owing to officers and directors for management, director, legal, consulting and geologist fees. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

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

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

a) the Company entered into an agreement with ATM Mining Corp. ("ATM") and Craig Dalziel whereby ATM provides Mr. Dalziel's services and Mr. Dalziel serves as the President and Chief Executive Officer of the Company at a monthly fee of $12,500 plus applicable taxes. The Company has also granted Mr. Dalziel 450,000 stock options exercisable at a price of $0.25 per share.

b) the Company entered into an agreement with David Rose whereby Mr. Rose is engaged to perform legal and management services for the Company and serves as its Corporate Secretary at a monthly fee of $9,000 plus applicable taxes. The Company has also granted Mr. Rose 425,000 stock options exercisable at prices of $0.25 and $0.30 per share; and

c) the Company entered into an agreement with Roger Scammell whereby Mr. Scammell is engaged to serve as Vice-President of the Company and to oversee the construction of the planned mine at the Company's Cerro Prieto Project in Sonora, Mexico at a per diem fee of $1,000 per day plus applicable taxes, with a minimum aggregate monthly total of $6,000 plus applicable taxes. The Company has also granted Mr. Scammell 300,000 stock options exercisable at a price of $0.30 per share.

On May 18, 2011, with the approval of the TSX-V, the Company loaned $255,000 to a related party in furtherance of a potential transaction. The loan was a refundable advance on a potential transaction, bore interest at the rate of prime plus 1%, and was secured by a pledge of security comprised of a promissory note payable on demand with 30 days notice and a pledge of 1,200,000 common shares of the Company held by the related party. During fiscal 2012 the loan was repaid in full with interest of $3,986.

NOTE 10 – COMMITMENTS

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

2012	$ 90,236
2013	$ 22,559

On June 17, 2011, the Company entered into a lease agreement (the "Lease Agreement") for a seven-year lease of a 1,000 hectare parcel of surface rights over the Cerro Prieto Project, with the option for two consecutive five year extensions. Pursuant to the Lease Agreement, the Company paid the lessor the aggregate lease rate of C$1,973,947 (US$2,000,000) in advance for the initial seven year term in two instalments: US$600,000 at the time of signing and the remaining US$1,400,000 on September 9, 2011.

By an agreement dated August 18, 2011 ("the EPCM Agreement"), the Company retained Sonoran Resources, LLP and its wholly owned Mexican subsidiary ("Sonoran"), to provide equipment procurement and construction management services for the construction of an open pit, heap leach gold mine and refinery at the Company's Cerro Prieto property. Under the terms of the EPCM Agreement, Sonoran will provide all necessary engineering, procurement and construction management services related to the construction of the mine and refinery through to "first-pour". In consideration, the Company will pay Sonoran a flat monthly fee of US$260,900, to a maximum aggregate of US$3,130,800, and, subject to the successful completion of a series of milestones, up to an aggregate total of 1,000,000 common shares of the Company and 500,000 options to purchase common shares of the Company at a price of $0.30 per share for a period of 30 months from the date of the EPCM Agreement. The payments begin on commencement of mine construction. On May 3, 2012, the Company issued and delivered the first instalment of the common shares to Sonoran upon the achievement of the first milestone (see Note 8 – Share Capital).

NOTE 11 – DEFERRED INCOME TAXES

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

	May 31, 2012	May 31, 2011
Loss before income taxes	$ (1,884,124)	$ (1,063,501)
Corporate tax rate	26.5%	27%
Expected tax expense (recovery) at statutory rates	(499,293)	(287,145)
Effect of decrease in tax rate and other	28,581	26,720
Unrecognized items for tax purposes	50,984	36,050
Effect of previously unrecognized temporary differences on deferred tax expense	(136,901)	-
Change in valuation allowance	422,929	224,375
Income tax recovery	$ (133,700)	$ -

Income taxes recognized directly in equity:

	May 31, 2012	May 31, 2011
Deferred tax relating to convertible debenture	$ 133,700	$ -

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	May 31, 2012	May 31, 2011
Non-capital losses carried forward	$ 1,492,438	$ 1,038,989
Equipment costs in excess of tax value	4,820	3,806
Mineral properties in excess of tax value	(123,961)	(123,960)
Share issue costs	10,527	42,360
	$ 1,384,124	$ 961,195

The tax pools relating to these deductible temporary differences expire as follows:

	Canada non-capital losses	Mexico non-capital losses	Share issue costs
2013	$ -	$ -	$ 42,106
2017	-	2,089,058	-
2018	-	1,501,153	-
2019	-	1,459,941	-
2020	-	2,415,999	-
2021	-	1,547,140	-
2022	-	5,389,439	-
2027	195,636	-	-
2028	622,293	-	-
2029	556,305	-	-
2030	692,871	-	-
2031	722,021	-	-
2032	1,576,913	-	-
No expiry	-	-	-
	$ 4,366,039	$ 14,402,730	$ 42,106

NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION

	For the year ended May 31, 2012	For the year ended May 31, 2011
Interest paid	$ -	$ -
Taxes paid	$ -	$ -
Non-cash transactions not included in investing or financing activities		
Acquisition of exploration and evaluation assets by the issuance of shares	$ -	$ 110,000
Shares issued to settle debt	$ -	$ 17,500
Shares issued for services	$ 62,500	$ -

NOTE 13 – 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, 2012.

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

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

Management of Industry Risk

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

Management of Financial Risk

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

Credit Risk

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

Liquidity Risk

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

The Company monitors its ability to meet its short-term exploration and administrative expenditures by raising additional funds through share issuance when required. All of the Company's financial liabilities have contractual maturities of 30 days

NOTE 13 – FINANCIAL INSTRUMENT RISK AND CAPITAL (continued)

or due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits.

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

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

NOTE 14 – SUBSEQUENT EVENTS

On July 12, 2012, title to the Xochipala Concessions was registered by the PRM in the name of Minera Xochipala.

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.

NOTE 15 - FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these consolidated financial statements are the first annual consolidated financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the consolidated financial statements for the year ended May 31, 2012, the comparative information presented in these consolidated financial statements for the year ended May 31, 2011 and the opening IFRS statement of financial position on June 1, 2010, the "Transition Date".

In preparing the opening IFRS statement of financial position and the financial statements for the year ended May 31, 2011, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with CGAAP. An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

a) to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date;

b) to apply the requirements of IFRS 2, Share-based payment, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and

c) to transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the Transition Date including those foreign currency differences which arose on adoption of IFRS.

Additionally, in accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous CGAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of June 1, 2010 are consistent with its CGAAP estimates for the same date.

Under CGAAP, the Company recognized Stock Based Compensation (SBC) by estimating the fair value of the options at the date of grant and allocating the resultant fair value amounts over the options' vesting period. In accordance with IFRS 2 - Share Based Payments, the Company allocates the resultant fair value of incentive stock options on a Graded Vesting basis, which has the effect of accelerating the recognition of SBC. The result of the transition to IFRS 2 has yielded adjustments for

NOTE 15 - FIRST TIME ADOPTION OF IFRS (continued)

the comparative figures in the fiscal period 2011 and the opening deficit at the Transition Date, which is detailed in the tables below.

IFRS requires an entity to present for each component of equity, reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company reviewed its contributed surplus account and applied the following changes: The contributed surplus account was renamed reserves account, and the presentation of the reserves in the statement of changes in equity has been further separated into reserves relating to option and warrant reserves and reserves relating to convertible debentures.

The reconciliation between CGAAP and IFRS consolidated balance sheet as at June 1, 2010 (date of transition to IFRS) is provided below:

	CGAAP	Effect of Transition to IFRS	IFRS
ASSETS			
CURRENT			
Cash	$ 376,230		$ 376,230
VAT recoverable	24,179		24,179
Prepaid expenses	48,712		48,712
	449,121		449,121
EXPLORATION AND EVALUATION ASSETS	6,927,316		6,927,316
PROPERTY AND EQUIPMENT	32,774		32,774
	$ 7,409,211		$ 7,409,211
LIABILITIES			
CURRENT			
Trade payables and accrued liabilities	$ 153,414		$ 153,414
Due to related parties	155,060		155,060
	308,474		308,474
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	9,501,806		9,501,806
RESERVES	978,698	11,365	990,0636
DEFICIT	(3,379,767)	(11,365)	(3,391,132)
	7,100,737	-	7,100,737
	$ 7,409,211		$ 7,409,211

OROCO RESOURCE CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15 - FIRST TIME ADOPTION OF IFRS (continued)

The reconciliation between CGAAP and IFRS consolidated balance sheet and income statement as at May 31, 2011 is provided below:

	CGAAP	Effect of Transition to IFRS	IFRS
ASSETS			
CURRENT			
Cash	$ 558,766		$ 558,766
HST recoverable	91,880		91,880
Prepaid expenses	17,704		17,704
Loan receivable from related party	255,000		255,000
	923,350		923,350
EXPLORATION AND EVALUATION ASSETS	8,142,698		8,142,698
PROPERTY AND EQUIPMENT	25,384		25,384
	$ 9,091,432		$ 9,091,432
LIABILITIES			
CURRENT			
Trade payables and accrued liabilities	$ 113,831		$ 113,831
Due to related parties	150,385		150,385
	264,216		264,216
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	11,999,751		11,999,751
SHARE SUBSCRIPTIONS	60,000		60,000
RESERVES	1,207,252	14,846	1,222,098
DEFICIT	(4,439,787)	(14,846)	(4,454,633)
	8,827,216	-	8,827,216
	$ 9,091,432		$ 9,091,432

NOTE 15 - FIRST TIME ADOPTION OF IFRS (continued)

	CGAAP	Effect of Transition to IFRS	IFRS
EXPENSES			
Amortization	$ 7,390		$ 7,390
Consulting fees	119,754	15,575	135,329
Foreign currency loss	5,245		5,245
Interest and finance fees	25,984		25,984
Management and director fees	275,247	(9,843)	265,404
Office and general	84,326	(2,251)	82,075
Professional fees	289,659	-	289,659
Rent	40,955		40,955
Shareholder communications and investor relations	125,265		125,265
Transfer agent and filing fees	37,609		37,609
Travel	48,586		48,586
NET LOSS AND COMPREHENSIVE LOSS	$ (1,060,020)	(3,481)	$ (1,063,501)
BASIC AND DILUTED LOSS PER SHARE	$ (0.02)		$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-BASIC AND DILUTED	47,572,012		47,572,012

There are no significant differences between IFRS and CGAAP in connection with the Company's statements of cash flows for the year ended May 31, 2011.