

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Scavo Resources Corp.  
(formerly Pure Living Media Inc.)

We have audited the accompanying consolidated financial statements of Scavo Resources Corp. (formerly Pure Living Media Inc.), which comprise the consolidated statements of financial position as at May 31, 2012, May 31, 2011 and June 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years ended May 31, 2012 and May 31, 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.

### *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.

### *Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Scavo Resources Corp. (formerly Pure Living Media Inc.) as at May 31, 2012, May 31, 2011 and June 1, 2010 and its financial performance and its cash flows for the years ended May 31, 2012 and May 31, 2011 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 Scavo Resources Corp. (formerly Pure Living Media Inc.)'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

September 21, 2012

**SCAVO RESOURCE CORP.**  
(formerly Pure Living Media Inc.)

**CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)

**FOR THE YEAR ENDED MAY 31, 2012**



**SCAVO RESOURCE CORP.**  
(formerly Pure Living Media Inc.)  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian Dollars)  
YEARS ENDED MAY 31

	2012	2011 (Note 13)
<b>OPERATING EXPENSES</b>		
Administration fees (Note 9)	\$ 28,000	\$ -
Consulting fees	5,000	-
Contract labour	-	301,525
Management fees (Note 9)	120,000	61,343
Marketing	-	50,507
Office and miscellaneous	8,909	51,805
Photography	-	1,912
Professional fees	60,335	102,704
Rent (Note 9)	22,066	2,500
Transfer agent and filing fees	17,138	15,962
Travel and related costs	-	10,568
Website	-	320,628
<b>Loss before other items</b>	<u>(261,448)</u>	<u>(919,454)</u>
<b>OTHER ITEMS</b>		
Foreign exchange loss	(1,418)	(14,691)
Loss on sale of TBwaP, Inc. (Note 1)	(343,983)	-
Write-off of assets (Note 5)	-	(1,216,905)
Other income	-	123,498
Interest expense	-	(10,155)
	<u>(345,401)</u>	<u>(1,118,253)</u>
<b>Loss and comprehensive loss for the year</b>	(606,849)	(2,037,707)
<b>Non-controlling interest</b>	<u>-</u>	<u>389,931</u>
<b>Loss and comprehensive loss for the year</b>	<u>\$ (606,849)</u>	<u>\$ (1,647,776)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.13)</u>	<u>\$ (0.62)</u>
<b>Weighted average number of common shares outstanding</b>	4,585,660	2,651,110

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

**SCAVO RESOURCE CORP.**  
(formerly Pure Living Media Inc.)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
YEARS ENDED MAY 31

	2012	2011 (Note 13)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (606,849)	\$ (2,037,707)
Items not affecting cash:		
Amortization of equipment	-	334
Loss on sale of TBwaP, Inc.	343,983	-
Write-off of assets	-	1,216,905
Accretion of convertible debenture	-	10,155
Changes in non-cash working capital items:		
(Increase) decrease in receivables	6,552	(71,479)
(Increase) decrease in prepaids	(5,000)	45,541
Increase (decrease) in accounts payable and accrued liabilities	(31,792)	66,634
Increase (decrease) in due to related parties	<u>(5,149)</u>	<u>25,405</u>
Net cash used in operating activities	<u>(298,255)</u>	<u>(744,212)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of exploration and evaluation assets	<u>(70,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(70,000)</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from sale of TBwaP, Inc.	10	-
Share capital issued	425,000	677,800
Share issuance costs	(24,250)	(55,150)
Proceeds from loans received	58,750	-
Repayment of loans	<u>(58,750)</u>	<u>-</u>
Net cash provided by financing activities	<u>400,760</u>	<u>622,650</u>
<b>Change in cash for the year</b>	<b>32,505</b>	<b>(121,562)</b>
<b>Cash, beginning of year</b>	<u><b>36,155</b></u>	<u><b>157,717</b></u>
<b>Cash, end of year</b>	<u><b>\$ 68,660</b></u>	<u><b>\$ 36,155</b></u>

**Supplemental disclosure with respect to cash flows** (Note 10)

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

**SCAVO RESOURCE CORP.**

(formerly Pure Living Media Inc.)

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**

(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital Amount	Reserves	Deficit	Non- controlling interest	Total
<b>Balance, May 31, 2010</b>	2,324,585	\$ 1,598,150	\$ 1,691,304	\$ (2,087,092)	\$ -	\$ 1,202,362
Private placements	479,650	677,800	-	-	-	677,800
Share issuance costs	-	(55,150)	-	-	-	(55,150)
Shares issued to settle accounts payable	28,000	56,000	-	-	-	56,000
Shares issued to settle convertible debenture	100,000	100,000	-	-	-	100,000
Non-controlling interest	-	-	-	-	(384,622)	(384,622)
Loss for the year	-	-	-	(1,647,776)	-	(1,647,776)
<b>Balance, May 31, 2011</b>	2,932,235	2,376,800	1,691,304	(3,734,868)	(384,622)	(51,386)
Private placement	8,500,000	425,000	-	-	-	425,000
Share issuance costs	-	(24,250)	-	-	-	(24,250)
Non-controlling interest	-	-	-	-	384,622	384,622
Loss for the year	-	-	-	(606,849)	-	(606,849)
<b>Balance, May 31, 2012</b>	11,432,235	\$ 2,777,550	\$ 1,691,304	\$ (4,341,717)	\$ -	\$ 127,137

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

**SCAVO RESOURCE CORP.**  
(formerly Pure Living Media Inc.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in Canadian Dollars)  
FOR THE YEAR ENDED MAY 31, 2012

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Scavo Resource Corp. (formerly Pure Living Media Inc.) (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on January 16, 2007. The Company began trading on the TSX Venture Exchange (“TSX-V”) as Patriotstar Ventures Inc. (“Patriotstar”). Prior to December 11, 2009 the Company was a Capital Pool Company as defined in the TSX-V Policy 2.4. Effective December 11, 2009, the Company completed its “Qualifying Transaction” whereby it acquired all of the issued and outstanding shares in TinyMassive Technologies Corp. (“TMTC”), a BC Limited Company. As a result of completing the Qualifying Transaction, the Company was no longer a CPC and control of the Company passed to the shareholders of TMTC. Accordingly, the Qualifying Transaction was a reverse takeover (“RTO”) acquisition of the Company by TMTC and was treated as a capital transaction by TMTC.

The Company’s head office, principal address and registered and records office is 909 Bowron Street, Coquitlam, British Columbia, Canada, V3J 7W3.

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation. The Company has incurred operating losses over the past several years and does not have a current source of revenue or sufficient financial resources to sustain operations in the long term.

During the year ended May 31, 2011, the Company discontinued its website development activities and all related assets were written off to operations. The Company’s continuing operations as intended are now dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses. Such an acquisition will be subject to regulatory approval and may be subject to shareholder approval. In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

During the year ended May 31, 2012, the Company consolidated its share capital on the basis of 20 old shares for one new share. All common share, per share, option, warrant and weighted average price amounts were restated to reflect this consolidation.

While management intends to pursue additional financings and the Company has been successful in obtaining its required financing in the past, there is no assurance that such financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

Adverse financial market conditions and volatility increase the uncertainty of the Company’s ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds.

These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.



**SCAVO RESOURCE CORP.**  
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**2. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF IFRS**

**Statement of compliance**

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company’s transition date to IFRS was June 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, “First-time adoption of International Financial Reporting Standards”. In preparing the Company’s first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles (“GAAP”). Historical results and balances have been restated under IFRS. These consolidated financial statements should be read in conjunction with the Company’s May 31, 2011 GAAP annual consolidated financial statements, and in consideration of the disclosure regarding the transition from Canadian GAAP to IFRS included in Note 13. Certain disclosures that are required to be included in annual consolidated financial statements prepared in accordance with IFRS are not included in the Company’s May 31, 2011 GAAP consolidated financial statements.

**Basis of consolidation and presentation**

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

These consolidated financial statements include the accounts of the Company and its 51% owned US subsidiary, TBwaP, Inc., until March 23, 2012, when the Company sold its interest for \$10. The Company recognized a net loss of \$343,983 on disposition of its interest.

As at May 31, 2012, the Company no longer holds an interest in TBwaP, Inc. and has written off all intercompany advances to the consolidated statement of loss and comprehensive loss.

**Use of estimates**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- a) The recoverability of receivables that are included in the statements of financial position based on the historical collection of receivables.
- b) The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position based on the planned exploration budgets and results of future exploration programs.

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**2. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF IFRS (cont'd...)**

**Use of estimates (cont'd...)**

- c) The valuations of shares issued in non-cash transactions using the quoted share price as the fair value based measurement on the date the shares are issued for the transaction or the value of the goods and services received.
- d) The recognition of deferred tax assets based on the change in unrecognized deductible temporary tax differences.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Foreign currency translation**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its former subsidiary is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

*Fair value through profit or loss ("FVTPL")* - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial instruments (cont'd...)**

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities* - This category consists of liabilities carried at amortized cost using the effective interest method.

The Company has classified its cash as fair value through profit or loss, its receivables as loans and receivables and its accounts payable and accrued liabilities and amounts due to related parties as other financial liabilities.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Equipment**

Equipment, which was comprised of a computer, was recorded at cost, net of accumulated amortization. Amortization was calculated on an annual basis over the estimated useful life using the declining balance method at a rate of 30% per annum. During the year ended May 31, 2011, the net book value of \$778 was written off to operations.

**Exploration and evaluation assets**

*Pre-exploration costs*

Pre-exploration costs are expensed in the period in which they are incurred.

*Exploration and evaluation expenditures*

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the transferee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of loss and comprehensive loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction."

Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is evaluated at the cash generating unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of the CGU is the greater 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 pre-tax 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of 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 CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Provision for environmental rehabilitation**

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

As at May 31, 2012, the Company does not have any known rehabilitation obligations.

**Intangible assets**

Intangible assets, consisting of a website license and software, were recorded at acquisition cost.

**Website development costs**

Website development costs were stated at cost less accumulated amortization. Amortization commenced once the website had been completed. Website hosting and maintenance costs were charged to operations.

**Share-based payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. The fair value of the options is recognized as an expense with a corresponding increase in equity.

**SCAVO RESOURCE CORP.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Share-based payments (cont'd...)**

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted, and is recognized over the vesting period. The share-based payments are recorded as an operating expense with an offset to equity reserves. When options are exercised the consideration received is recorded as share capital. In addition, the related share-based payments originally recorded as equity reserves are transferred to share capital. When an option is cancelled or expires, the initial recorded value is reversed and charged to deficit.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

**Loss per share**

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average number of common shares outstanding is 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.

**New standards not yet adopted**

The Company is currently assessing whether or not the adoption of the following standards will have a material effect on the Company's future financial statements.

**SCAVO RESOURCE CORP.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd...)

**New standards not yet adopted** (cont'd...)

*IFRS 9, "Financial Instruments"*

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to their own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective on January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

*IFRS 10, "Consolidated Financial Statements"*

IFRS 10, "Consolidated Financial Statements", requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, "Consolidation - Special Purpose Entities", and parts of IAS 27, "Consolidated and Separate Financial Statements". The standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities", IAS 27 (2011), "Separate Financial Statements" and IAS 28 (2011), "Investments in Associates and Joint Ventures".

*IFRS 11, "Joint Arrangements"*

IFRS 11, "Joint Arrangements", requires a venturer to classify its interest in a joint arrangement as a joint venture or a joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, "Interests in Joint Ventures", and SIC-13, "Jointly Controlled Entities - Non-monetary Contributions by Venturers". The standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10, "Consolidated Financial Statements", IFRS 12, "Disclosure of Interests in Other Entities", IAS 27 (2011), "Separate Financial Statements" and IAS 28 (2011), "Investments in Associates and Joint Ventures".

*IFRS 12, "Disclosure of Interests in Other Entities"*

IFRS 12, "Disclosure of Interests in Other Entities", establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IAS 27 (2011), "Separate Financial Statements" and IAS 28 (2011), "Investments in Associates and Joint Ventures".

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**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd...)

**New standards not yet adopted** (cont'd...)

*IFRS 13, "Fair Value Measurement"*

IFRS 13, "Fair Value Measurement", is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The new converged fair value framework is effective for annual periods beginning on or after January 1, 2013.

*IAS 28, "Investments in Associates and Joint Ventures" (Amended in 2011)*

IAS 28 (2011), "Investments in Associates and Joint Ventures", supersedes IAS 28 "Investments in Associates" and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. The amended standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities" and IAS 27 (2011), "Separate Financial Statements".

*IAS 32, "Financial Instruments: Presentation"*

The IASB amended IAS 32, "Financial Instruments: Presentation" to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off';
- the application of simultaneous realization and settlement;
- the offsetting of collateral amounts; and
- the unit of account for applying the offsetting requirements.

The amended standard is effective for annual periods beginning on or after January 1, 2014.



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**4. EXPLORATION AND EVALUATION ASSETS – MINERAL PROPERTIES**

**Title to mineral properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral claims and, to the best of its knowledge, title to all of its claims is in good standing.

**Purple Onion Claims**

During the year ended May 31, 2012, and subject to regulatory approval, the Company entered into a purchase agreement to acquire the Purple Onion Claims in Northwest Territories, Canada. As consideration, the Company paid \$70,000 and is required to issue 300,000 common shares (issued subsequent to May 31, 2012). Pursuant to the agreement, the vendor will retain a net smelter royalty (“NSR”) of 0.5%. The Company can purchase the NSR by expending \$325,413 on exploration expenditures by September 19, 2013 and issuing an additional 100,000 common shares. The Company’s President is also the President and a director of the vendor, Coltstar Ventures Inc.

**5. DOMAIN NAME, SOFTWARE LICENSE AND WEBSITE DEVELOPMENT COSTS**

During the year ended May 31, 2010, the Company entered into a software license agreement. The license granted the Company the rights to certain software in Canada, the U.S and Mexico. As consideration, the Company issued 59,915 common shares with a value of \$239,659. The Company also purchased a domain name for its website for \$3,571.

During the year ended May 31, 2009, the Company entered into a consulting agreement with Lightmaker Vancouver (Internet) Inc. (“Lightmaker”) for the provision of website development services. On March 31, 2009 the Company’s subsidiary entered into a settlement agreement for the termination of the consulting agreement with Lightmaker pursuant to which the Company acquired certain intellectual property rights relating to the development of the Company’s website in consideration for the grant of an option, valued at \$96,875, to purchase the Company’s common shares at an aggregate purchase price of \$1 and the issuance of a \$100,000 convertible debenture (Note 6).

During the year ended May 31, 2011, the Company wrote off all costs, totaling \$1,148,925, related to the domain name, software license and website development costs.

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**6. COVERTIBLE DEBENTURE**

On April 7, 2009, the Company issued a \$100,000 convertible debenture pursuant to the settlement agreement for the termination of the consulting agreement with Lightmaker (Note 5). The debenture was unsecured, non-interest bearing, and would become payable and convertible on the date the Company completed a liquidity event (receipt of a net financing of \$1,500,000 or more). Once convertible, the balance could be converted into the Company's common shares. Such a conversion would occur at the fair market value of the Company's stock, being the greater of the share price governing the liquidity event or the greater of the share price at the date of conversion or \$1.00 per share. Any amount of the debenture outstanding on April 7, 2011 would be converted into the Company's common shares at the share price prevailing on April 11, 2011. As the loan was non-interest bearing, the Company discounted the note by \$24,386 and recorded \$75,614 as website costs. During the year ended May 31, 2011, the Company accreted \$10,155 of the discount.

On May 17, 2011 the convertible debenture was converted into 100,000 common shares valued at \$100,000.

**7. SHARE CAPITAL AND RESERVES**

**Authorized**

As at May 31, 2012, the authorized share capital of the Company is an unlimited number of common shares without par value.

**Share consolidation**

During the year ended May 31, 2012, the Company consolidated its share capital on the basis of 20 old shares for one new share.

**Private placements**

On March 21, 2012, the Company completed a private placement by issuing 8,500,000 units at a price of \$0.05 per unit for gross proceeds of \$425,000. Each unit consisted of one common share and one warrant enabling the holder to acquire an additional common share at \$0.10 until March 21, 2014. A commission of 10% of the proceeds from certain investors, totalling \$24,250, was paid.

On February 2, 2011, the Company completed a private placement by issuing 100,650 units at a price of \$2.00 per unit for gross proceeds of \$201,300. Each unit consisted of one common share and one warrant enabling the holder to acquire an additional common share at \$3.00 for one year. A commission of 10% of the proceeds from certain investors, totalling \$20,130, was paid.

On December 10, 2010, the Company completed a private placement by issuing 97,500 units at a price of \$2.00 per unit for gross proceeds of \$195,000. Each unit consisted of one common share and one warrant enabling the holder to acquire an additional common share at \$3.00 for one year. A commission of 10% of the proceeds from certain investors, totalling \$17,000, was paid.

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**7. SHARE CAPITAL AND RESERVES (cont'd...)**

**Private placements (cont'd...)**

On August 13, 2010, the Company completed a private placement by issuing 110,000 common shares at a price of \$1.00 per share for gross proceeds of \$110,000. A commission of 10% of the proceeds from certain investors, totalling \$1,000, was paid.

On July 30, 2010, the Company completed a private placement of 171,500 common shares at a price of \$1.00 per share for gross proceeds of \$171,500. A commission of 10% of the proceeds from certain investors, totalling \$14,150, was paid.

**Escrow shares**

As at May 31, 2012, 209,305 (May 31, 2011 – 418,614) common shares are held in escrow.

**8. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

As at May 31, 2012, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

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Number of Shares	Exercise Price	Expiry Date
12,500	\$ 5.20	January 18, 2015
<u>12,500</u>	2.40	May 20, 2015
25,000		

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**8. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock options (cont'd...)**

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, May 31, 2010	220,220	\$	3.60
Options cancelled/expired	<u>(33,970)</u>		7.00
Balance, May 31, 2011	186,250		3.00
Options cancelled/expired	<u>(161,250)</u>		2.96
Balance, May 31, 2012	25,000	\$	3.80
<hr/>			
Number of options currently exercisable	25,000	\$	3.80

**Warrants**

As at May 31, 2012, the Company had 8,500,000 outstanding share purchase warrants enabling the holders to acquire shares at \$0.10 per share to March 21, 2014.

Warrant transactions are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
As at May 31, 2010	413,578	\$	6.20
Issued	226,150		3.00
Expired	<u>(244,000)</u>		6.00
As at May 31, 2011	395,728		4.60
Issued	8,500,000		0.10
Expired	<u>(395,728)</u>		4.60
As at May 31, 2012	8,500,000	\$	0.10

**Share-based compensation**

For the year ended May 31, 2012, the Company recorded \$Nil (May 31, 2011 - \$Nil) as share-based compensation expense as no options were granted during the year.

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**9. RELATED PARTY TRANSACTIONS**

During the years ended May 31, 2012 and 2011, the Company entered into the following transactions with related parties:

- (a) The Company paid or accrued management fees of \$60,000 (2011 - \$30,000) and rent of \$2,000 (2011 - \$6,500) to Brugas Holdings Inc., a company controlled by the Chief Financial Officer and director of the Company.
- (b) The Company paid or accrued management fees of \$60,000 (2011 - \$Nil) and rent of \$22,066 (2011 - \$Nil) to Raincoast Capital Inc., a company controlled by the President and director of the Company.
- (c) The Company paid or accrued \$Nil (2011 - \$54,300) in commissions and administrative fees to former directors of TBwaP, Inc.
- (d) The Company received \$Nil (2011 - \$30,961) in other income from companies controlled by a former director of TBwaP, Inc.
- (e) The Company wrote-off \$Nil (2011 - \$65,066) in receivables owed by a former director of TBwaP, Inc.
- (f) The Company paid or accrued consulting fees of \$5,000 (2011 - \$Nil) to a director of the Company.
- (g) The Company paid or accrued administrative fees of \$28,000 (2011 - \$Nil) to the Company's corporate secretary.

The Company acquired an option to purchase the Purple Onion Claims from a company with a common director (Note 4).

As at May 31, 2012 \$25,851 (May 31, 2011 - \$31,000; June 1, 2010 - \$5,595) is owed to companies controlled by directors of the Company.

Amounts due to related parties are due to companies controlled by directors and officers, are unsecured, are non-interest bearing and have no specific terms of repayment.

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	2012	2011
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

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There were no significant non-cash investing and financing transactions during the year ended May 31, 2012.

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**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)**

The significant non-cash investing and financing transactions during the year ended May 31, 2011 included:

- a) issuing 28,000 common shares valued at \$56,000 to settle accounts payable and accrued liabilities totaling \$56,000; and
- b) issuing 100,000 common shares valued at \$100,000 on conversion of a debenture.

**11. INCOME TAXES**

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

	2012	2011
Loss for the year	\$ (606,849)	\$ (1,647,776)
Expected income tax (recovery)	\$ (157,000)	\$ (456,000)
Change in statutory tax rates and other	6,000	44,000
Permanent differences	(8,000)	73,000
Share issue costs	(6,000)	(14,000)
Change in unrecognized deductible temporary differences	165,000	353,000
Total income tax expense (recovery)	\$ -	\$ -

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

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

	2012	2011
Deferred tax assets (liabilities):		
Share issue costs	\$ 31,000	\$ 44,000
Allowable capital losses	94,000	-
Non-capital losses available for future periods	822,000	738,000
	947,000	782,000
Unrecognized deferred tax assets	(947,000)	(782,000)
Net deferred tax assets	\$ -	\$ -

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**11. INCOME TAXES (cont'd...)**

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2012	2011	Expiry Date Range 2011
Temporary differences:			
Share issue costs	\$ 125,000	\$ 176,000	2033 - 2036
Allowable capital losses	375,000	-	No expiry date
Non-capital losses available for future periods	\$ 3,289,000	\$ 2,952,000	2014 - 2032

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

**12. FINANCIAL AND CAPITAL RISK MANAGEMENT**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;  
and

Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities and amounts due to related parties approximate their carrying values. The Company's other financial instrument, being cash, is measured at fair value using Level 1 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company's credit risk is primarily attributable to cash. The Company has no significant concentration of credit risk arising from operations. Cash is held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2012, the Company had cash balances of \$68,660 (May 31, 2011 - \$36,155; June 1, 2010 - \$147,717) and current liabilities of \$28,855 (May 31, 2011 - \$106,425; June 1, 2010 - \$165,540).

The Company has historically relied on equity and debt financings to satisfy its capital requirements and will continue to depend heavily upon equity capital and debt to finance its activities. There can be no assurance the Company will be able to obtain the required financing in the future on acceptable terms.

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**12. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

Interest rate risk

The Company is not exposed to risk in the event of interest rate fluctuations. The Company has not entered into any interest rate swaps or other financial arrangements that mitigate the exposure to interest rate fluctuations.

Foreign currency risk

The Company's functional currency is the Canadian dollar and the majority of its purchases are transacted in Canadian dollars. From time to time, the Company funds certain operations, exploration and administrative expenses in US\$ on a cash call basis using US\$ currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is not significant and therefore does not hedge its foreign exchange risk.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval and acceptance by regulatory authorities. The Company relies mainly on equity issuances and loans from related parties to raise new capital. In the management of capital, the Company includes the components of shareholders' equity. The Company prepares annual estimates of operating expenditures and monitors actual expenditures compared to the estimates in an effort to ensure that there is sufficient capital on hand to meet ongoing obligations. The Company's investment policy is to negotiate premium interest rates on savings accounts or to invest its cash in highly liquid short-term deposits with terms of one year or less and which can be liquidated at any time without interest penalty. The Company will require additional financing in order to provide working capital to fund costs for the current year. These financing activities may include issuances of additional debt or equity securities.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.



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**13. FIRST TIME ADOPTION OF IFRS**

As stated in Note 2, these consolidated financial statements are for the Company's first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the consolidated financial statements for the years ended May 31, 2012 and 2011 and the opening IFRS consolidated statement of financial position as at June 1, 2010, the Transition Date.

In preparing the opening IFRS consolidated statement of financial position and the consolidated financial statements for the year ended May 31, 2011, the Company has reviewed amounts reported previously in financial statements that were prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP 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 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 GAAP, 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 GAAP estimates for the same date.

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**13. FIRST TIME ADOPTION OF IFRS (cont'd...)**

The adoption of IFRS has not resulted in any adjustments to these balances as reported previously under GAAP. Further, the Company's transition to IFRS had no effect on previously reported cash flows.

	June 1, 2010	May 31, 2011
<b>Equity (deficiency) under Canadian GAAP</b>	\$ 1,202,362	\$ (51,386)
<b>Equity (deficiency) under IFRS</b>	\$ 1,202,362	\$ (51,386)
		Year ended May 31, 2011
<b>Loss and comprehensive loss under Canadian GAAP</b>		\$ (2,037,707)
<b>Loss and comprehensive loss under IFRS</b>		\$ (2,037,707)

**14. EVENTS AFTER THE REPORTING PERIOD**

Subsequent to May 31, 2012, the Company:

- a) issued 780,000 common shares for total proceeds of \$78,000 pursuant to the exercise of share purchase warrants; and
- b) issued 300,000 common shares pursuant to the purchase agreement to acquire the Purple Onion Claims in the Northwest Territories (Note 4).