

ARMADILLO RESOURCES LTD.
(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

YEARS ENDED MAY 31, 2012 AND 2011



MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Armadillo Resources Ltd.

We have audited the accompanying consolidated financial statements of Armadillo Resources Ltd. 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 comprehensive loss, changes in equity and cash flows for the years ended May 31, 2012 and May 31, 2011, and the related notes comprising 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 as issued by the International Accounting Standards Board, 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 our 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, we consider 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, the consolidated financial statements present fairly, in all material respects, the financial position of Armadillo Resources Ltd. as at May 31, 2012, May 31, 2011, and June 1, 2010, and its financial performance and cash flows for the years ended May 31, 2012 and May 31, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Armadillo Resources Ltd. to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

October 24, 2012

ARMADILLO RESOURCES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	May 31, 2012	May 31, 2011	June 1, 2010
		(Note 3)	(Note 3)
Assets			
Current			
Cash and cash equivalents	\$ 1,937	\$ 102,689	\$ 8,362
Amounts receivable	6,924	55,967	31,520
Prepaid expenses	7,690	26,950	-
	<u>16,551</u>	<u>185,606</u>	<u>39,882</u>
Reclamation bond	-	7,500	7,500
Restricted investment (Note 5)	23,000	23,000	23,000
Deferred acquisition costs (Note 4)	-	8,817,885	-
Security deposit	1,000	1,000	1,000
Mineral properties and exploration costs (Note 6)	11,460,515	1,249,243	924,774
Equipment (Note 7)	77,543	31,974	7,560
	<u>\$ 11,578,609</u>	<u>\$ 10,316,208</u>	<u>\$ 1,003,716</u>
Liabilities			
Current			
Accounts payable and accrued liabilities (Note 4)	\$ 1,654,678	\$ 103,311	\$ 120,712
Due to related party (Note 11)	101,018	-	20,973
Promissory note payable (Note 8)	428,160	372,540	-
Current portion of capital lease obligation (Note 9)	2,338	1,169	-
	<u>2,186,194</u>	<u>477,020</u>	<u>141,685</u>
Capital lease obligation (Note 9)	4,473	5,642	-
	<u>2,190,667</u>	<u>482,662</u>	<u>141,685</u>
Shareholders' Equity			
Share capital	11,302,621	11,302,621	1,353,050
Share subscriptions receivable	-	(36,000)	(10,000)
Share subscription received	765,000	-	-
Share compensation reserves	785,321	517,901	231,368
Non-controlling Interest	92,374	-	-
Deficit	(3,557,374)	(1,950,976)	(712,387)
	<u>9,387,942</u>	<u>9,833,546</u>	<u>862,031</u>
	<u>\$ 11,578,609</u>	<u>\$ 10,316,208</u>	<u>\$ 1,003,716</u>

Nature of operations and going concern (Note 1)
Commitment (Note 16)
Subsequent Event (Note 17)

Approved on behalf of the Board on October 24, 2012:

"Les Kjosness"

Director

"Corey Klassen"

Director

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

ARMADILLO RESOURCES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Year Ended May 31, 2012	Year Ended May 31, 2011 (Note 3)
Expenses		
Accounting and legal	\$ 39,000	\$ 19,900
Consulting fees	96,315	150,060
Depreciation expense	13,676	4,421
Filing and transfer fees	15,122	39,305
Investor relations	51,642	208,543
Legal	21,537	28,243
Management fees (Note 11)	138,000	78,000
Office	55,827	33,355
Property investigation	-	45,937
Rent	36,467	32,638
Share-based payments (Note 10)	267,420	238,562
Sponsorship fees	-	15,000
Travel	38,442	20,931
Wages and benefits	38,571	41,359
Loss before other items	(812,019)	(956,254)
Other items		
Impairment of mineral property and exploration costs(Note 6)	(788,686)	(250,150)
Loss for foreign exchange	(6,216)	(32,786)
Interest income	318	601
Net loss and comprehensive loss	\$ (1,606,603)	\$ (1,238,589)
Attributed to:		
Shareholders of Armadillo Resources Ltd.	(1,606,398)	(1,238,589)
Non-controlling interest	(205)	-
	(1,606,603)	(1,238,589)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.06)
Weighted average number of common shares	76,422,921	20,902,110

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

ARMADILLO RESOURCES LTD.
CONSOLIDATED STATEMENTS OF EQUITY
(Expressed in Canadian Dollars)

	Common Shares		Share Compensation	Share Subscriptions	Deficit	Non-controlling Interest	Total
	Number of Shares	Amount					
June 1, 2010	10,525,500	\$ 1,353,050	\$ 231,368	\$ (10,000)	\$ (712,387)	\$ -	\$ 862,031
Shares issued for:							
Mineral property option payments (Note 6)	150,000	16,500					16,500
Private placements, net of share issuance costs	23,796,421	2,835,751	47,971	-	-	-	2,883,722
Share issued for deferred acquisition costs (Note 4)	39,750,000	6,757,500	-	-	-	-	6,757,500
Warrants exercised	1,933,000	272,620	-	-	-	-	272,620
Share Issued for consulting services	268,000	67,200	-	-	-	-	67,200
Share-based payments (Note 10)	-	-	238,562	-	-	-	238,562
Share subscriptions receivable	-	-	-	(26,000)	-	-	(26,000)
Net loss and comprehensive loss	-	-	-	-	(1,238,589)	-	(1,238,589)
May 31, 2011	76,422,921	\$ 11,302,621	\$ 517,901	\$ (36,000)	\$ (1,950,976)	\$ -	\$ 9,833,546
May 31, 2011	76,422,921	\$ 11,302,621	\$ 517,901	\$ (36,000)	\$ (1,950,976)	\$ -	\$ 9,833,546
Non-controlling interest portion of Amazonia acquisition	-	-	-	-	-	92,579	92,579
Shares issued for:							
Share subscriptions received	-	-	-	36,000	-	-	36,000
Share subscriptions received	-	-	-	765,000	-	-	765,000
Share-based payments (Note 10)	-	-	267,420	-	-	-	267,420
Net loss and comprehensive loss	-	-	-	-	(1,606,398)	(205)	(1,606,603)
May 31, 2012	76,422,921	\$ 11,302,621	\$ 785,321	\$ 765,000	\$ (3,557,374)	\$ 92,374	\$ 9,387,942

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

ARMADILLO RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	For the Year Ended May 31, 2012	For the Year Ended May 31, 2011 (Note 3)
OPERATING ACTIVITIES		
Net loss for the year	\$ (1,606,603)	\$ (1,238,589)
Adjustment for items not involving cash:		
Depreciation expense	13,676	4,421
Share-based payments	267,420	238,562
Impairment loss on mineral property and exploration costs	788,686	250,150
Share issued for consulting services	-	67,200
Changes in non-cash working capital		
Decrease (increase) in receivables	49,043	(24,447)
Decrease (increase) in prepaids	19,260	(26,950)
Decrease (increase) in accounts payable and accrued liabilities	84,934	(3,861)
Due to related party	101,018	(20,973)
Net cash flows used in operating activities	(282,566)	(754,487)
INVESTING ACTIVITIES		
Purchase of equipment	-	(22,024)
Acquisition and exploration of mineral properties	(335,321)	(629,163)
Mining tax credit received	35,749	121,044
Mineral deposits and advances	-	(2,060,385)
Cash advanced in acquisition of Amazonia	(319,614)	-
Net cash flows used in investing activities	(619,186)	(2,590,528)
FINANCING ACTIVITIES		
Shares issued for cash	-	3,130,342
Share subscription received	801,000	-
Proceeds from promissory notes	-	309,000
Net cash flows from financing activities	801,000	3,439,342
(Decrease) increase in cash and cash equivalents	(100,752)	94,327
Cash and cash equivalents, beginning of year	102,689	8,362
Cash and cash equivalents, end of year	\$ 1,937	\$ 102,689
Interest paid in cash	\$ -	\$ 56,708
Income tax paid in cash	\$ -	\$ -

Supplemental cash flow information (Note 15)

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

ARMADILLO RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2012 and 2011
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Armadillo Resources Ltd. (the "Company") was incorporated on May 4, 2007 under the laws of British Columbia. The Company's principal business activity is the acquisition and exploration of mineral properties and is considered to be in the exploration stage. The Company's head office is located at Suite 411 – 470 Granville Street, Vancouver, BC, V6C 1V5. The Company is listed on the Canadian National Stock Exchange under the symbol ARO.

The Company is in the exploration stage and its principal business activity is the exploration of mineral property in North America and South America. The Company has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

The Company has incurred recurring losses since its inception, and has an accumulated deficit of \$3,557,374 at May 31, 2012 which has been funded primarily by issuance of shares. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future. These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The disclosures related to the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS are included in Note 3 to these consolidated financial statements. Note 3 contains reconciliations and descriptions of the effect of the transition from GAAP to IFRS on equity, loss and comprehensive loss, along with reconciliations of the consolidated statements of financial position as at May 31, 2011 and June 1, 2010, and the consolidated statements of operation and comprehensive loss for the year ended May 31, 2011. The transition date at which IFRS was applied was June 1, 2010.

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 2.

ARMADILLO RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2012 and 2011
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Significant areas requiring the use of management estimates include the determination of impairment of mineral properties and exploration costs, decommissioning, restoration and similar liabilities, deferred income tax assets and liabilities and assumptions used in valuing options and warrants in share-based payment calculations. Actual results may differ from these estimates. These consolidated financial statements include the accounts of the Company and its 99% owned subsidiary Amazonia Capital E Participacoes Ltd ("Amazonia"). All significant intercompany balances and transactions have been eliminated.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with 2011 recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position at June 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from Canadian GAAP to IFRS is explained in Note 3.

Foreign currencies

The consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiary's presentation and functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange rates prevailing on the statement of financial position date are recognized in the income statement or are attributable to the net investment in a foreign operation.

Cash and Cash Equivalents

Cash is comprised of cash on hand and demand deposits. Equivalents are short-term, highly liquid investments with original maturities of three months or less, or redeemable at the option of the Company, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Mineral Properties and Exploration Costs

Mineral properties and exploration costs 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. All costs related to the acquisition, exploration and development of mineral properties and exploration costs are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are expensed.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Properties and Exploration Costs (continued)

Impairment is assessed at the level of the cash-generating units. Management regularly assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if one of the following factors are present; the rights to explore have expired or are near expiry with no expectation of renewal, no further substantial expenditures are planned or budgeted, exploration and evaluation work is discontinued in an area for which numerically viable quantities have not yet been discovered, indications that in an area with development likely to proceed the carrying amount is unlikely to be recovered in full by development or sale.

Once the technical feasibility and commercial viability of the extraction of 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 mineral property 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.

Equipment

Equipment is stated at cost, less accumulated depreciation. Depreciation is primarily calculated using the declining balance method applying the following annual rates:

Computer Equipment and Software	–	30%
Vehicles	–	20%

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Borrowing costs

Borrowing costs incurred that are attributable to acquiring and developing exploration and development stage mining properties and constructing new facilities (“qualifying assets”) are included in the carrying amounts of qualifying assets until those qualifying assets are ready for their intended use. All other borrowing costs are expensed in the period in which they are incurred.

Capitalization of borrowing costs incurred commences on the date the following three conditions are met:

- (i) Expenditures for the qualifying assets are being incurred;
- (ii) Borrowing costs are being incurred; and
- (iii) Activities that are necessary to prepare the qualifying asset for its intended use are being undertaken.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

At the end of each reporting period, the Company assesses all assets grouped by cash generating units 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.

Decommissioning, restoration and similar liabilities

The Company records the present value of estimated costs of legal and constructive obligations required to restore the site in the period where it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made. The nature of these restoration activities include dismantling and removing structures, rehabilitating mines and tailings dam, dismantling facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The present value of decommissioning and site restoration provision as a long - term liability as incurred and records an increase in the carrying value of the related asset by a corresponding amount. The provision is discounted using a nominal, risk free pre - tax discount rate. Charges for accretion and restoration expenditures are recorded as operating activities. The related decommissioning provision is recorded as part of the mineral property and depreciated accordingly. In subsequent periods, the carrying amount of the liability is accreted by a charge to the statement of operations to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows.

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the decommissioning provision, and a corresponding change in the carrying amount of the related long - lived asset. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, or provision is made for the estimated outstanding continuous rehabilitation work at each statement of financial position date and the cost is charged to the statement of operations.

The Company has no decommissioning, restoration and similar liabilities as of May 31, 2012, May 31, 2011 and June 1, 2010.

ARMADILLO RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2012 and 2011
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of financial position date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded 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 are realized or settled, based on the laws that have been enacted or substantively enacted by the statement of financial position 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 which are classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash and equivalents are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's amounts receivable 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 earnings. The Company has not classified any financial assets as available for sale.

Transactions 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.

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 accounts payable, promissory notes and due to related parties are classified as other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Flow-through shares

The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deduction for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. When the common shares are offered, the difference (“the premium”) between the amount recognized in common shares and the amount the investors pay for the shares is recognized as a flow-through share related liability which is reversed into the statement of loss as other income when the eligible expenditures are incurred.

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 earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in statement of comprehensive profit or loss.

Loss Per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the gain or loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti - dilutive.

Share-based Payments

The share option plan allows Company employees and consultants to acquire shares of the Company. All options granted are measured at fair value and are recognized in expenses as share-based payments with a corresponding increase in share compensation 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. The fair value of employee options is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option model taking into account the terms and conditions upon which the options were granted. Share options granted to non-employees or consultants are measured at the fair value of goods or services received. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

New Standards, Amendments and Interpretations Issued But Not Yet Effective

Certain new standards, interpretations and amendments to existing standards have been issued which are mandatory for future accounting periods and these have not yet been adopted.

Accounting standards effective June 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 financial statements.

ARMADILLO RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2012 and 2011
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards, Amendments and Interpretations Not Yet Effective (continued)

Accounting standards effective June 1, 2012 (continued)

Income taxes

In December 2010, the IASB issued an amendment to IAS 12 – Income taxes that provide 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 June 1, 2013

Joint ventures

The IASB issued IFRS 11 – Joint Arrangements on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method and proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company is currently evaluating the impact IFRS 11 is expected to have on its consolidated financial statements.

Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has right, 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 benefit from its activities. IFRS 10 replaces IAS 12 Consolidation – Special Purpose Entities and part of IAS 27 Consolidated and Separate Financial Statements. The Company is currently evaluating the impact of IFRS 10 is expected to have on its consolidated financial statements.

Fair-value measurement

IFRS 13, Fair Value Measurement: effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and new required disclosures about fair value measurements. The Company is currently evaluating the impact IFRS 13 is expected to have on its consolidated financial statements.

Accounting standards anticipated to be effective June 1, 2015

Financial instruments

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. The Company is currently evaluating the impact IFRS 9 is expected to have on its consolidated financial statements.

ARMADILLO RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2012 and 2011
(Expressed in Canadian Dollars)

3. ADOPTION OF IFRS

The Company has adopted IFRS, effective June 1, 2011 with a transition date of June 1, 2010. Under IFRS 1 'First-time Adoption of International Financial Reporting Standards', the IFRS are applied retrospectively at the transition date.

The guidance for 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 is applying the following exemptions on first - time adoption of IFRS:

- not to restate previous business combinations and the accounting thereof;
- not to apply IFRS 2, Share-based Payments to liabilities arising from share-based payment transactions that were settled before June 1, 2010;
- apply the requirements of IAS 23, Borrowing Costs to capitalize borrowing costs on qualifying assets prospectively effective June 1, 2010; and
- not to retrospectively apply the requirements of IAS 32, Financial Instruments – Presentation to compound financial instruments settled before June 1, 2010.

The IFRS 1 elections, identified above, and the significant accounting policies, set out in note 2, have been applied in preparing these consolidated financial statements and selected consolidated comparative information presented below. The following tables reconcile the Company's consolidated statements of financial position and consolidated statements of comprehensive loss with those prepared in accordance with Canadian GAAP and as previously reported to those prepared and reported in these audited financial statements in accordance with IFRS.

ARMADILLO RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2012 and 2011
(Expressed in Canadian Dollars)

3. ADOPTION OF IFRS (continued)

Statement of Financial Position June 1, 2010	Note	Canadian GAAP	IFRS Adjustments	IFRS
Assets				
Current				
Cash and cash equivalents	\$	8,362	\$ -	\$ 8,362
Amounts receivable		31,520	-	31,520
Prepaid expenses		-	-	-
		39,882	-	39,882
Reclamation bond		7,500	-	7,500
Restricted investment		23,000	-	23,000
Security deposit		1,000	-	1,000
Mineral properties and exploration costs		924,774	-	924,774
Equipment		7,560	-	7,560
	\$	1,003,716	\$ -	\$ 1,003,716
Liabilities				
Current				
Accounts payable and accrued liabilities	\$	120,712	\$ -	\$ 120,712
Due to related party		20,973	-	20,973
		141,685	-	141,685
Shareholders' equity				
Share capital		1,353,050	-	1,353,050
Share subscription receivable		(10,000)	-	(10,000)
Share compensation reserves		231,368	-	231,368
Deficit		(712,387)	-	(712,387)
		862,031	-	862,031
	\$	1,003,716	\$ -	\$ 1,003,716

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3. ADOPTION OF IFRS (continued)

Statement of Financial Position May 31, 2011	Note	Canadian GAAP	IFRS Adjustments	IFRS
Assets				
Current				
Cash and cash equivalents		\$ 102,689	\$ -	\$ 102,689
Amounts receivable		55,967	-	55,967
Prepaid expenses		26,950	-	26,950
		<u>185,606</u>	<u>-</u>	<u>185,606</u>
Reclamation bond		7,500	-	7,500
Restricted investment		23,000	-	23,000
Deferred acquisition costs	3a)	8,648,677	169,208	8,817,885
Security deposit		1,000	-	1,000
Mineral properties and exploration costs		1,249,243	-	1,249,243
Equipment		31,974	-	31,974
		<u>\$ 10,147,000</u>	<u>\$ 169,208</u>	<u>\$ 10,316,208</u>
Liabilities				
Current				
Accounts payable and accrued liabilities		\$ 103,311	\$ -	\$ 103,311
Promissory note payable		372,540	-	372,540
Current portion of capital lease obligation		1,169	-	1,169
		<u>477,020</u>	<u>-</u>	<u>477,020</u>
Capital lease obligation		5,642	-	5,642
		<u>482,662</u>	<u>-</u>	<u>482,662</u>
Shareholders' equity				
Share capital	3b)	11,251,371	51,250	11,302,621
Share subscription receivable		(36,000)	-	(36,000)
Share compensation reserves		517,901	-	517,901
Deficit	3a) and 3b)	(2,068,934)	117,958	(1,950,976)
		<u>9,664,338</u>	<u>169,208</u>	<u>9,833,546</u>
		<u>\$ 10,147,000</u>	<u>\$ 169,208</u>	<u>\$ 10,316,208</u>

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3. ADOPTION OF IFRS (continued)

Statement of comprehensive loss		Canadian		IFRS	
Year ended May 31, 2011	Note	GAAP		Adjustments	IFRS
Expenses					
Accounting and legal		\$ 19,900	\$	-	\$ 19,900
Consulting fees		150,060		-	150,060
Depreciation		4,421		-	4,421
Filing and transfer fees		39,305		-	39,305
Finance fees	3a)	112,500		(112,500)	-
Investor relations		208,543		-	208,543
Legal		28,243		-	28,243
Management fees		78,000		-	78,000
Office		33,355		-	33,355
Property investigation costs		45,937		-	45,937
Rent		32,638		-	32,638
Share-based payments		238,562		-	238,562
Sponsorship fees		15,000		-	15,000
Travel		20,931		-	20,931
Wages and benefits		41,359		-	41,359
Loss before other items and taxes		(1,068,754)		112,500	(956,254)
Other income					
Impairment of mineral property (note 6)		(250,150)		-	(250,150)
Loss for foreign exchange		(32,786)		-	(32,786)
Interest income/(expense)	3a)	(56,107)		56,708	601
Loss before taxes		(1,407,797)		169,208	(1,238,589)
Deferred income tax recovery	3b)	51,250		(51,250)	-
Deferred income tax expenses		-		-	-
Net loss and comprehensive loss		\$ (1,356,547)	\$	117,958	\$ (1,238,589)

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3. ADOPTION OF IFRS (continued)

Statement of Cashflows

Year Ended May 31, 2011

	Canadian GAAP	IFRS Adjustments	IFRS
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss for the year	\$ (1,356,547)	\$ 117,958	\$ (1,238,589)
Adjustment for items not involving cash:			
Amortization	4,421	-	4,421
Deferred income tax recovery	(51,250)	51,250	-
Impairment of mineral property	250,150	-	250,150
Share-based payments	238,562	-	238,562
Shares issued for consulting services	67,200	-	67,200
	(847,464)	169,208	(678,256)
Changes in non-cash working capital			
Increase in amounts receivable	(24,447)	-	(24,447)
Prepaid expense	(26,950)	-	(26,950)
Due to related parties	(20,973)	-	(20,973)
Increase (decrease) in accounts payable and accrued liabilities	(3,861)	-	(3,861)
Net cash flows from (used in) operating activities	(923,695)	169,208	(754,487)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:			
Acquisitions and expenditures on mineral properties	(629,163)	-	(629,163)
Mining tax credit received	121,044	-	121,044
Purchase of equipment	(22,024)	-	(22,024)
Mineral property deposits and advances	(1,891,177)	(169,208)	(2,060,385)
Net cash flows from (used in) investing activities	(2,421,320)	(169,208)	(2,590,528)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:			
Shares issued for cash, net	3,130,342	-	3,130,342
Proceeds from promissory notes	309,000	-	309,000
	3,439,342	-	3,439,342
(Decrease) in cash and cash equivalents	94,327	-	94,327
Cash and cash equivalents, beginning of year	8,362	-	8,362
Cash and cash equivalents, end of year	102,689	-	102,689
Interest paid in cash	\$ 56,708	\$ -	\$ 56,708
Income tax paid in cash	\$ -	\$ -	\$ -

Notes to the IFRS reconciliation are as follows:

- a) IAS 23 requires that borrowing costs be capitalized if they are directly attributable to the acquisition, development or construction of a qualifying asset. A portion of the borrowing costs had previously been expensed under Canadian GAAP has been capitalized to deferred acquisition costs. The cumulative adjustment as at May 31, 2011 related to capitalized borrowing cost is \$169,208.

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3. ADOPTION OF IFRS (continued)

- b) The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. When the common shares are offered, the difference (“premium”) between the amounts recognized in common shares and the amount recognized as flow-through share related liabilities is reversed into the statement of loss as other income when the eligible expenditures are incurred. The amount recognized as flow-through share related liabilities represents the difference between the fair value of the common shares and the amount the investor pays for the flow-through shares. The cumulative premium and renunciation adjustment as at May 31, 2011 related to flow-through shares issued is \$51,250.

4. ACQUISITION OF AMAZONIA

On November 28, 2011, the Company closed its acquisition agreement to acquire 99% of the outstanding shares of Amazonia Capital E Participacoes Ltd. for the Company made cash payments of \$2,210,790 and issued 37,500,000 shares as consideration. An additional 2,250,000 shares of the Company were issued as finder’s fees. As part of the acquisition, the Company is to issue a promissory note for \$1,420,000US to Brazil Gold Corp. As at November 28, 2011 and May 31, 2012, an accrued liability of \$1,466,434 (US\$1,420,000) was recorded as the promissory note has yet to be issued. As at May 31, 2011, the Company recorded deferred acquisition costs of \$8,817,885 related to the acquisition.

This transaction has been accounted for as an acquisition of assets rather than a business combination because the acquisition does not meet the definition of a business as outlined in the IFRS 3 *Business Combinations*. The operations of Amazonia have been included in these consolidated financial statements from the date of acquisition.

The following is a summary of the acquisition cost allocation at the date of purchase based upon the estimated fair values of the assets acquired and liabilities assumed:

Cash payments	\$2,210,790
Shares issued as consideration	6,375,000
Shares issued for finders’ fees	382,500
Borrowing costs	197,018
Acquisition cost	\$9,165,308
Acquisition cost allocation:	
Equipment	\$ 59,245
Mineral properties in Brazil	10,665,076
Accrued liabilities	(1,466,434)
Net assets	\$9,257,887
Non-controlling interest	(92,579)
	\$9,165,308

5. RESTRICTED INVESTMENTS

The Company has pledged a \$23,000 GIC as security held on a corporate credit card as of May 31, 2012 (May 31, 2011 - \$23,000; June 1, 2010 - \$23,000).

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6. MINERAL PROPERTIES AND EXPLORATION COSTS

	Waverley- Tangier	Wakefield	LD Property	Amazon Basin	Total
2012					
Acquisition costs					
Balance, May 31, 2011	\$ 326,876	\$ -	\$ 500,000	-	\$ 826,876
Additions during fiscal 2012					
Property acquisition	-	-	-	10,665,076	10,665,076
Total acquisition costs	326,876	-	500,000	10,665,076	11,491,952
Exploration costs					
Balance, May 31, 2011	422,367	-	-	-	422,367
Additions during fiscal 2012					
Exploration cost	67,692	-	-	295,439	363,131
Mining tax credit received	(35,749)	-	-	-	(35,749)
Total exploration costs	454,310	-	-	295,439	749,749
Reclamation bond	7,500	-	-	-	7,500
Impairment loss write-down	(788,686)	-	-	-	(788,686)
Balance, May 31, 2012	\$ -	\$ -	\$ 500,000	10,960,515	\$ 11,460,515
2011					
Acquisition costs					
Balance, June 1, 2010	\$ 210,376	\$ 250,150	\$ 40,000	-	\$ 500,526
Additions during fiscal 2011					
Property payment	116,500	-	460,000	-	576,500
Total acquisition costs	326,876	250,150	500,000	-	1,077,026
Exploration costs					
Balance, June 1, 2010	424,248	-	-	-	424,248
Additions during fiscal 2011					
Exploration costs	119,163	-	-	-	119,163
Mining tax credit received	(121,044)	-	-	-	(121,044)
Total exploration costs	422,367	-	-	-	422,367
Impairment loss write-down	-	(250,150)	-	-	(250,150)
Balance, May 31, 2011	\$ 749,243	\$ -	\$ 500,000	-	\$ 1,249,243

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6. MINERAL PROPERTIES AND EXPLORATION COSTS (continued)

Amazon Basin Property - Brazil

The Amazon Basin property, a gold project located in Brazil was acquired in November 2011 (see Note 4). This property is located south of the city of Manaus and encompasses mineral claims in the states of Amazonas, Mato Grosso and Rondonia.

If at any time the Company acquires mining permits in respect to the Amazon Basin Property and commences production, such production is subject to a 2.5% net smelter return royalty to the vendor of Amazonia on precious and semi-precious metals produced from the property and a 2.5% gross overriding royalty on diamonds and all non-smelter products produced from the property.

Waverley-Tangier Property – British Columbia

Pursuant to the amended and restated option and royalty agreement dated February 25, 2009 with Silver Phoenix Resource Inc., the Company agreed to acquire a 60% interest (the “First Option”) in a block of 25 contiguous mineral claims known as Waverley-Tangier property (the “Property”) located in the Revelstoke Mining Division of British Columbia. To earn its interest, the Company agreed to pay \$350,000, incur \$3,000,000 of exploration expenditures and issue 625,000 common shares as follows:

	Cash	Exploration Expenditures	Shares
Within 10 days from March 24, 2009 (completed)	\$ 75,000	\$ –	175,000
Before March 24, 2010 (i)	75,000	200,000	150,000
Before March 24, 2011(ii)	100,000	300,000	150,000
Before March 24, 2012(iii)	100,000	1,000,000	150,000
Before March 24, 2013	–	1,500,000	–
	\$ 350,000	\$ 3,000,000	625,000

- (i) During 2010, the Company issued the shares, incurred the exploration expenditures, and made a \$75,000 cash payment subsequent to May 31, 2010.
- (ii) During 2011, the Company made a \$50,000 cash payment, issued 150,000 common shares, and the remaining \$50,000 payment outstanding is included in accounts payable.
- (iii) During 2012, the Company has not made the \$100,000 cash payment, issued 150,000 shares, or incurring \$1,000,000 exploration expenditure.

The Company agreed to pay for and deliver to the optionor a Feasibility Study, as defined in National Instrument 43-101, no later than December 31, 2015. The Company is to deliver to the optionor the exercise notice within 30 days from the delivery of the Feasibility Study to the optionor.

The Company is also entitled to earn an additional 10% interest (the “Second Option”) in the Property by:

- a) lending the optionor, at the lowest interest rate available and in no case greater than the London Interbank Offered Rate (“LIBOR”) plus ½%, all of the amounts that will be payable by the optionor under the joint operations of the Property (the “Joint Venture”),
- b) causing the Joint Venture to put the Property into commercial production.

The Property is subject to a 3% net smelter return (“NSR”) royalty and the Joint Venture will pay annual advance royalty payments of \$150,000 commencing on January 1, 2015 until the Property is put into commercial production. The advance royalty payments will be deducted from the NSR payments otherwise needed to be made.

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6. MINERAL PROPERTIES AND EXPLORATION COSTS (continued)

Waverley-Tangier Property – British Columbia

The restated option and royalty agreement is not in good standing as no significant option payments or exploration costs have been incurred in fiscal 2012 as required by the agreement. As a result, the carrying value was written down to nil in 2012. The Company can reinstate the option and royalty agreement by making a cash payment of \$150,000, incurring the minimum exploration expenditures, and issuing the 150,000 shares.

Wakefield Claims – Saskatchewan

Pursuant to a mineral property acquisition agreement dated March 18, 2009, the Company acquired a 100% interest in the Wakefield claims in Saskatchewan. During the year ended May 31, 2011, the Company decided not to renew these claims. As a result, the carrying value was written down to \$nil.

LD Property – British Columbia

The Company entered into an option agreement on April 24, 2010 to acquire a 100% interest in the LD Property mineral claims located in the Atlin Mining Division in the Province of British Columbia, Canada for payments totaling \$500,000, which have been paid. There is a net smelter royalty of 3% of the value of minerals produced and delivered from the claims. The Company has the first right of refusal to purchase 1% of the NSR by paying \$1,000,000 for 1%.

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7. EQUIPMENT

Cost		Truck		Computer and equipment		Total
As at June 1, 2010	\$	6,500	\$	2,011	\$	8,511
Additions		15,445		13,390		28,835
As at May 31, 2011		21,945		15,401		37,346

Accumulated Depreciation		Truck		Computer and equipment		Total
As at June 1, 2010		651		300		951
Depreciation		2,714		1,707		4,421
As at May 31, 2011		3,365		2,007		5,372

Cost		Truck		Computer and equipment		Total
As at May 31, 2011		21,945		15,401		37,346
Additions		59,245		-		59,245
As at May 31, 2012		81,190		15,401		96,591

Accumulated Depreciation		Truck		Computer and equipment		Total
As at May 31, 2011		3,365		2,007		5,372
Depreciation		9,658		4,018		13,676
As at May 31, 2012		13,023		6,025		19,048

Net book value:		Truck		Computer and equipment		Total
As at June 1, 2010	\$	5,849	\$	1,711	\$	7,560
As at May 31, 2011		18,580		13,394		31,974
As at May 31, 2012		68,167		9,376		77,543

8. PROMISSORY NOTE

A promissory note of \$309,000 is outstanding as at May 31, 2012 which is payable with accrued interest of \$74,160 and a financing fee of \$45,000; for a total of \$428,160. The promissory note bears interest at 1.5% interest per month or any portion of a month and is currently due upon demand as the balance was fully payable on April 3, 2011. During fiscal 2011 the Company had issued two additional promissory notes as bridge financing which were repaid along with combined financing fees of \$67,500. In fiscal 2012 the Company incurred \$55,620 (2011 - \$169,208) in total finance fees on promissory notes which are recorded in capitalized as borrowing costs.

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9. OBLIGATION UNDER CAPITAL LEASE

The Company entered into a capital lease for a period of 5 years for a photocopier. The lease contract is repayable in monthly instalments of \$147. The payment includes principal plus interest. The lease has a bargain purchase option of \$10 at the end of the lease.

	February 29, 2012	May 31, 2011
Total amount of future minimum lease payments	\$ 8,526	\$ 8,526
Interest included in instalments	1,715	1,715
Obligation under capital lease	6,811	6,811
Current portion	(2,338)	(1,169)
Long-term portion	\$ 4,473	\$ 5,642

10. SHARE CAPITAL

Authorized:

Unlimited number of common shares without par value

Escrowed Shares

As at May 31, 2012, 247,500 (May 31, 2011 – 495,000) shares were held in escrow. Under the escrow agreement, 10% of the shares were released (165,000) on the issuance of the Final Exchange Bulletin, March 24, 2009, and an additional 15% (247,500) are released every nine months thereafter for a period of thirty-nine months.

Stock options

The Company has a stock option plan in place under which it is authorized to grant options to Directors, senior Officers, employees, management company employees, and consultants to acquire up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted with an exercise term of up to 10 years. Vesting is determined by the Board of Directors.

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

Grant date	Number of Shares	Exercise Price	Expiry Date
May 31, 2009	780,000	\$0.20	March 31, 2014
September 11, 2009	50,000	\$0.20	September 11, 2014
July 9, 2010	480,000	\$0.10	July 09, 2015
March 29, 2011	1,450,000	\$0.17	March 29, 2016
June 9, 2011	100,000	\$0.15	June 9, 2016
June 9, 2011	50,000	\$0.08	June 9, 2016
August 18, 2011	50,000	\$0.10	August 18, 2012
Balance, May 31, 2012	2,960,000		

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10. SHARE CAPITAL (continued)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at May 31, 2011	2,760,000	\$ 0.16
Options exercised	-	-
Options granted	7,000,000	\$ 0.14
Options cancelled	(6,800,000)	\$ 0.13
As at May 31, 2012	2,960,000	\$ 0.17

The Company uses the Black-Scholes option pricing model to value the stock options granted during the year. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values.

During the year ended May 31, 2012, the Company granted options of 7,000,000 (2011 – 1,930,000) to consultants, officers and employees of the Company. Using the Black-Scholes option pricing model, the Company recorded share-based payments of \$267,420 (2011 - \$238,562).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the fiscal year periods:

	May 31, 2012	May 31, 2011
Risk-free interest rate	1.08%	2.65%
Expected life of options	1.0 years	5.0 years
Expected stock price volatility	101%	136%
Expected dividend rate	0.00%	0.00%
Share price	\$ 0.11	\$ 0.14

As at May 31, 2012, the Company had agent's warrant outstanding enabling the holder to acquire common shares as follows:

Grant date	Number of Shares	Exercise Price	Expiry Date
March 29, 2011	453,833	\$0.20	March 29, 2013
Balance, May 31, 2012	453,833		

	May 31, 2011
Risk-free interest rate	1.36%
Expected life of options	2.0 years
Expected stock price volatility	137%
Expected dividend rate	0.00%

As of May 31, 2012, the Company had agent's warrants of 453,833 exercisable.

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10. SHARE CAPITAL (continued)

Warrants

As at May 31, 2012, the Company had share purchase warrants outstanding enabling the holders to acquire common shares as follows:

Expiry Date	Exercise Price	Outstanding May 31, 2011	Issued	Exercised	Expired	Outstanding May 31, 2012
February 23, 2012	\$0.14	150,000	-	-	(150,000)	-
June 28, 2012	\$0.14	2,100,000	-	-	-	2,100,000
October 4, 2012	\$0.15	6,358,000	-	-	-	6,358,000
March 29, 2013	\$0.20	13,525,997	-	-	-	13,525,997
		22,133,997	-	-	(150,000)	21,983,997

11. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company has identified its Directors and certain officers as its key management personnel. The compensation costs for key management personnel for years ended May 31, 2012 and 2011 as follows:

	May 31, 2012		May 31, 2011	
Management and consulting fees	\$	112,615	\$	96,070
Share-based payments		-		192,151
Total	\$	112,615	\$	288,221

During the year ended May 31, 2012, the Company incurred \$76,000 and \$34,615 (2011 - \$78,000 and \$18,070) in management and consulting fees for Officers of the Company and a company owned by an Officer of the Company.

During the year ended May 31, 2012, the Company paid consulting fees of \$Nil (2011 - \$14,000) to a company controlled by a former Director and Officer of the Company.

As of May 31, 2012, the amount due to related parties consists of \$46,018 (May 31, 2011 - \$nil; and June 1, 2010 - 20,973) owing to Officers and Directors and companies controlled by Officers and a Director. All amounts are due on demand, non-interest bearing and are unsecured.

A management consulting agreement was entered on May 27, 2011, whereby in exchange for management services, the Company agreed to pay \$10,000 per month for a period of two years ending on February 28, 2013. The agreement can be terminated upon written notice.

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11. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

The Company paid management fees of \$120,000 (2011 - \$80,000) to shareholder with significant influence, in which \$60,000 (2011 - \$80,000) was capitalized as mineral property. As at May 31, 2012, the amount due to related parties consist of \$55,000 (May 31, 2011-\$nil and June 1, 2011-\$nil) owing to this party. All amounts are due on demand, non-interest bearing and are unsecured.

12. INCOME TAX

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2012	2011
Combined statutory tax rate	26.17%	27.67%
Income tax recovery at combined statutory rate	\$ 420,403	\$ 338,324
Non-deductible expenses	(81,408)	(24,313)
Reduction in tax rates	(15,807)	(30,425)
Change in unrecognized tax assets	(323,188)	(283,586)
Income tax recovery	\$ -	\$ -

Significant components of the Company's potential deferred income tax assets are shown below:

	2012	2011
Non-capital loss carry forwards	\$ 513,956	\$ 374,626
Share issue costs	26,627	41,165
Mineral properties	207,749	11,288
Equipment	1,528	(407)
Unrecognized tax assets	(749,860)	(426,672)
Net deferred income tax assets	\$ -	\$ -

As at May 31, 2012, the Company had approximately \$2,055,822 (2011 - \$1,498,502) of non-capital loss carry forwards available to reduce taxable income for future years. The losses expire from 2028 to 2032 if unused.

In assessing the realizability of deferred income tax assets, management considers whether it is probable that some portion of all of the future income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred tax assets considered realizable could change materially in the near term based on future taxable income during the carry forward period.

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair Value of Financial Instruments

The Company's financial instruments measured at fair value on a recurring basis consist of: cash and equivalents, and restricted investment.

Financial risk factors

The Company's activities are subject to a variety of financial risks as summarized below.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's concentration of credit risk is primarily attributable to cash. The Company places its cash with high credit quality financial institutions to minimize credit risk.

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 of May 31, 2012 the Company had cash of \$1,937 (May 31, 2011 - \$102,689) to settle current liabilities of \$2,186,194 (May 31, 2011 - \$477,020). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company manages its capital (see Note 14) to meet its financial obligations, however the Company requires significantly more cash.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices, which are described below.

Interest rate risk

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term investments issued by its banking institutions. The Company manages its interest rate risk by obtaining the best commercial deposit interest rates available in the market by major Canadian financial institutions.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in US Dollars ("US\$"). A 5% strengthening (weakening) of US\$ will increase (decrease) total liabilities by approximately \$73,000 Canadian dollars respectively. The Company currently does not use any foreign exchange contract to hedge this currency risk.

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of mineral resources, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

Risk management is the responsibility of the corporate finance function. Material risks are identified and monitored and are discussed by senior management and with the audit committee of the Board of Directors.

14. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral property interests. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers capital to consist of shareholders' equity.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

15. SUPPLEMENTAL CASH FLOW DISCLOSURES

The significant non-cash transactions of the Company consisted of the following investing and financing activities:

During the year ended May 31, 2011:

- a) A finder's fee valued at \$24,039 was paid by the issuance of 187,424 common shares.
- b) A finder's fee valued at \$47,971 was paid by the issuance of 453,833 broker warrants entitling the holder to acquire one common share at \$0.20 per share for a period of 2 years
- c) The issuance of 150,000 common shares at a fair value of \$16,500 pursuant to mineral property acquisitions.
- d) The Company entered into a capital lease obligation to acquire office equipment.
- e) Shares issued for the deferral acquisition of Amazonia (see Note 4)

During the year ended May 31, 2012, there were no significant non-cash transactions in investing and financing activities.

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16. COMMITMENTS

The Company has entered into an operating lease agreement for its premises. The annual basic lease commitments under this lease are as follows:

Not later than one year	\$33,180
Later than one year and no later than five years	<u>59,447</u>
	<u>\$92,627</u>

17. SUBSEQUENT EVENT

On August 3, 2012, the Company closed a private placement and issued 17,740,000 units at \$0.05 per unit for gross proceeds of \$887,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire additional common share at \$0.10 for a period of one year from closing. A finder's fee of 119,000 common shares was issued with fair valued of \$5,950 in connection with this private placement.