ARMADILLO RESOURCES LTD.

(AN EXPLORATION STAGE COMPANY)

FINANCIAL STATEMENTS

MAY 31, 2011 AND 2010

MANNING ELLIOTT
CHARTERED ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Armadillo Resources Ltd.

We have audited the accompanying financial statements of Armadillo Resources Ltd., which comprise the balance sheets as at May 31, 2011 and 2010, and the statements of comprehensive loss and deficit and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company's preparation and fair presentation of the 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 company'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 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 financial statements present fairly, in all material respects, the financial position of Armadillo Resources Ltd. as at May 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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
September 27, 2011

ARMADILLO RESOURCES LTD.
BALANCE SHEETS
AS AT MAY 31, 2011 AND 2010

		2011		2010
ASSETS				
CURRENT ASSETS				
Cash and equivalents	$	102,689	$	8,362
Prepaid expenses		26,950		-
Amounts receivable		55,967		31,520
		185,606		39,882
Reclamation bond		7,500		7,500
Restricted investment (Note 3)		23,000		23,000
Deferred acquisition costs (Note 4)		8,648,677		-
Security deposit		1,000		1,000
Mineral properties (Note 5)		1,249,243		924,774
Equipment (Note 6)		31,974		7,560
	$	10,147,000	$	1,003,716
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$	148,311	$	120,712
Due to related party (Note 7)		-		20,973
Promissory note payable (Note 8)		327,540		-
Current portion of capital lease obligation (Note 9)		1,169		-
		477,020		141,685
CAPITAL LEASE OBLIGATION (Note 9)		5,642		-
		482,662		141,685
SHAREHOLDERS' EQUITY				
Share capital (Note 10)		11,251,371		1,353,050
Share subscriptions receivable (Note 10)		(36,000)		(10,000)
Contributed surplus (Note 10)		517,901		231,368
Deficit		(2,068,934)		(712,387)
		9,664,338		862,031
	$	10,147,000	$	1,003,716

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

Approved on behalf of the Board:

"Les Kjosness" Director *"Corey Klassen"* Director

(The accompanying notes are an integral part of these financial statements)

ARMADILLO RESOURCES LTD.
STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED MAY 31, 2011 AND 2010

	2011	2010
Expenses		
Accounting and audit fees	$ 19,900	$ 24,750
Amortization	4,421	951
Consulting fees	150,060	42,000
Filing and transfer agent fees	39,305	22,830
Finance fees	112,500	-
Foreign exchange	32,786	-
Interest expense (income)	56,107	(887)
Investor relations	208,543	10,008
Legal	28,243	4,827
Management fees	78,000	78,000
Office	33,355	25,979
Property investigation cost	45,937	-
Rent	32,638	23,704
Sponsorship fees	15,000	-
Stock-based compensation	238,562	8,596
Travel	20,931	4,829
Wages and benefits	41,359	22,606
Loss before other item and taxes	(1,157,647)	(268,193)
Other item		
Impairment of mineral property (Note 5)	(250,150)	-
Loss before taxes	(1,407,797)	(268,193)
Future income tax recovery	51,250	-
Net loss and comprehensive loss	(1,356,547)	(268,193)
Deficit, beginning of year	(712,387)	(444,194)
Deficit, end of year	$ (2,068,934)	$ (712,387)
Basic and diluted net loss per common share	$ (0.06)	$ (0.03)
Weighted average number of shares outstanding	20,902,100	8,924,021

ARMADILLO RESOURCES LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2011 AND 2010

	2011	2010
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss	$ (1,356,547)	$ (268,193)
Items not affecting cash:		
Amortization	4,421	951
Future income tax recovery	(51,250)	
Stock-based compensation	238,562	8,595
Shares issued for consulting services	67,200	-
	(1,097,614)	(258,647)
Changes in non-cash working capital items:		
Increase in amounts receivable	(24,447)	(24,932)
Prepaid expense	(26,950)	-
Due from related party	(20,973)	-
Increase (decrease) in accounts payable and accrued liabilities	(3,861)	46,039
Net cash used in operating activities	(1,173,845)	(237,540)
CASH FLOWS PROVIDED FROM FINANCING ACTIVITIES		
Shares issued for cash, net	3,130,342	154,000
Proceeds from promissory notes	309,000	-
Net cash provided from financing activities	3,439,342	154,000
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition and exploration of mineral properties	(379,013)	(439,220)
Mining tax credit received	121,044	9,220
Purchase of equipment	(22,024)	(8,510)
Mineral deposit payments and advances	(1,891,177)	99,000
Purchase of restricted investment	-	(23,000)
Net cash used in investing activities	(2,171,170)	(362,510)
Increase (decrease) in cash and equivalents	94,327	(446,050)
Cash and equivalents, beginning of year	8,362	454,412
Cash and equivalents, end of year	$ 102,689	$ 8,362

SUPPLEMENTAL INFORMATION (also see Note 12):

	2011	2010
Interest paid in cash	$ 56,708	$ -
Income taxes paid in cash	$ -	$ -

(The accompanying notes are an integral part of these financial statements)

1. NATURE OF OPERATIONS AND GOING CONCERN

Armadillo Resources Ltd. (the "Company") was incorporated on May 4, 2007 under the laws of British Columbia, Canada and the Company's shares are listed for trading on the CSNX. The Company is primarily engaged in the acquisition and exploration of mineral properties and is considered to be in the exploration stage.

The Company is in the process of acquiring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred 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 $2,068,934 at May 31, 2011 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 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

Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts, unless specifically indicated otherwise, are presented in Canadian dollars.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant estimates include the carrying value of mineral properties, deferred exploration costs, stock-based compensation and future income taxes. Actual results could differ from the estimates.

Financial instruments

All financial instruments are classified into one of five categories: held-for-trading financial instruments, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured and reported on the balance sheet at fair value except, for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured and reported at amortized cost. Subsequent measurements and changes in fair value will depend on their initial classification. Held-for-trading financial instruments are measured at fair value and changes are recognized in net income (loss) in the year in which the change occurs. Available-for-sale financial assets are measured at fair value and changes are recognized in other comprehensive income until the financial instrument is derecognized or impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The Company provides disclosure that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date and how the entity manages those risks (see Note 14).

The Company also discloses financial instruments and non-financial derivatives classified from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The Company has elected to expense transaction costs related to financial instruments.

Cash and 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, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Share issuance costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are expensed.

Comprehensive loss

Comprehensive loss reflects net loss and other comprehensive loss for the period. Other comprehensive loss includes changes in unrealized foreign currency translation amounts arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale assets and changes in the fair value of derivatives designated as cash flow hedges to the extent they are effective. As the Company does not have items comprising other comprehensive loss, the Company's net loss is the same as the comprehensive loss.

Equipment

Equipment is stated at cost less accumulated amortization. Amortization is calculated using the declining balance method applying the following annual rates:

Computer equipment and software	30%
Vehicles	20%

Mineral properties

All costs related to the acquisition and exploration of mineral properties is capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties (continued)

The amounts shown for mineral properties and deferred exploration costs do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Stock-based compensation

The Company uses the fair value based method of accounting for stock options granted to employees and directors and for compensatory agent warrants. Under this method, the fair value of the stock options at the date of the grant, as determined using the Black-Scholes option pricing model, is recognized to expense over the vesting period. If the stock options or agent warrants are exercised, the proceeds are credited to share capital and the fair value of the options exercised is reclassified from contributed surplus to share capital.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments on its loss per share. Under this method, the dilutive effect on basic loss per share is calculated assuming that all proceeds that could have been obtained through the exercise of stock options, warrants and/or similar instruments would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Loss per share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year.

Foreign currency translation

The monetary assets and liabilities of the Company denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates approximating those on the transaction date. Exchange gains or losses arising on translation are included in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Future income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be in effect when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized as either income or expense in the year in which the enactment or substantive enactment occurs. In the event that the Company has determined that it is likely the future tax asset will not be fully recovered, a valuation allowance is recorded to reduce the amount of the future tax asset to its estimated recoverable value.

Flow-through shares

The Company follows CICA Emerging Issues Committee Abstract 146 Flow-Through Shares. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures, to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized for the net tax effect of the deductions renounced, and share capital is reduced.

Comparative figures

The comparative figures for 2010 have been reclassified to ensure comparability with those of the current year.

Recent accounting pronouncements not yet adopted

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-Controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently. The Company does not expect a significant impact on the adoption of this standard on its financial statements.

In 2008 the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be June 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS. The Company will adopt IFRS commencing with the first quarter of fiscal 2012.

3. RESTRICTED INVESTMENT

The Company has pledged a $23,000 (May 31, 2010 - $23,000) GIC as security held on a corporate credit card.

4. DEFERRED ACQUISITION COSTS

During fiscal 2011 the Company entered into an acquisition agreement (the "Acquisition") to acquire 99% of the outstanding shares of Amazonia Capital E Participacoes Ltd. ("Amazonia"). As at May 31, 2011 the Acquisition of Amazonia has not closed and pre-closing payments made in cash and shares of the Company are recorded as deferred acquisition costs as follows:

	2011
Cash payments	$ 1,891,177
Shares issued as consideration	6,375,000
Shares issued for finders' fees	382,500
Deferred acquisition costs	$ 8,648,677

As at May 31, 2011 the Company has made cumulative cash payments of $1,891,177 and issued 37,500,000 shares as consideration for the Acquisition. An additional 2,250,000 shares of the Company were issued as finders' fees. Subsequent to year end, the ownership transfer of the Amazonia shares to the Company is in process and as of September 27, 2010 the shares of Amazonia have not yet been received by the Company.

Upon closing the Company assumes the responsibility for 100% of all costs and expenses related to Amazonia, including property taxes, ongoing exploration, preparation and filing of NI 43-101 report, as well as management and consulting fees and expenses payable to John Young and other approved third party management or consultant fees and expenses; specifically a US$10,000 per month consulting agreement payable to John Young with a term from March 1, 2011 to February 28, 2013.

Additionally upon closing the Company assumes the responsibility for $1,420,000 of Amazonia's loans payable and will issue a two-year convertible promissory note with an interest rate at 3% per annum paid annually. The principal amount and any unpaid interest amount at the time of conversion are convertible, after one year, into common shares of the Company at Company's discretion, at a conversion price equal to the average closing price of common shares of the Company in the ten trading days prior to notice of intent to convert.

If at any time the Company acquires mining permits in respect of Amazonia's properties 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 over-riding royalty on diamonds and all non-smelter products produced from the property. 1.5% of the royalty, such that the vendor shall then have a 1% royalty, can be purchased by the Company for an additional cash payment of US$1,000,000.

5. MINERAL PROPERTIES

	Waverley-Tangier	Wakefield	LD Property	Total
2011				
Acquisition costs				
Balance, May 31, 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, May 31, 2010	424,248	-	-	424,248
Additions during fiscal 2011				
Exploration cost	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

	Waverley-Tangier	Wakefield	LD Property	Total
2010				
Acquisition costs				
Balance, May 31, 2009	$ 110,000	$ 250,000	$ -	$ 360,000
Additions during fiscal 2010				
Property payment	89,250	-	40,000	129,250
Property maintenance	11,126	150	-	11,276
Total acquisition costs	210,376	250,150	40,000	500,526
Exploration costs				
Balance, May 31, 2009	45,525	-	-	45,525
Additions during fiscal 2010				
Field work	214,428	-	-	214,428
Geological	24,360	-	-	24,360
Geophysical	34,350	-	-	34,350
Camp	30,878	-	-	30,878
Drilling	80,661	-	-	80,661
Assay	3,267	-	-	3,267
Mining tax credit received	(9,221)	-	-	(9,221)
	378,723	-	-	378,723
Total exploration costs	424,248	-	-	424,248
Balance, May 31, 2010	$ 634,624	$ 250,150	$ 40,000	$ 924,774

5. MINERAL PROPERTIES (continued)

Waverly-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 Waverly-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 Exp	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	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 as at May 31, 2011.

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.

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.

5. MINERAL PROPERTIES (continued)

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%.

6. EQUIPMENT

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Truck	$ 21,945	$ 3,365	$ 18,580	$ 5,849
Computer equipment	15,401	2,007	13,394	1,711
	$ 37,346	$ 5,372	$ 31,974	$ 7,560

7. RELATED PARTY TRANSACTIONS

During the year ended May 31, 2011, the Company incurred $78,000 and $18,070 (February 28, 2010 - $78,000 and $Nil) in management and consulting fee expenses for officers of the Company and a company owned by an officer of the Company.

The Company paid consulting fees of $14,000 (2010 - $24,000) to a company controlled by a former director and officer of the Company.

The Company incurred rental charges of $Nil (2010 - $5,432) companies with common directors.

The Company incurred legal fees of $Nil (2010 - $1,349) from a law firm of which a director of the Company is a principal.

As of May 31, 2011, the amount due to related parties consists of $Nil (May 31, 2010 - $20,973) owing to officers and directors and corporations controlled by officers and a director.

All related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. PROMISSORY NOTE

A promissory note of $309,000 is outstanding as at May 31, 2011 which is payable with accrued interest of $18,540 and a financing fee of $45,000; for a total of $372,540. 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 2011 the Company incurred $112,500 in total finance fees on promissory notes which are recorded in expenses.

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.

	2011
Total amount of future minimum lease payments	$ 8,526
Interest included in instalments	1,715
Obligation under capital lease	6,811
Current portion	(1,169)
Long-term portion	$5,642

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized:			
Unlimited number of common shares without par value			
Issued and outstanding:			
As at May 31, 2009	8,707,500	$ 1,169,599	$ 227,974
Private placements	1,535,000	153,500	-
Agent warrants exercised	70,000	10,500	-
Contributed surplus transferred on exercise of agent warrants	-	5,201	(5,201)
Stock-based compensation	-	-	8,595
Mineral property option payments (Note 5)	150,000	14,250	-
Issued as finder's fees	63,000	6,300	-
Share issuance costs	-	(6,300)	-
As at May 31, 2010	10,525,500	$ 1,353,050	$ 231,368
Mineral property option payments (Note 5)	150,000	16,500	-
Private placements, net of share issuance costs	23,796,421	2,835,751	47,971
Shares issued for deferred acquisition (Note 4)	39,750,000	6,757,500	-
Warrants exercised	1,933,000	272,620	-
Shares issued for consulting services	268,000	67,200	-
Stock-based compensation	-	-	238,562
Flow-through share renunciation	-	(51,250)	
As at May 31, 2011	76,422,921	11,251,371	517,901

On February 23, 2010 the Company closed a private placement to issue 370,000 units of the Company at $0.10 per unit for gross proceeds of $37,000. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional common share of the Company at $0.14 until February 23, 2012.

On May 21, 2010 the Company closed a private placement to issue 1,165,000 units of the Company at $0.10 per unit for gross proceeds of $116,500. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional common share of the Company at $0.14 until May 21, 2011. A finder's fee of 63,000 common shares was issued.

On June 28, 2010, the Company closed a private placement and issued 2,500,000 units at $0.10 per unit for gross proceeds of $250,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share at $0.14 for a period of one year from closing. Finder's fees of 81,500 common shares were issued valued $8,150 and $9,100 was paid in cash.

On October 4, 2010, the Company closed a flow-through private placement of 2,050,000 units at a price of $0.10 per unit, for gross proceeds of $205,000. Each unit consists of one common share and one half share purchase warrant. One full warrant entitles the holder to purchase an additional common share of the Company at an exercise price of $0.15 per share for a period of two years. The Company paid a finder's fee of $19,761.

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

On October 4, 2010, the Company closed a private placement and issued 5,533,000 units at $0.10 per unit for gross proceeds of $553,300. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share at $0.15 for a period of two year from closing.

On March 29, 2011, the Company issued 268,000 common shares valued at $67,200 for consulting services.

On March 29, 2011, the Company completed a private placement and issued 13,525,997 units at $0.15 per unit, for a total value of $2,028,900. Each unit consisted of one common share and one common share warrant. Each warrant can be exercised to purchase a common share at $0.20 for a period of 2 years. In the placement, 12,475,997 units ($1,871,400) were issued for cash, and 1,050,000 units (157,500) were issued to settle a promissory note and finance fee to lenders. A finder's fee of 105,924 common shares was issued valued at $15,889, $117,319 was paid in cash, and 453,833 broker warrants were issued (valued at $47,971) entitling the holder to acquire one common share at $0.20 per share for two years. As at May 31, 2011, there are share subscriptions receivable of $15,000.

On May 31, 2011, the Company issued 39,750,000 shares with a $6,757,500 total fair value towards the acquisition of Amazonia (see Note 4).

During the year ended May 31, 2011, the Company issued 1,933,000 common shares in connection with the exercise of purchase warrants at a price of $0.14 and $0.15 per share for total proceeds of $272,260. As at May 31, 2011, there are share subscriptions receivable of $21,000 that was received subsequent to year-end.

Escrowed Shares

As at May 31, 2011, 495,000 (May 31, 2010 - 990,000) 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 six months thereafter for a period of thirty-six months.

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

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, 2011, 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
Balance, May 31, 2011		2,760,000		

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
As at May 31, 2010	830,000	$	0.20
Options exercised	-		-
Options granted	1,930,000	$	0.15
Options expired/cancelled	-		-
As at May 31, 2011	2,760,000	$	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, 2011, the Company granted options of 1,655,000 (2010 – Nil) to Directors, Officers, and Employee of the Company, and 275,000 (2010 – 50,000) to a consultant. Using the Black-Scholes option pricing model, the Company recorded stock-based compensation of $238,562 (May 31, 2010 - $8,596).

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

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

	May 31, 2011	May 31, 2010
Risk-free interest rate	2.65%	2.3%
Expected life of options	5.0 years	5.0 years
Expected stock price volatility	136%	101%
Expected dividend rate	0.00%	0.00%

As at May 31, 2011, 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 31,2011		453,833		

	May 31, 2011	May 31, 2010
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, 2011, the Company had agent's warrants of 453,833 exercisable.

Warrants

As at May 31, 2011, the Company had share purchase warrants outstanding enabling the holders to acquire common shares as follows:

Expiry Date	Exercise Price	Outstanding May 31, 2010	Issued	Exercised	Expired	Outstanding May 31, 2011
March 25, 2011	$0.30	750,000	-	-	(750,000)	-
February 23, 2012	$0.14	370,000	-	(220,000)	-	150,000
May 21, 2011	$0.14	1,165,000	-	(1,050,000)	(115,000)	-
June 28, 2012	$0.14	-	2,500,000	(400,000)	-	2,100,000
October 4, 2012	$0.15	-	6,558,000	(200,000)		6,358,000
March 29, 2013	$0.20	-	13,525,997	-	-	13,525,997
		2,285,000	22,583,997	(1,870,000)	(865,000)	22,133,997

11. INCOME TAX

The following table reconciles the amount of income tax recoverable on application of the 2011 combined statutory Canadian federal and provincial income tax rates:

	2011	2010
Combined statutory tax rate	27.67%	30.59%
Income tax recovery at combined statutory rate	$ 389,574	$ 82,030
Non-deductible expenses	(24,313)	(2,628)
Reduction in tax rates	(30,425)	(14,502)
Valuation allowance	(283,586)	(64,900)
Future income tax recovery	$ 51,250	$ –

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

	2011	2010
Non-capital loss carry forwards	$ 374,626	$ 131,762
Share issue costs	41,165	
Mineral properties	11,288	
Equipment	(407)	11,324
Valuation allowance	(426,672)	(143,086)
Net future income tax assets	$ –	$ –

As at May 31, 2011, the Company had approximately $1,498,502 (May 31, 2010 - $527,000) of non-capital loss carry forwards available to reduce taxable income for future years. The losses expire from 2028 to 2031 if unused.

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion of all of the future income tax assets will not be realized. The ultimate realization of future 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 future income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future income tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

12. SUPPLEMENTAL CASH FLOW DISCLOSURES

The significant non-cash transactions of the Company consisted of:

a) A finder's fee valued at $24,039 was paid by the issuance of 187,424 common shares (2010 – $Nil).
b) A finder's fee valued at $47,971 was paid by the issuance of 453,833 broker warrants (2010 – $Nil) 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 (2010 – 150,000 common shares at a fair value of $14,250) pursuant to mineral property acquisitions.
d) The Company entered into a capital lease obligation to acquire office equipment (see Note 9).

13. SEGMENTED INFORMATION

The Company operates the acquisition and exploration of mineral properties in Canada.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

As at May 31, 2011, the Company's financial instruments consist of cash, amounts receivable, accounts payable, amounts due to related parties, and promissory notes.

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held-to-maturity investments, available-for-sale, loans and receivables and other financial liabilities. The Company classifies its cash as held-for-trading, amounts receivable and as loans and receivables, and its accounts payable, promissory note payable and amounts due to related parties as other financial liabilities.

The following table summarizes information regarding the carrying values of the Company's financial instruments:

	May 31, 2011	May 31, 2010
Held for trading (i)	$ 102,689	$ 8,362
Loans and receivables (ii)	55,967	31,520
Other financial liabilities (iii)	475,851	141,685

Financial Instruments

(i) Cash
(ii) Amounts receivable
(iii) Accounts payable, promissory note payable and amounts due to related parties

Fair Value

The estimated fair values of cash and accounts payable approximate their respective carrying values due to the immediate or short period to maturity. For fair value estimates the Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in CICA Handbook section 3862 *Financial Instruments –Disclosures*:

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - Significant unobservable inputs which are supported by little or no market activity.

Financial risk factors

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Cash	$ 102,689	$ -	$ -	$ 102,689

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

The Company's risk exposures and the impact on the Company's financial instruments are 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 and advances made to Amazonia. The Company places its cash with high credit quality financial institutions and monitor Amazonia 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, 2011 the Company had cash balance of $102,689 (May 31, 2010 - $8,362) to settle current liabilities of $477,020 (May 31, 2010 - $141,685). 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.

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 and no interest-bearing debt. 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$"), however US$ balances are insignificant as at May 31, 2011 and in management's opinion the Company's foreign currency risk is immaterial.

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.

15. 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.

16. COMMITMENT

On January 1, 2011, the Company entered into a Contract for Services agreement with Andre Klumb (the "Geologist") for managing the Company's exploration operations effective on February 1, 2011 for a five year period. The Company agreed to pay $10,000 per month for the services provided. The agreement can be terminated upon written notice. .

17. SUBSEQUENT EVENTS

On June 9, 2011, the Company granted 100,000 and 50,000 stock options at respective exercise prices of $0.15 and $0.13 with five year expiry periods.

On June 27, 2011, the warrants priced at $0.14 from the private placement dated June 24, 2010 had the expiry date extended one year from June 28, 2011 to June 28, 2012.

On August 18, 2011, the Company granted 3,000,000 and 50,000 stock options at respective exercise prices of $0.08 and $0.10 with a one year expiry period.