OROCO RESOURCE CORP.

CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2017

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Oroco Resource Corp.

We have audited the accompanying consolidated financial statements of Oroco Resource Corp., which comprise the consolidated statements of financial position as at May 31, 2017 and 2016 and the consolidated statements of loss and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Oroco Resource Corp. as at May 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

September 26, 2017

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

	2017	2016
ASSETS		
Current		
Cash	$ 1,373,872	$ 407,127
Receivables	20,982	384,907
Prepaid expenses and advances	4,915	8,826
First Note receivable (Note 5)	-	1,055,355
	1,399,769	1,856,215
Advance to associated company (Notes 6 and 9)	164,556	-
Available for sale securities (Notes 6 and 9)	1,119,466	2,028,365
Exploration and evaluation assets (Note 4)	292,329	250,355
Equipment (Note 7)	8,083	9,617
	$ 2,984,203	$ 4,144,552
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade payables and accrued liabilities (Note 9)	$ 200,207	$ 260,279
Deferred tax liability (Note 11)	13,443	13,443
	213,650	273,722
Shareholders' equity		
Share capital (Note 8)	16,973,847	16,973,847
Reserves (Note 8)	2,293,674	3,238,582
Deficit	(16,496,968)	(16,341,599)
	2,770,553	3,870,830
	$ 2,984,203	$ 4,144,552

Nature of operations and going concern (Note 1)
Subsequent events (Note 14)

Approved on behalf of the Board:

"Craig Dalziel"	*"Steve Vanry"*
Craig Dalziel – Director	Steve Vanry – Director

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

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

	2017	2016
Expenses		
Business development	$ 96,778	$ 17,613
Depreciation (Note 7)	1,534	1,929
Consulting fees (Note 9)	67,934	108,600
Foreign currency gain	(38,585)	(62,841)
Management and director fees (Note 9)	245,500	239,000
Office and general	86,489	96,086
Professional fees (Note 9)	185,416	215,614
Property investigation costs	134,207	32,881
Rent	61,518	61,129
Shareholder communications and investor relations	300	10,945
Transfer agent and filing fees	24,352	18,145
Travel	1,702	17,278
Operating loss	(867,145)	(756,379)
Gain on recovery of note receivable (Note 6)	-	51,015
Gain on settlement of accounts payable	42,161	69,612
Gain on sale of available for sale securities (Note 6)	521,549	277,498
Gain on sale of subsidiary (Note 2)	-	5,171
Interest income	41,941	134,579
Loss on valuation of Second Note receivable (Note 5)	-	(577,500)
Other income	-	132,683
Permanent impairment of available for sale securities (Note 6)	-	(328,125)
Recovery on property previously sold (Note 5)	-	248,828
Royalty revenue (Note 5)	106,125	3,656
	711,776	17,417
Loss for the year	(155,369)	(738,962)
Unrealized gain (loss) on fair value of available for sale securities (Note 6)	(944,908)	1,128,328
Loss and comprehensive income (loss) for the year	$ (1,100,277)	$ 389,366
Basic and diluted loss per common shares	$ (0.00)	$ (0.01)
Weighted average number of common shares outstanding - basic and diluted	77,947,405	77,947,405

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

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share Capital		Reserves			
	Number	Amount	Other comprehensive income	Stock option and warrant	Deficit	Total
		$	$	$	$	$
May 31, 2015	77,947,405	16,973,847	-	2,110,254	(15,602,637)	3,481,464
Unrealized gain on fair value of available for sale securities	-	-	1,128,328	-	-	1,128,328
Loss for the year	-	-	-	-	(738,962)	(738,962)
May 31, 2016	77,947,405	16,973,847	1,128,328	2,110,254	(16,341,599)	3,870,830
Unrealized loss on fair value of available for sale securities	-	-	(944,908)	-	-	(944,908)
Loss for the year	-	-	-	-	(155,369)	(155,369)
May 31, 2017	77,947,405	16,973,847	183,420	2,110,254	(16,496,968)	2,770,553

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

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (155,369)	$ (738,962)
Adjusted for items not involving cash:		
Depreciation	1,534	1,929
Gain on sale of available for sale securities	(521,549)	(277,498)
Gain on recovery of note receivable	-	(51,015)
Loss on valuation of second note receivable	-	577,500
Accrued royalty income	(4,545)	(3,656)
Foreign exchange gain	(14,544)	(81,045)
Accrued interest income	-	(109,571)
Gain on settlement of accounts payable	(42,161)	(69,612)
Recovery on property previously sold	-	(248,828)
Permanent impairment of available for sale securities	-	328,125
Gain on sale of subsidiary	-	(5,171)
Changes in working capital items:		
Receivables	(139,460)	(128,717)
Prepaid expenses	3,911	(2,803)
Trade payables and accrued liabilities	(17,811)	(134,819)
Net cash used in operating activities	(889,994)	(944,143)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(42,074)	(30,352)
Proceeds on sale of available for sale securities	707,063	1,160,711
Acquisition of available for sale securities	(221,523)	(304,550)
Royalty revenue	109,646	134
First Note receivable and interest income	1,468,183	109,171
Advance to associated company	(216,530)	-
Advance repaid by associated company	51,974	-
Cash given up on sale of subsidiary	-	(3,830)
Net cash provided by investing activities	1,856,739	931,284
Change in cash	966,745	(12,859)
Cash, beginning of year	407,127	419,986
Cash, end of year	$ 1,373,872	$ 407,127

Supplemental cash flow information (Note 12)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Oroco Resource Corp. (the "Company") was incorporated on July 7, 2006 under the Business Corporations Act of British Columbia and is in the business of acquiring, exploring and developing exploration and evaluation assets in Mexico. The Company is listed on the TSX Venture Exchange (the "TSX-V").

The Company's head office and principal address is located at #1201 - 1166 Alberni Street, Vancouver, British Columbia, Canada, V6E 3Z3.

The Company is in the exploration stage and has not yet determined whether these exploration and evaluation assets contain reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets and related deferred exploration expenditures are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the mineral properties and upon future profitable production or proceeds from the disposition thereof.

The Company's exploration and evaluation assets consist of the Xochipala and Salvador properties in Guerrero State, Mexico. The outlook for the Company is tied to realizing on the value of its exploration and evaluation assets and available for sale securities, raising the financing necessary to maintain operations thereafter, and ultimately on generating future profitable operations. The Company estimates it has sufficient working capital to fund operations for the upcoming year.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were authorized by the Audit Committee and Board of Directors of the Company on September 26, 2017.

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, using the accrual basis of accounting, except for cash flow information and certain financial assets that are measured at fair value, as explained in the significant accounting policies set out in Note 3.

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

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, unless otherwise noted, which is the functional currency of the parent and of its subsidiaries.

2. BASIS OF PRESENTATION (cont'd…)

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Name of Subsidiary	Country of Incorporation	Percentage of Ownership	Principal Activity
Minera Xochipala S.A. de C.V. ("Minera Xochipala")	Mexico	100%	Exploration in Mexico
0973496 B.C. Ltd.	Canada	100%	Holding company

The Company also holds an inactive, nominal company incorporated in Canada.

On February 26, 2016, the Company sold Xochipala Gold, S.A. de C.V., a nominal company, for $9,001, resulting in a gain on sale of subsidiary of $5,171.

Significant estimates

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

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Share-based payments - The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data and which involves uncertainty and subjectivity in estimates used by management in the assumptions. Changes in the input assumptions can materially affect the fair value estimate of stock options.

2. BASIS OF PRESENTATION (cont'd…)

Significant estimates (cont'd…)

Valuation of available for sale securities - The Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of, and near term business outlook for, the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flow.

The carrying value and the recoverability of exploration and evaluation assets – Management has determined that exploration, evaluation and related costs incurred, which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

Valuation of production royalty - The Company is entitled to royalty income as disclosed in Note 5. The Company has estimated the value of the production royalty to be $Nil due to lack of certainty of future ongoing production and values.

Significant judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

Determination of functional currency - The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which each entity operates. The Company has determined the functional currency of each entity to be the Canadian dollar. Determination of the functional currency may involve certain judgments to determine the primary economic environment. The functional currency may change if there is a change in events and conditions which determines the primary economic environment.

Recovery of deferred tax assets - Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted. The Company has not recorded any deferred tax assets.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial assets

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

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

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables and First Note 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 profit or loss. Available for sale securities have been classified as available for sale assets.

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

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss. The Company has not classified any financial liabilities as FVTPL.

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

Exploration and evaluation assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets (cont'd…)

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

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

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

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

Provisions

Rehabilitation provisions

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

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss. The Company had no measurable rehabilitation obligations as at May 31, 2017 and 2016.

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. The Company had no other provisions as at May 31, 2017 and 2016.

Impairment

At the end of each reporting period, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment (cont'd…)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs.

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

Equipment

Equipment is stated at cost less accumulated depreciation. Depreciation is provided for using the declining-balance method at the following rates per annum:

Automotive equipment	10%
Computer equipment	30%
Leaseholds	20%
Office furniture	20%

Foreign currency translation

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Non-monetary items are translated into Canadian dollars at the exchange rate in effect on the respective transaction dates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

Share-based payments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. There was no dilutive effect for the years presented.

Share capital

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

Income taxes

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

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

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

Related party transactions

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

New accounting policies adopted

The following standards and amendments to existing standards have been adopted by the Company effective June 1, 2016:

IFRS 11, Joint arrangements

This standard was amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New accounting policies adopted (cont'd…)

The following standards and amendments to existing standards have been adopted by the Company effective June 1, 2016:

IAS 16, Property, plant and equipment and IAS 38, Intangible assets

These standards were amended to prohibit the use of revenue-based depreciation methods for property, plant and equipment and limit the use of revenue-based amortization for intangible assets.

IAS 27, Separate financial statements and IFRS 1, First-time adoption of IFRS

IAS 27 was amended to restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

IFRS 1 was amended to permit the use of the business combinations exemption for investments in subsidiaries accounted for using the equity method in the separate financial statements of the first-time adopter.

The adoption of these standards did not have an impact on these consolidated financial statements.

New standards, interpretations and amendments to existing standards not yet effective

The following standards, amendments to standards and interpretations have been issued but are not effective for annual periods beginning on or after January 1, 2017:

IFRS 7, Financial instruments: disclosures

Amendments to IFRS 7 related to the application of IFRS 9, *Financial Instruments*.

The following standards, amendments to standards and interpretations have been issued but are not effective for annual periods beginning on or after January 1, 2018:

IFRS 9, Financial instruments

This standard was issued in November 2009 and covers the classification and measurement of financial assets as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entitles would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income.

IFRS 15, Revenue from contracts with customers

This standard deals with revenue recognition and establishes principles of reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Company has not yet assessed the potential impact of the application of these standards, nor determined whether it will adopt these standards early.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

The following standards, amendments to standards and interpretations have been issued but are not effective for annual periods beginning on or after January 1, 2019:

IFRS 16, Leases

This standard sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. It eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company has not yet assessed the potential impact of the application of this standard, nor determined whether it will adopt the standard early.

4. EXPLORATION AND EVALUATION ASSETS

	Xochipala Property	Total
May 31, 2016	$ 250,355	$ 250,355
Deferred exploration expenditures:		
Geologists	31,955	31,955
IVA	5,113	5,113
Lease payments, assessment fees and taxes	4,906	4,906
	41,974	41,974
May 31, 2017	$ 292,329	$ 292,329

	Xochipala Property	Total
May 31, 2015	$ 219,837	$ 219,837
Deferred exploration expenditures:		
Geologists	21,571	21,571
IVA	3,451	3,451
Lease payments, assessment fees and taxes	5,496	5,496
	30,518	30,518
May 31, 2016	$ 250,355	$ 250,355

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

(a) Xochipala Property Guerrero State, Mexico

The Xochipala Property, located in Guerrero State, Mexico, is comprised of the contiguous Celia Gene and Celia Generosa concessions. Minera Xochipala acquired the Xochipala Property in 2007.

(b) Salvador Property, Guerrero State, Mexico

The Salvador Property is a mining concession 100% owned by Minera Xochipala.

5. SALE OF CERRO PRIETO PROPERTY

On August 30, 2013, the Company sold its interest in the Cerro Prieto Property to Goldgroup Mining Inc. ("Goldgroup") by way of the sale of the Company's then wholly owned subsidiary, Minera Polimetalicos Mexicanos, S.A. ("Polimetalicos") and assignment of the 2% (two percent) net smelter returns royalty payable.

In addition to cash, promissory notes (an interest bearing first note in the amount of US$1,500,000, valued on the date of receipt as $Nil, and a non-interest bearing Second Note in the amount of US$4,125,000) and share consideration paid by Goldgroup to the Company, Goldgroup agreed to pay to the Company a production royalty (the "Production Royalty") quarterly in arrears. The Production Royalty, payable for each month in which the monthly average of the daily PM London gold fix is in excess of US$1,250 per ounce, is calculated at the rate of 20% of the dollar value of that excess for each ounce of gold produced from the property during that month, to a maximum royalty of US$90 per ounce. This Production Royalty will be payable for each and every ounce of the greater of:

i) the first 90,000 ounces of gold produced from the Property; and

ii) all ounces of gold produced from the Property until the completion of five full years of commercial production, which period commenced on March 1, 2014.

During the year ended May 31, 2017, the Company accrued or received $106,125 (2016 - $3,656) in royalty revenue.

Prior to the closing of the sale of Polimetalicos to Goldgroup, Polimetalicos's Mexican subsidiary, Minas de Oroco Resources, S.A. de C.V., assigned to the Company all of its rights and interests in all refunds of value added taxes paid by it in the years 2008 through 2012 (the "VAT Refund") in consideration of US$500,000 of debt owed by this subsidiary to the Company. On September 19, 2014, the Company agreed to assign all its rights and interests in the VAT Refund to Goldgroup (the "VAT Assignment Agreement") in consideration of US$240,000, paid in common shares of Goldgroup, and 50% of all future VAT refunds obtained in excess of US$400,000. The Company assigned a fair value of $Nil to the VAT refund as collectability was uncertain. In fiscal 2016, the Company accrued or received $248,828 in relation to the VAT refund, recorded as recovery on property previously sold.

On August 28, 2015, Goldgroup exercised its option to settle the Second Note by delivering 16,500,000 common shares of Goldgroup to the Company, which resulted in a loss on valuation of Second Note of $577,500.

As at May 31, 2017 the estimated fair value of the First Note was $Nil (2016 - $1,055,355). During the year ended May 31, 2017, the Company received payments from Goldgroup totalling $1,468,183 to settle the remaining principal and accrued interest from the First Note, VAT refund, deadline extension fees, and break fees.

(Expressed in Canadian Dollars)

6. AVAILABLE FOR SALE SECURITIES

Pursuant to the sale of the Cerro Prieto Property, the Company received 5,500,000 shares of Goldgroup. Pursuant to the VAT Assignment Agreement, the Company received an additional 2,409,025 shares of Goldgroup (Note 5), and, pursuant to the settlement of the Second Note, the Company received an additional 16,500,000 shares of Goldgroup. Pursuant to a Shares for Debt Agreement, the Company received 3,400,975 shares of Goldgroup, with a fair value on grant of $255,073 in settlement of $204,059 (US$145,000) of the outstanding principal owing on the First Note, resulting in a gain on recovery of $51,015 in fiscal 2016.

During year ended May 31, 2017, the Company sold 2,983,500 (2016 - 15,439,250) of the Goldgroup shares resulting in a gain on sale of $521,549 (2016 - $277,498). As at May 31, 2017, the remaining shares had a fair value of $593,393 (2016 - $1,723,815), resulting in other comprehensive income (loss) of $(944,908) (2016 - $1,128,328). During the year ended May 31, 2017, the Company recorded a permanent impairment of $Nil (2016 - $328,125).

During year ended May 31, 2017, the Company purchased 125,000 common shares (2016 - 300,000), at a cost of $146,523 (2016 - $304,550), for a total investment of 412,500 common shares, valued at $451,073, in a private British Columbia company ("BC Co"), a company related by virtue of a member of the Company's management and a private company owned by the spouse of a director collectively having significant influence in BC Co, which has an interest in mineral concessions in Mexico. During fiscal 2017, the Company paid for expenses on behalf of BC Co of $216,530 (2016 - $Nil) and received $51,974 (2016 - $Nil) from BC Co. The advances are unsecured with no specific terms of repayment. Subsequent to May 31, 2017, the Company advanced additional funds and entered into an option to convert the advances into shares of BC Co (Note 14).

During year ended May 31, 2017, the Company purchased 375,000 common shares (2016 - Nil), at a cost of $75,000 (2016 - $Nil), in a private British Columbia company ("BC Co2"), which provides satellite based, geological services to the mining and other industries, which are able to identify, model and monitor subsurface geological structures.

	Goldgroup		BC Co		BC Co2	
	Number	Amount	Number	Amount	Number	Amount
May 31, 2015	3,825,000	$ 382,500	-	$ -	-	$ -
Additions	21,191,000	1,424,325	300,000	304,550	-	-
Disposals	(15,439,250)	(883,213)	-	-	-	-
Fair value adjustment	-	1,128,328	-	-	-	-
Permanent impairment	-	(328,125)	-	-	-	-
May 31, 2016	9,576,750	1,723,815	300,000	304,550	-	-
Additions	-	-	125,000	146,523	375,000	75,000
Disposals	(2,983,500)	(185,514)	-	-	-	-
Fair value adjustment	-	(944,908)	-	-	-	-
May 31, 2017	6,593,250	$ 593,393	425,000	$ 451,073	375,000	$ 75,000

(Expressed in Canadian Dollars)

7. EQUIPMENT

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
Cost:					
May 31, 2015	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Additions	-	-	-	-	-
May 31, 2016	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
May 31, 2017	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Depreciation:					
May 31, 2015	$ 9,770	$ 20,731	$ 7,654	$ 2,444	$ 40,599
Charge for the year	618	713	473	125	1,929
May 31, 2016	10,388	21,444	8,127	2,569	42,528
Charge for the year	557	499	378	100	1,534
May 31, 2017	$ 10,945	$ 21,943	$ 8,505	$ 2,669	$ 44,062
Net book value:					
May 31, 2016	$ 5,560	$ 1,666	$ 1,890	$ 501	$ 9,617
May 31, 2017	$ 5,003	$ 1,167	$ 1,512	$ 401	$ 8,083

8. SHARE CAPITAL AND RESERVES

Authorized

An unlimited number of common shares without par value.

Issued share capital

During the years ended May 31, 2017 and 2016, there was no share capital activity.

Warrants

During the years ended May 31, 2017 and 2016, there were no warrants outstanding

(Expressed in Canadian Dollars)

8. SHARE CAPITAL AND RESERVES (cont'd…)

Stock options

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

	Number of Stock Options		Weighted Average Exercise Price
Balance outstanding, May 31, 2016 and 2015	400,000	$	0.30
Expired	(400,000)		0.30
Balance outstanding and exercisable, May 31, 2017	-	$	-

Reserves

At May 31, 2017, the Company had a Stock Option and Warrant Reserve balance of $2,110,254 (2017 - $2,110,254) consisting of warrant valuations on warrants attached to various private placements and share-based compensation associated with stock option grants to employees, consultants, directors and officers.

At May 31, 2017, the Company had an Other Comprehensive Income balance of $183,420 (2016 - $1,128,328).

9. RELATED PARTY TRANSACTIONS

The Company considers key management personnel to consist of directors and officers. The following expenses were incurred with key management personnel:

		For the year ended May 31, 2017		For the year ended May 31, 2016
Management and director fees	$	245,500	$	239,000
Consulting		21,400		12,600
Professional fees		102,000		102,000
Total	$	368,900	$	353,600

As at May 31, 2017 included in accounts payable and accrued liabilities was $142,525 (2016 - $129,622) owing to officers and directors. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

During the year ended May 31, 2017, the Company purchased 125,000 (2016 - 300,000) common shares of BC Co, a company related by virtue of a member of the Company's management and a private company owned by the spouse of a director collectively having significant influence in BC Co. (Note 6). As at May 31, 2017, the Company has an advance of $164,556 (2016 - $Nil) to BC Co (Note 6).

During year ended May 31, 2017, the Company purchased 375,000 (2016 - Nil) common shares of BC Co2, a company related by virtue of a director of the Company also being a director of BC Co2 (Note 6).

(Expressed in Canadian Dollars)

10. SEGMENTED INFORMATION

The Company operates in one segment being the acquisition and exploration of exploration and evaluation assets located in Mexico. Geographic information is as follows:

As at May 31, 2017

	Canada	Mexico	Total
Equipment	$ 3,080	$ 5,003	$ 8,083
Exploration and evaluation assets	-	292,329	292,329
Other assets	2,666,926	16,865	2,683,791
Total assets	$ 2,670,006	$ 314,197	$ 2,984,203

As at May 31, 2016

	Canada	Mexico	Total
Equipment	$ 4,057	$ 5,560	$ 9,617
Exploration and evaluation assets	-	250,355	250,355
Other assets	3,882,052	2,528	3,884,580
Total assets	$ 3,886,109	$ 258,443	$ 4,144,552

11. DEFERRED INCOME TAXES

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

	2017	2016
Loss for the year before income taxes and discontinued operations	$ (155,369)	$ (738,962)
Expected income tax (recovery)	$ (40,000)	$ (192,000)
Change in statutory, foreign tax, foreign exchange rates and other	(68,000)	78,000
Permanent difference	-	57,000
Revaluation in other comprehensive income	(123,000)	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	57,000	61,000
Change in unrecognized deductible temporary differences	174,000	(4,000)
Total deferred income tax expense	$ -	$ -

(Expressed in Canadian Dollars)

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

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

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

	2017	2016
Deferred tax liabilities		
Exploration and evaluation assets – Mexican mining royalty	$ 13,443	$ 13,443
	$ 13,443	$ 13,443

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

	2017	2016
Deferred tax assets (liabilities)		
Exploration and evaluation assets	$ 778,000	$ 779,000
Equipment	1,000	1,000
Available for sale securities	(8,000)	(123,000)
Allowable capital loss	914,000	975,000
Non-capital losses available for future periods	2,111,000	1,990,000
	3,796,000	3,622,000
Unrecognized deferred tax assets	(3,796,000)	(3,622,000)
Net deferred tax assets	$ -	$ -

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

	2017	Expiry Date Range
Temporary differences		
Exploration and evaluation assets	$ 2,993,000	No expiry date
Equipment	3,000	No expiry date
Allowable capital loss	3,517,000	No expiry date
Available for sale securities	(59,000)	No expiry date
Non-capital losses available for future periods	8,116,000	2027 to 2037

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

(Expressed in Canadian Dollars)

12. SUPPLEMENTAL CASH FLOW INFORMATION

		For the year ended May 31, 2017		For the year ended May 31, 2016
Interest paid	$	-	$	-
Taxes paid	$	-	$	-
Non-cash transactions not included in investing or financing activities				
Exploration and evaluation assets included in accounts payable	$	3,005	$	3,105
Allocation of amount from receivables to First Note		386,627		
Available for sale securities received for partial repayment of First Note	$	-	$	204,058
Available for sale securities received for settlement of Second Note	$	-	$	1,072,500
Unrealized gain (loss) on fair value of available for sale securities	$	(944,908)	$	1,128,328

13. FINANCIAL INSTRUMENT RISK AND CAPITAL

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises shareholders' equity. There has been no significant change in the Company's objectives, policies and processes for managing its capital during the year ended May 31, 2017.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. The Company's investment policy is to invest its cash in financial instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

Fair value hierarchy

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

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

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

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

13. FINANCIAL INSTRUMENT RISK AND CAPITAL (cont'd…)

Management of Industry Risk

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

Management of Financial Risk

The carrying value of cash, receivables, First Note receivable and trade payables and accrued liabilities approximated their fair value because of the short-term nature of these instruments. Cash is measured at a level 1 of the fair value hierarchy. The Goldgroup shares recorded in available for sale securities are measured at a level 1 of the fair value hierarchy and the BC Co and BC Co2 shares recorded in available for sale securities are measured using level 3 of the fair value hierarchy based on cost at time of acquisition. The Company's financial instruments are exposed to certain financial risks, which include credit risk, liquidity risk, and market risk.

Credit Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above. The Company monitors its ability to meet its short-term expenditures by raising additional funds through share issuance when required. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company does not have investments in any asset-backed deposits.

Foreign Exchange Risk

The Company's property interests in Mexico make it subject to foreign currency fluctuations, which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian dollar and foreign currencies. The Company does not invest in derivatives to mitigate these risks. The effect of a 1% change in the foreign exchange rate on the cash held in foreign currencies at May 31, 2017 is nominal.

Interest Rate Risk

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

14. SUBSEQUENT EVENTS

Subsequent to May 31, 2017, the Company:

i) granted to directors, officers and consultants a total of 4,400,000 incentive stock options at a price of $0.075 per share for a period of three years;

ii) provided additional advances to BC Co of $25,510; and

iii) entered into an agreement pursuant to which the Company has the option to convert the advance to associated company into shares of BC Co at a price of US$0.80 per share, to a maximum of 250,000 shares, on or before December 31, 2017.