

BAROYECA GOLD & SILVER INC.

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2018 and 2017

AUDITORS' REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

CONSOLIDATED STATEMENTS OF CASH FLOWS

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A CHAN AND COMPANY LLP
CHARTERED PROFESSIONAL ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

To: the Shareholders of
Baroyeca Gold & Silver Inc.

We have audited the accompanying consolidated financial statements of Baroyeca Gold & Silver Inc. (the "Company"), which comprise the consolidated statement of financial position as at May 31, 2018 and May 31, 2017, and the consolidated statement of loss and comprehensive loss, consolidated statement of cash flows and consolidated statement of changes in shareholders' deficiency for the years then ended, and 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 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at May 31, 2018 and May 31, 2017, and its consolidated financial performance and its consolidated cash flow for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has incurred losses to date. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

"A Chan and Company LLP"
Chartered Professional Accountant

Burnaby, British Columbia
September 28, 2018

BAROYECA GOLD & SILVER INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	May 31, 2018	May 31, 2017
ASSETS		
CURRENT		
Cash	\$ 14,711	\$ 55,561
Amounts receivable	3,697	2,982
Prepaid expenses	13,646	14,881
	32,054	73,424
Exploration advances	241	241
Equipment– Note 4	28,075	81,775
Exploration and evaluation assets – Note 5 and Note 17	570,446	1,191,283
	\$ 630,816	\$ 1,346,723
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities – Note 7 and 8	\$ 2,354,665	\$ 2,205,527
Advance payable – Note 16	20,000	20,000
Line of credit – Note 8	9,079	14,965
Loan payable – Note 8, Note 9 and 18	355,755	-
	2,739,499	2,240,492
Loan payable – Notes 8 and 9	-	367,191
	2,739,499	2,607,683
SHAREHOLDERS' DEFICIENCY		
Capital Stock – Note 6	4,724,373	4,673,373
Subscription received in advance	-	25,000
Agent options	100,629	100,629
Reserves	683,742	683,742
Deficit	(7,607,988)	(6,745,727)
Accumulated other comprehensive income	(9,439)	2,023
	(2,108,683)	(1,260,960)
	\$ 630,816	\$ 1,346,723

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)

Approved on behalf of the Board on September 28, 2018:

“Richard Wilson”

Richard Wilson – Director

“Douglas Eacrett”

Douglas Eacrett– Director

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

BAROYECA GOLD & SILVER INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)
For the years ended

	May 31, 2018	May 31, 2017
EXPENSES		
Depreciation – Note 4	\$ 49,460	\$ 57,693
Foreign exchange loss (gain)	(25,594)	17,747
Finance costs – Note 10	71,354	78,490
Insurance	14,476	15,510
Interest and bank charges	9,256	15,776
Management fees – Note 8	60,000	60,000
Office and miscellaneous	7,703	5,877
Professional fees	52,510	51,481
Transfer agent and filing fees	18,528	6,708
Travel and promotion	29,541	11,497
Utilities	2,865	1,954
NET LOSS BEFORE OTHER INCOME	(290,099)	(322,733)
Impairment Loss - Note 17	(572,162)	-
Gain from sale of equipment	-	18,911
NET LOSS FOR THE YEAR	(862,261)	(303,822)
Translation adjustment	(11,462)	9,805
COMPREHENSIVE LOSS FOR THE YEAR	\$ (873,723)	\$ (294,017)
LOSS PER SHARE		
<i>Basic and diluted</i>	\$ (0.02)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	49,132,130	46,169,938

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

BAROYECA GOLD & SILVER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
For the years ended

	May 31, 2018	May 31, 2017
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Loss for the year	\$ (862,261)	\$ (303,822)
Adjusted for:		
Depreciation	49,460	57,693
Amortized finance costs	3,514	3,259
Unrealized foreign exchange loss (gain)	(25,594)	17,747
Impairment Loss	572,162	-
Gain from sale of equipment	-	(18,911)
Net changes in non-cash working capital items:		
Increase (decrease) in amounts receivable	(723)	(791)
Increase (decrease) in prepaid expenses	616	(1,626)
Increase in accounts payable and accrued liabilities	83,553	125,627
Increase in due to related parties	37,692	(17,042)
	(141,581)	(137,867)
INVESTING AND FINANCING ACTIVITIES		
Subscription received in advance	(25,000)	25,000
Proceed from sale of equipment	-	68,001
Shares issued for cash, net of cost	51,000	-
Exploration and evaluation assets costs, net of recovery	76,823	89,513
	102,823	182,514
EFFECT OF FOREIGN EXCHANGE RATE	(2,092)	396
INCREASE (DECREASE) IN CASH FOR THE YEAR	(40,850)	45,043
CASH, BEGINNING OF YEAR	55,561	10,518
CASH, END OF YEAR	\$ 14,711	\$ 55,561
CASH PAID FOR INCOME TAXES	\$ -	\$ -

For supplemental disclosure with respect to cash flows, see Note 14

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

BAROYECA GOLD & SILVER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Expressed in Canadian Dollars)

	Capital Stock								
	Number of Shares	Amount	Subscription received in advance	Agent Options	Reserves	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity (Deficiency)	
Balance, May 31, 2016	46,169,938	\$ 4,673,373	\$ -	\$ 100,629	\$ 683,742	\$ (6,441,905)	\$ (7,782)	\$ (991,943)	
Addition in the year	-	-	25,000					25,000	
Net loss for the year	-	-	-	-	-	(303,822)	-	(303,822)	
Translation adjustment	-	-	-	-	-	-	9,805	9,805	
Balance, May 31, 2017	46,169,938	\$ 4,673,373	\$ 25,000	\$ 100,629	\$ 683,742	\$ (6,745,727)	\$ 2,023	\$ (1,260,960)	
Addition in the year	5,100,000	51,000	(25,000)	-	-	-	-	26,000	
Net loss for the year	-	-	-	-	-	(862,261)	-	(862,261)	
Translation adjustment	-	-	-	-	-	-	(11,462)	(11,462)	
Balance, May 31, 2018	51,269,938	\$ 4,724,373	\$ -	\$ 100,629	\$ 683,742	\$ (7,607,988)	\$ (9,439)	\$ (2,108,683)	

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

BAROYECA GOLD & SILVER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTE 1 - NATURE AND CONTINUANCE OF OPERATIONS

Baroyeca Gold & Silver Inc. (the "Company") was incorporated under the laws of British Columbia on February 17, 2006. The Company's registered office is located at Suite 1008 - 409 Granville Street, Vancouver, British Columbia. The Company's principal business activities include the acquisition and exploration of its exploration and evaluation assets. During the year ended May 31, 2008, the Company incorporated a wholly-owned subsidiary, Baroyeca Gold & Silver de Mexico, S.A. de C.V. under the laws of Mexico. In June 2011, the Company incorporated two new wholly-owned subsidiaries, Tombstone Gold & Silver Inc. and Tombstone Resources Inc., under the laws of Arizona.

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets 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.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and exploration and evaluation programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. These uncertainties may cast significant doubt on the entity's ability to continue as a going concern.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the consolidated statement of financial position. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

	May 31,2018	May 31,2017
Working capital (deficiency)	\$ (2,707,445)	\$ (2,167,068)
Deficit	\$ (7,607,988)	\$ (6,745,727)

Statement of Compliance and Conversion to IFRS

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 IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information.

BAROYECA GOLD & SILVER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTE 2 – BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Boroyeca Gold & Silver de Mexico, S.A. de C.V. (the “Mexican Subsidiary”), Tombstone Gold & Silver Inc. and Tombstone Resources Inc. (collectively the “US Subsidiaries”) All inter-company transactions and balances have been eliminated upon consolidation.

These consolidated financial statements have been presented in Canadian dollars, unless otherwise noted.

Use of Estimates and Significant Accounting Judgements

The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events and other matters that affect the reported amounts of the Company’s assets, liabilities, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company’s consolidated financial statements are prepared.

Management reviews, on a regular basis, the Company’s accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Management considers the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of the Company’s consolidated financial statements.

Critical judgments in applying accounting policies

The preparation of these consolidated financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 1, as well as the determination of functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the Company and its Mexican Subsidiary has been determined to be the Canadian dollar. Effective June 1, 2013, the Company has determined that the functional currency of its US subsidiaries is the United States dollar. This is a change in judgement from the prior year, when it was determined that the functional currency of the US Subsidiaries was the Canadian dollar. Changes in accounting policy relating to this have been applied prospectively.

Operating lease commitments

The Company has entered into two mining equipment leases for its mining properties. The Company has determined, based on an evaluation of the terms and conditions of the arrangements that the lease terms do not constitute a major part of the economic life of the leased equipment and the present value of the minimum lease payments do not amount to substantially all of the fair value of the equipment. Therefore, the Company did not acquire all the significant risks and rewards of ownership of the equipment and accounts for the contracts as operating leases.

BAROYECA GOLD & SILVER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTE 2 – BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION – CONT'D

Significant Estimates

Carrying value and recoverability of exploration and evaluation assets

The carrying amount of Company's exploration and evaluation assets does not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's mineral properties.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows.

Fair value of stock options and warrants

Determining the fair value of warrants and stock options requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of shareholders' equity.

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

Change in Functional Currency

Effective June 1, 2013, the functional currencies of the US Subsidiaries changed from the Canadian dollar to the United States dollar. The functional currency of the Mexican Subsidiary has not changed and is Canadian dollars.

As a result of changing the functional currency of the US Subsidiaries, resulting exchange differences were recognized in other comprehensive income.

BAROYECA GOLD & SILVER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Effective June 1, 2013, the Company accounted for its foreign currency translation as follows:

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency of the Company and its Mexican Subsidiary is the Canadian dollar, and the functional currency of the US Subsidiaries is the United States dollar.

Accordingly, the accounts of the US Subsidiaries are translated into Canadian dollars as follows:

- all of the assets and liabilities are translated at the rate of exchange in effect on the date of the statement of financial position;
- revenue and expenses are translated at the exchange rate approximating those in effect on the date of the transactions; and
- exchange gains and losses arising from translation are included in accumulated other comprehensive income (loss).

Transactions occurring in currencies other than the functional currency of the entity recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities that are denominated in foreign currencies are translated at the rate of exchange at the date of the statement of financial position while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations and comprehensive loss.

Cash and cash equivalents

Cash is comprised of cash on hand. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. As at May 31, 2018 and May 31, 2017 the Company had no cash equivalents on hand.

Equipment

Equipment is recorded at cost less accumulated depreciation and impairment charges. Such cost consists of the purchase price, any costs directly attributable to bringing the equipment to the location and condition necessary for its intended use. Depreciation of equipment is calculated on a straight-line basis over the estimated useful lives as follows:

- mining equipment: 5 to 15 years
- office equipment: 5 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted if appropriate.

BAROYECA GOLD & SILVER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D

Exploration and evaluation assets

Costs incurred before the Company has obtained the legal rights to explore an area are expensed as incurred. All costs related to the acquisition, exploration and evaluation of exploration and evaluation assets are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as resource 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 resource property is impaired, that property is written down to its estimated net realizable value. A resource property is reviewed for impairment at each financial statement date or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Interest on borrowings incurred to finance resource assets is capitalized until the asset is capable of carrying out its intended use.

From time to time the Company may acquire or dispose of a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

The amounts shown for resource properties 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 and permitting to complete the development and future profitable production or proceeds from the disposition thereof.

Revenues from saleable material produced during the exploration phase are applied as a reduction to capitalized exploration and evaluation assets.

Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property and equipment, or site closure or reclamation activities when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the rehabilitation provision in the year incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as resource assets.

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

For the years presented, the Company has determined that it has no significant provision for environmental rehabilitation.

BAROYECA GOLD & SILVER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D

Impairment

The Company reviews and evaluates its property, including exploration and evaluation assets, and equipment for indications of impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable or at least at the end of each reporting period. The asset's recoverable amount is estimated if an indication of impairment exists.

Impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset.

Impairment losses reducing the carrying value to the recoverable amount are recognized in profit and loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Share-based payments

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period of options granted as both share-based compensation expense and reserves. Consideration paid for the shares on the exercise of stock options is credited to capital stock, and the reserve account is reduced. The share-based compensation expense includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

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

BAROYECA GOLD & SILVER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D

Financial Instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss (“FVTPL”), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax.

Financial assets “held-to-maturity”, “loans and receivables”, and “other financial liabilities” are subsequently measured at amortized cost using the effective interest method.

The Company has classified its cash as FVTPL. The Company’s amounts receivable and due from related parties are classified as loans and receivables. The Company’s accounts payable and accrued liabilities, advance payable, loan payable, and line of credit are classified as other financial liabilities.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

Cash has been measured at fair value using Level 1 inputs.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders’ equity which results from transactions and events from sources other than the Company’s shareholders. The Company’s translation of its US Subsidiaries into Canadian dollars is the only item currently affecting comprehensive income (loss) for the years presented

BAROYECA GOLD & SILVER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D

Income taxes

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

Earnings (loss) per share

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period.

For diluted per share computations, assumptions are made regarding potential common shares outstanding during the period. The weighted average number of common shares is increased to include the number of additional common shares that would be outstanding if, at the beginning of the period, or at time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's common shares at their average market price during the period, thereby reducing the weighted average number of common shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that does not transfer substantially all the risks and rewards of ownership of an asset to the Company is classified as an operating lease.

Operating lease payments are recorded as deferred exploration and evaluation expenses on a straight-line basis over the lease term where the leased asset is used for the acquisition exploration and evaluation of exploration and evaluation assets. Otherwise, the lease payments are recognized as an operating expense in the Statement of Operation on a straight-line basis over the lease term.

BAROYECA GOLD & SILVER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D

Accounting standards, amendments and interpretations not yet effective

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended May 31, 2018:

- IFRS 9 New standard that replaces IAS 39 for classification and measurement of financial instruments. IFRS 9 simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

- IFRS 15 New standard that establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

- IFRS 16 On January 13, 2016 the IASB issued IFRS 16, *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by the lessor. The extent of the impact of the adoption of the standard has not yet been determined by the Company

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

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NOTE 4 – EQUIPMENT

Equipment comprises the following:

	Mining equipment		Office equipment		Total
Cost					
Balance, May 31, 2016	\$	355,402	\$	976	\$ 356,378
Disposals		(75,345)		-	(75,345)
Balance, May 31, 2017		280,057		976	281,033
Additions		-		-	-
Disposals		-		-	-
Balance, May 31, 2018	\$	280,057	\$	976	\$ 281,033
Accumulated depreciation					
Balance, May 31, 2016	\$	243,789	\$	1,074	\$ 244,863
Charge for the year		57,660		33	57,693
Disposals		(51,683)		-	(51,683)
Balance, May 31, 2017		249,766		1,107	250,873
Charge for the year		49,460		-	49,460
Balance, May 31, 2018	\$	299,226	\$	1,107	\$ 300,333
Translation adjustment					
May 31, 2017	\$	51,484	\$	131	\$ 51,615
May 31, 2018	\$	47,244	\$	131	\$ 47,375
Net Book Value					
At May 31, 2017	\$	81,775	\$	-	\$ 81,775
At May 31, 2018	\$	28,075	\$	-	\$ 28,075

NOTE 5– EXPLORATION AND EVALUATION ASSETS

Tombstone, Arizona

Pursuant to a series of agreements, the Company acquired mining claims located in the state of Arizona and the option to acquire two additional parcels of claims contiguous to the group acquired. The Company paid the vendor US\$250,000 for the group of claims purchased and has the option to purchase the second parcel for US\$180,000 and the third parcel for US\$250,000. The Company must also issue 100,000 shares for the third parcel. In September 2011, the Company paid US\$180,000 to exercise the option on the second parcel of claims.

In connection with the option for the third parcel, the Company paid US\$90,000 during the year end May 31, 2012, with the remaining balance of US\$160,000 to be paid and the 100,000 shares to be issued by June 29, 2012. This date was extended indefinitely upon agreement with the vendor.

The Company agreed to issue to optionor, as additional consideration, 100,000 common shares upon closing of the purchase and sale of the third parcel of claims. The share issuance will be subject to acceptance for filing by the TSX Venture Exchange.

In conjunction with the acquisition of the claims, the Company agreed to purchase a number of pieces of equipment and an office facility located on the properties that had been used in operations carried out by the vendor for a total of US\$170,000 (paid during the year ended May 31, 2012).

The Company also agreed to pay a finder's fee of up to 390,000 common shares, of which 265,000 were issued in fiscal May 31, 2012, to an individual for introductions and assistance provided to the Company with respect to this acquisition. The remaining common shares will be issued to the finder at completion of above mentioned purchase agreement

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NOTE 5– EXPLORATION AND EVALUATION ASSETS – CONT'D

To carry out the above property and equipment acquisitions, the Company incorporated two new wholly-owned subsidiary companies in Arizona in June 2011 to hold the assets acquired, namely, Tombstone Gold & Silver Inc. and Tombstone Resources Inc.

During the year ended May 31, 2018, the Company has entered into an option agreement with Aztec Minerals Corp. (“Aztec”) whereby Aztec can acquire a 75% interest in Tombstone mineral properties held by the Company. To earn an interest in the property, Aztec must incur exploration expenditures of CAD \$1,000,000 on the property, make cash payments of CAD \$100,000 and issue 1,000,000 Aztec common shares to the Company over a three year period.

Total expenditures on the Company’s mineral properties are as follows:

	Tombstone, AZ
Balance, May 31, 2016	\$ 1,154,012
Additions	
Assaying	-
Camp and field supplies	-
Consulting	44,817
Contract wages	81,159
Equipment rental and repair	87,882
Equipment Lease	49,680
Mining taxes	12,454
Permit, title search and taxes	1,256
Travel and accommodation	19,717
Vehicle repairs and maintenance	27,945
Recovery	(327,206)
Effect of foreign currency translation	39,567
Total acquisition and exploration costs during the year	37,271
Balance, May 31, 2017	\$ 1,191,283
Additions	
Consulting	45,965
Contract wages	99,267
Equipment rental and repair	27,349
Equipment lease	80,795
Mining taxes	11,725
Permit, title search and taxes	18,926
Travel and accommodation	3,268
Vehicle repairs and maintenance	11,725
Deposit received from option	(9,723)
Recovery	(276,820)
Impairment Loss	(572,162)
Effect of foreign currency translation	(61,152)
Total acquisition and exploration costs during the year	(620,837)
Balance, May 31, 2018	\$ 570,446

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NOTE 5– EXPLORATION AND EVALUATION ASSETS – CONT'D

Title to mineral properties

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

NOTE 6– CAPITAL STOCK

Authorized: 100,000,000 common shares without par value

5,100,000 common shares at \$0.01 per shares were issued during the year ended May 31, 2018 and no capital stock transactions during the year ended May 31, 2017.

Stock options

The Board of Directors is authorized, pursuant to the Company's Stock Option Plan, to grant options to directors, officers, consultants or employees to acquire up to 10% of issued and outstanding common shares. The exercise price of options granted shall not be less than the price permitted by any stock exchange on which the common shares are then listed or other regulatory body having jurisdiction. The options can be granted for a maximum term of 5 years and are subject to such vesting terms and conditions as may be specified by the Board of Directors.

The award of stock options is at the discretion of the Board of Directors. The Company has no formal objectives or criteria and relies on the recommendations of the Board of Directors.

As at May 31, 2018 and 2017, stock options outstanding and exercisable were as follows:

- All options had been expired

A summary of the status of the Company's stock options as at May 31, 2018 and 2017, and changes during the year is presented below:

	Options Outstanding	Weighted Average Exercise Price
Balance, May 31, 2016	1,400,000	\$ 0.15
Expired	(1,400,000)	0.15
Balance, May 31, 2017	-	\$ -
Outstanding and exercisable, May 31, 2018	-	\$ -

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NOTE 7– ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2018	May 31, 2017
Trade accounts payable	\$ 1,108,458	\$ 1,147,528
Accrued liabilities	57,828	58,320
Due to related parties (Note 8)	1,188,379	999,679
	\$ 2,354,665	\$ 2,205,527

NOTE 8– RELATED PARTY TRANSACTIONS

Compensation of key management

Key management includes the Company's directors. Key management compensation for the years ended May 31, 2018 and 2017, comprised:

	May 31, 2018	May 31, 2017
Management fees	\$60,000	\$60,000

Other related party transactions

In addition to the compensation paid to directors, the Company had the following transactions with related parties:

- a) During the year ended May 31, 2018, the Company paid management fees of \$60,000 to a company controlled by a director (May 31, 2017–\$60,000). As of May 31, 2018, \$357,500 (May 31, 2017–\$297,500) was payable to this company and is included in accounts payable and accrued liabilities.
- b) During the year ended May 31, 2018, the Company incurred legal fees of \$19,800 (May 31, 2017– \$12,529) to a law firm of which a director of the Company is a principal. As at May 31, 2018, the Company had a balance payable of \$161,698 (May 31, 2017–\$141,898) to this law firm, which was included in accounts payable and accrued liabilities.
- c) As at May 31, 2018, the Company owed \$134,932 (May 31, 2017–\$116,895) to a director of the Company for expense reimbursements, and is included in accounts payable and accrued liabilities.
- d) As at May 31, 2018, the Company owed \$2,971 (May 31, 2017–\$2,971) to a director of the Company, which is included in accounts payable and accrued liabilities.
- e) As at May 31, 2018, the Company owed \$193,927 (May 31, 2017–\$160,709) to a director of the Company for expense reimbursement, and is included in accounts payable and accrued liabilities.
- f) As at May 31, 2018, the Company owed \$483 (May 31, 2017–\$483) to a former director of the Company, who resigned on September 28, 2012, which is included in accounts payable and accrued liabilities.
- g) The long-term loan payable as at May 31, 2018 of \$355,755 (May 31, 2017–\$367,191) was arranged through a partnership of individuals which includes a director of the Company. As of May 31, 2018, \$336,872 (May

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NOTE 8 – RELATED PARTY TRANSACTIONS – CONT'D

31, 2017–\$279,223) was owing for accrued interest, participation fee, and loan fee, and is included in accounts payable and accrued liabilities. Refer to Notes 9 and 10 for additional information.

- h) As at May 31, 2018, a company controlled by a director of the Company has advanced \$9,079 (May 31, 2017–\$14,965) in the form of a line of credit which has been used for exploration and evaluation assets. The outstanding balance bears interest at 18% per annum and is repayable on demand.
- i) Other than the items g) and h) above, amounts due to/from related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

NOTE 9 – LOAN PAYABLE

In July 2013, Tombstone Resources Inc. (“the Borrower”) finalized the terms of the loan agreement for up to US\$300,000, of which US\$145,000 (CDN\$150,336) was received during the year ended May 31, 2013. During the year ended May 31, 2014, the Company received a further US\$130,000. The loans were from a partnership of individuals of which a director of the Company is the manager and are secured by the assets of, and promissory notes issued by, the Tombstone Resources Inc. and Tombstone Gold & Silver Inc. (the “Tombstone Subsidiaries”). The loans bear interest at 12% per annum with interest owing monthly. In the event that the Borrower fails to make any payment of interest or principal when due, the interest rate shall increase immediately to 15% per annum and shall remain at 15% until all amounts due under this loan agreement have been paid in full. Principal payments are to be paid each June in an amount equal to 20% of net operating cash flow of the Tombstone Subsidiaries less interest expense and loan participation payments for the fiscal year ended May 31 of each year. Participation payments are payable to the lender at a rate equal to 10% of gross sales, which are recorded as a recovery of exploration and evaluation assets, of the Borrower for the year, which rate will be reduced as loan repayments are made. The outstanding balance shall be fully repaid on the maturity date of June 30, 2018 (Note 18). A loan fee US\$11,000 was incurred of which US\$5,000 is outstanding as of May 31, 2018 and is included in accounts payable and accrued liabilities. The loans payable are measured at amortized cost using the effective interest method. As of May 31, 2018, interest expense of CDN\$46,246 and a participation cost of CDN\$25,108 (Note 10) has been recorded.

Principal balance of loan payable	US\$	275,000
Loan fee		(11,000)
Accumulated amortization of loan fee		10,757
Carrying value as at May 31, 2018	US\$	274,757
Foreign exchange rate as at May 31, 2018		x 1.2948
	CDN\$	355,755

NOTE 10 – FINANCE COSTS

The Company’s finance cost consists of the following for the year ended May 31, 2018 and 2017:

	2018		2017	
Loan participation cost (Note 9)	\$	25,108	\$	30,119
Loan interest expense (Note 9)		46,246		48,371
Other interest expenses		-		-
	\$	71,354	\$	78,490

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NOTE 11 – INCOME TAXES

Following is a reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax recovery.

	2018	2017
Net loss for the year before income taxes	\$ (862,261)	\$ (303,822)
Expected income tax recovery – (2018 & 2017 – 26%)	\$ (224,000)	\$ (79,000)
Change in statutory, foreign tax, foreign exchange and other	(86,000)	(12,000)
Change in unrecognized deductible temporary differences	310,000	91,000
Total income tax expense	\$ -	\$ -

The significant components of the Company's future income taxes assets which have not been set up are as follows:

	2018	2017
Deferred income tax assets:		
Non-capital losses	\$ 1,502,000	\$ 1,421,000
Capital assets	144,000	126,000
Exploration and evaluation assets	1,668,000	1,457,000
Share issue costs and others	-	-
Net Deferred income tax assets	\$ 3,314,000	\$ 3,004,000

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

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NOTE 12– FINANCIAL RISK FACTORS

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

The fair value of the Company's amounts receivable, due from related parties, accounts payable and accrued liabilities, advance payable and line of credit approximate carrying value due to their short terms to maturity, which is the amount recorded on the consolidated statement of financial position. The company's loan payable is recorded at amortized cost, and the Company's cash is recorded at fair value using Level 1 quoted prices in active markets for identical assets or liabilities.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. As the Company's cash is held in major financial institutions, and the major component of amounts receivable is HST receivable from the government of Canada, the Company believes it has no significant credit risk.

Liquidity and funding risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2018, the Company had a cash balance of \$14,711 to settle current liabilities of \$2,739,499. All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand.

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

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. As at May 31, 2018, the carrying value of the financial instruments approximates their fair values.

a) Interest rate risk

The Company has short-term deposit balance of \$Nil as at May 31, 2018 and no financial liabilities whose future settlements will vary with changes in interest rates. The effect of fluctuations in interest rates, are considered to be insignificant.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, amounts receivable, accounts payable and accrued liabilities and refundable deposit that are denominated in Mexican Pesos and US dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk nor has it entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. A 10% change in the foreign exchange rates would affect net loss for the year by approximately \$60,000.

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NOTE 12– FINANCIAL RISK FACTORS – CONT'D

Market risk – cont'd

c) 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 the prices of commodities, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

NOTE 13– CAPITAL MANAGEMENT

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the exploration and evaluation of its mineral property interests. Capital is comprised of the Company's shareholders' equity. As at May 31, 2018, the shareholders' deficiency was \$(2,108,683). The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year ended May 31, 2018.

NOTE 14– SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOW

Non-cash transactions affecting cash flows from operating, financing, and investing activities are as follows:

		May 31, 2018		May 31, 2017
Exploration and evaluation costs included in accounts payable and accrued liabilities	\$	654,534	\$	1,152,097
Line of credit used for exploration and evaluation assets		9,079		14,965

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NOTE 15– SEGMENTED INFORMATION

The Company has one reportable segment being exploration and evaluation activities in Mexico and the United States.

Geographic information of identifiable assets is as follows:

	May 31, 2018	May 31, 2017
Identifiable Assets:		
Equipment		
United States	\$ 28,075	\$ 81,775
Mexico	-	-
	\$ 28,075	\$ 81,775
Exploration and evaluation assets		
United States	\$ 570,446	\$ 1,191,283
Mexico	-	-
	\$ 598,521	\$ 1,273,058

NOTE 16 – ADVANCE PAYABLE

The advance payable does not bear interest and has no specific terms for repayment.

NOTE 17 – IMPAIRMENT

In December 2017, the Company signed an option agreement whereby the other party can earn up to a 75% interest in the Tombstone mineral properties (note 5). Based on the total amount of cash and shares to be paid by the other company to earn its interest, the Company has re-valued its Tombstone property and recorded an impairment loss on the property.

	May 31, 2018	May 31, 2017
Impairment of exploration and evaluation assets	\$ 572,162	\$ -

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NOTE 18 – COMMITMENTS

- a) The Company has entered into two mining equipment leases for its mining properties. These leases shall expire on April 20, 2019 and April 1, 2020 respectively. The lease commitments for the next three years are as follows:

2018	US \$55,200
2019	US \$26,400
2020	US \$9,600

- b) The loan payable mentioned on Note 9, with an outstanding balance as of May 31, 2018 of \$355,755, matured on June 30, 2018. Lender has agreed to defer repayment pending the outcome of discussions concerning the matter.