

OROCO RESOURCE CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED

FEBRUARY 28, 2021

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

OROCO RESOURCE CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
(Unaudited)
As at

	February 28, 2021	May 31, 2020
ASSETS		
Current		
Cash	\$ 21,651,154	\$ 407,226
Receivables	701,567	360,134
Prepaid expenses and advances	367,602	118,888
	<u>22,720,323</u>	<u>886,248</u>
Marketable securities (Note 4(a))	327,056	215,031
Exploration and evaluation assets (Note 6)	31,024,991	27,395,269
Equipment (Note 7)	4,518	5,028
	<u>\$ 54,076,888</u>	<u>\$ 28,501,576</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Notes 8 and 11)	\$ 453,539	\$ 1,406,175
Deferred tax liability	13,443	13,443
	<u>466,982</u>	<u>1,419,618</u>
Shareholders' equity		
Share capital (Note 9)	61,687,084	35,081,553
Share subscriptions received in advance (Note 9)	9,900	-
Reserves (Note 9)	4,816,085	3,051,282
Deficit	(19,991,333)	(18,203,666)
Equity attributable to the Company's shareholders	<u>46,521,736</u>	<u>19,929,169</u>
Non-controlling interest (Notes 4(b) and 10)	7,088,170	7,152,789
	<u>53,609,906</u>	<u>27,081,958</u>
	<u>\$ 54,076,888</u>	<u>\$ 28,501,576</u>

Nature of operations and going concern (Note 1)
Contingency (Note 6(a))
Subsequent events (Note 15)

Approved on behalf of the Board:

"Craig Dalziel"

Craig Dalziel – Director

"Steve Vanry"

Steve Vanry – Director

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

OROCO RESOURCE CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

(Unaudited)

	For the Three Months Ended February 28, 2021	For the Three Months Ended February 29, 2020	For the Nine Months Ended February 28, 2021	For the Nine Months Ended February 29, 2020
Expenses				
Business development	\$ 27,760	\$ 16,650	\$ 69,550	\$ 50,850
Consulting fees (Note 11)	61,000	74,567	182,000	214,225
Depreciation (Note 7)	170	206	510	617
Foreign currency loss (gain)	78,249	(4,707)	95,935	(1,999)
Management and director fees (Note 11)	144,333	87,000	314,833	241,500
Office and general	114,506	56,760	341,723	169,812
Professional fees (Note 11)	83,286	88,415	379,954	254,994
Property investigation costs	-	-	-	13,733
Share-based payment (Notes 9 and 11)	103,585	(68,444)	1,315,546	341,123
Shareholder communications and investor relations	28,686	71,647	65,811	256,603
Transfer agent and filing fees	29,780	11,204	53,826	23,012
Travel	5,055	40,576	26,099	151,327
Operating loss	(676,410)	(373,874)	(2,845,787)	(1,715,797)
Equity loss in associated company (Note 4(b))	-	(2,531)	-	(15,953)
Loss on sale of marketable securities	-	(1,290)	-	(1,290)
Interest income (Note 4(b))	-	24,511	-	70,197
Unrealized loss on fair value of derivative contracts (Note 3)	(64,079)	-	(64,079)	-
Royalty income (Note 5)	454,044	272,212	1,057,580	595,182
	389,965	292,902	993,501	648,136
Loss for the period	(286,445)	(80,972)	(1,852,286)	(1,067,661)
Reclassification of loss on sale of marketable securities included in net loss (Note 4)	-	1,280	-	1,280
Unrealized gain (loss) on fair value of marketable securities (Note 4(a))	56,012	4,125	112,025	(109,400)
Loss and comprehensive loss for the period	\$ (230,433)	\$ (75,567)	\$ (1,740,261)	\$ (1,175,781)
Loss and comprehensive loss attributable to:				
Equity holders of the Company	\$ (216,417)	\$ (75,567)	\$ (1,675,642)	\$ (1,175,781)
Non-controlling interest (Note 10)	(14,016)	-	(64,619)	-
	\$ (230,433)	\$ (75,567)	\$ (1,740,261)	\$ (1,175,781)
Basic and diluted loss per common share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding - basic and diluted	163,279,276	104,800,921	172,356,066	101,777,205

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

OROCO RESOURCE CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian Dollars)

(Unaudited)

	Share Capital		Reserves				Non-controlling interest	Total
	Number	Amount	Share subscriptions received in advance	Other comprehensive loss	Stock option and warrant	Deficit		
		\$	\$	\$	\$	\$	\$	\$
May 31, 2019	97,542,405	19,913,512	-	(44,125)	2,802,831	(19,420,894)	-	3,251,324
Shares issued for cash	3,000,000	1,350,000	-	-	-	-	-	1,350,000
Share issue costs	-	(13,529)	-	-	4,380	-	-	(9,149)
Shares issued for warrant exercises	4,125,000	668,000	-	-	-	-	-	668,000
Shares issued for option exercises	400,000	143,739	-	-	(63,739)	-	-	80,000
Share subscriptions received in advance	-	-	234,000	-	-	-	-	234,000
Unrealized loss on fair value of marketable securities	-	-	-	(109,400)	-	-	-	(109,400)
Reclassification of loss on disposal of marketable securities	-	-	-	1,280	-	-	-	1,280
Share-based payment	-	-	-	-	341,123	-	-	341,123
Loss for the period	-	-	-	-	-	(1,067,661)	-	(1,067,661)
February 29, 2020	105,067,405	22,061,722	234,000	(152,245)	3,084,595	(20,488,555)	-	4,739,517
May 31, 2020	147,367,405	35,081,553	-	(208,258)	3,259,540	(18,203,666)	7,152,789	27,081,958
Shares issued for cash	30,500,000	24,390,000	-	-	-	-	-	24,390,000
Share issue costs	-	(796,814)	-	-	535,185	-	-	(261,629)
Shares issued for option exercises	2,805,000	571,427	-	-	(218,301)	-	-	353,126
Shares issued for warrant exercises	5,831,876	2,394,838	-	-	-	-	-	2,394,838
Units issued as finder's fees	38,400	46,080	-	-	20,348	-	-	66,428
Share subscriptions received in advance	-	-	9,900	-	-	-	-	9,900
Unrealized gain on fair value of marketable securities	-	-	-	112,025	-	-	-	112,025
Share-based payment	-	-	-	-	1,315,546	-	-	1,315,546
Loss for the period	-	-	-	-	-	(1,787,667)	(64,619)	(1,852,286)
February 28, 2021	186,542,681	61,687,084	9,900	(96,232)	4,912,318	(19,991,333)	7,088,170	53,609,906

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

OROCO RESOURCE CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited)
For the Nine Months Ended,

	February 28, 2021	February 29, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (1,852,286)	\$ (1,067,661)
Adjusted for items not involving cash:		
Depreciation	510	617
Equity loss in associated company	-	15,953
Accrued royalty income	(1,057,580)	(595,182)
Accrued interest income	-	(70,197)
Foreign exchange	42,558	(4,022)
Share-based payment	1,315,546	341,123
Loss on sale of marketable securities	-	1,290
Unrealized loss on fair value of derivative contracts	64,079	-
Changes in working capital items:		
Receivables	(35,105)	(6,186)
Prepaid expenses and advances	(248,714)	(128,307)
Accounts payable and accrued liabilities	(291,666)	77,160
Net cash used in operating activities	(2,062,658)	(1,435,412)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(4,354,771)	(1,052,405)
Deferred acquisition costs	-	(29,000)
Royalty income	708,694	269,760
Advances to associated company	-	(262,631)
Proceeds on sale of marketable securities	-	20,990
Net cash used in investing activities	(3,646,077)	(1,053,286)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placement shares issued	24,390,000	1,350,000
Proceeds from exercise of options	353,126	80,000
Proceeds from exercise of warrants	2,394,838	668,000
Share subscriptions received in advance	9,900	234,000
Share issue cost	(195,201)	(9,149)
Net cash provided by financing activities	26,952,663	2,322,851
Change in cash	21,243,928	(165,847)
Cash, beginning of period	407,226	488,402
Cash, end of period	\$ 21,651,154	\$ 322,555

Supplemental cash flow information (Note 12)

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

OROCO RESOURCE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

(Unaudited)

February 28, 2021

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 and exploring 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 its 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 Santo Tomas, Xochipala, and Salvador properties in Mexico. The outlook for the Company is tied to realizing on the value of its exploration and evaluation assets and marketable securities, raising the financing necessary to maintain operations thereafter, and ultimately on generating future profitable operations. The Company has incurred ongoing losses. Management estimates it will have sufficient funds to operate for the upcoming twelve months.

These condensed interim consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations or its ability to raise funds.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"s). They do not include all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements, and, therefore, should be read in conjunction with the Company's audited consolidated financial statements for the year ended May 31, 2020, prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were authorized by the Audit Committee and Board of Directors of the Company on April 29, 2021.

Basis of presentation

These condensed interim 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.

OROCO RESOURCE CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

February 28, 2021

2. BASIS OF PRESENTATION (cont'd...)**Functional and presentation currency**

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

Basis of consolidation

These condensed interim 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 condensed interim consolidated financial statements.

Name of Subsidiary	Country of Incorporation	Percentage of Ownership	Principal Activity
Minera Xochipala S.A. de C.V. ("MX")	Mexico	100%	Exploration in Mexico
0973496 B.C. Ltd.	Canada	100%	Holding company
Altamura Copper Corp. ("Altamura")	Canada	100%	Holding company
Xochipala Gold S.A. de C.V. ("XG")	Mexico	71%	Exploration in Mexico
Desarrollos Copper, S.A. de C.V. ("Desarrollos")	Mexico	100%	Holding company
Ruero International Ltd. ("Ruero")	Bahamas	50%	Holding company (inactive)

The Company also holds an inactive, nominal company incorporated in Canada, and a majority interest in Aztec Copper Inc. ("Aztec"), an inactive subsidiary incorporated in the United States and its subsidiary, Prime Aztec Mexicana, S.A. de C.V. an inactive subsidiary incorporated in Mexico.

Significant estimates

The preparation of these condensed interim 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 payment - 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.

Valuation of marketable 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.

OROCO RESOURCE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

(Unaudited)

February 28, 2021

2. BASIS OF PRESENTATION (cont'd...)

Significant estimates (cont'd...)

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 these condensed interim 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.

Classification of investments as subsidiaries, joint ventures, associated company and portfolio investments - Classification of investments requires judgement as to whether the Company controls, has joint control of or significant influence over the strategic financial and operating decisions relating to the activity of the investee. In assessing the level of control or influence that the Company has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements. If an investor holds or has the ability to hold 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. The Company previously accounted for its interest in Altamura as an equity investment as the Company had the ability to convert its advances into an increased interest in Altamura.

Acquisition of a company - The Company acquired shares in companies as further described in Note 4. These companies did not meet the definition of a business under IFRS 3 and accordingly have been accounted for as an acquisition of assets through the issuance of shares in accordance with IFRS 2. Where the acquisition was in steps, the book value of the original interest was adjusted to fair value based on the acquisition date fair value.

OROCO RESOURCE CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

February 28, 2021

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements were prepared using the same accounting policies and methods of computation as in the Company's consolidated financial statements for the year ended May 31, 2020, with the exception of:

Derivatives

The Company utilizes currency derivative contracts to hedge its exposure to fluctuations in the exchange rate between the Canadian Dollar and Mexican Peso. The Company has hedged a total of 15,460,000 Mexican Pesos in a contract maturing in 2023, which hedges a portion of the forecast Mexican Peso denominated operating costs of the Company's Mexican subsidiaries. These derivative contracts are not designated for hedge accounting treatment. Accordingly, changes in the fair value of derivative contracts are recorded in earnings to offset the changes in the value of the underlying currency being hedged. For the three and nine months ended February 28, 2021 the Company recorded a \$64,079 (2020 – \$Nil) unrealized loss associated with a decrease in the fair value of derivative contracts and a corresponding increase in liabilities which was recorded in accounts payable and accrued liabilities. As of February 28, 2021, the Company had on margin \$97,000 in connection with the derivative contracts.

4. INVESTMENTS AND ADVANCES**(a) Marketable Securities**

During the nine months ended February 28, 2021, the Company sold Nil (2020 - Nil) Goldgroup Mining Inc. ("Goldgroup") shares. As at February 28, 2021, the Company owned 5,601,250 (May 31, 2020 - 5,601,250) Goldgroup shares with a fair value of \$252,056 (May 31, 2020 - \$140,031). The change in market value of the shares resulted in the recording of other comprehensive gain (loss) of \$112,025 for the nine months ended February 28, 2021 (2020 - \$(112,025)).

The Company owns 375,000 common shares, at a cost of \$75,000, in a private British Columbia company ("BC Co."), related by virtue of a common director, which provides satellite based, geological services to the mining and other industries, which services are able to identify, model and monitor subsurface geological structures. Cost is considered to approximate fair value.

The Company disposed of its investment in common shares of a publicly traded company ("PubCo.") during fiscal 2020 to hold an amount of nil shares as of May 31, 2020. Comprehensive gain related to the investment in PubCo. for the nine months ended February 28, 2021 was \$Nil (2020 - \$2,625).

	Goldgroup		Altamura		BC Co.	
	Number	Amount	Number	Amount	Number	Amount
May 31, 2019	5,601,250	\$ 308,069	5,950,000	\$ -	375,000	\$ 75,000
Disposals	-	-	-	-	-	-
Consolidated	-	-	(5,950,000)	-	-	-
Fair value adjustment	-	(168,038)	-	-	-	-
Fair value reclassification	-	-	-	-	-	-
May 31, 2020	5,601,250	\$ 140,031	-	\$ -	375,000	\$ 75,000
Fair value adjustment	-	112,025	-	-	-	-
February 28, 2021	5,601,250	\$ 252,056	-	\$ -	375,000	\$ 75,000

OROCO RESOURCE CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

February 28, 2021

4. INVESTMENTS AND ADVANCES (cont'd...)

	PubCo.		Total
	Number	Amount	Amount
May 31, 2019	75,000	\$ 18,375	\$ 401,444
Disposals	(75,000)	(22,280)	(22,280)
Consolidated	-	-	-
Fair value adjustment	-	2,625	(165,413)
Fair value reclassification	-	1,280	1,280
May 31, 2020	-	\$ -	\$ 215,031
Fair value adjustment	-	-	56,013
February 28, 2021	-	\$ -	\$ 271,044

(b) Equity Investment and Advances in/to Altamura

During the nine months ended February 28, 2021, the Company advanced to and/or paid on behalf of Altamura \$Nil (2020 - \$262,631) and accrued interest owed of \$Nil (2020 - \$70,197) for total outstanding advances of \$Nil (May 31, 2020 - \$Nil) (the “Advances”).

The Company entered into three agreements with Altamura dated effective September 27, 2018: (i) an option agreement, as amended, (the “Altamura Option Agreement”) pursuant to which the Company acquired a three year option (the “Option”), the exercise of which was approved by the shareholders of the Company and the TSX-V, to acquire all of the equity in Altamura not already held by the Company, in consideration for 39,800,000 shares of the Company; (ii) a loan agreement, as amended, (the “Altamura Loan Agreement”) pursuant to which the Company agreed to lend up to US\$700,000 to Altamura, inclusive of Advances to date, but exclusive of interest and management services, and (iii) an amended and restated share option agreement (the “Advances Conversion Agreement”) pursuant to which, in the event that the Company did not exercise the Option, the Company could convert all Advances to Altamura into common shares of Altamura at a price of US\$0.057 per share at any time within the first six months after the expiry of the Option. The Advances were secured by promissory notes and bore interest of 12% per annum. Prior to its acquisition by the Company, Altamura was considered to be a related party by virtue of share ownership by companies controlled by key management or their family members.

The Company exercised its option as per the Altamura Option Agreement on March 2, 2020 and issued 39,800,000 common shares, at a value of \$0.31 per share, for the acquisition of all of the issued and outstanding shares of Altamura and its subsidiaries. The subsidiaries include: the then 67% owned Mexican subsidiary, XG.; the wholly owned Mexican subsidiary, Desarrollos; and the 50% owned Bahamian subsidiary, Ruero. The main asset of the companies acquired is the interest in the Santo Tomas Properties in Mexico (Note 6).

For accounting purposes, the acquisition was treated as an asset acquisition. As such, effective as at the date of closing, the fair value assigned to the identified assets acquired and liabilities assumed are presented below:

OROCO RESOURCE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

(Unaudited)

February 28, 2021

4. INVESTMENTS AND ADVANCES (cont'd...)

Purchase price:		
Common shares		\$ 12,338,000
Equity investment		1,843,609
Transaction costs		31,717
		<u>\$ 14,213,326</u>
Allocation of purchase price:		
Cash	\$	4,552
Receivables		19,986
Exploration and evaluation assets (Note 6(a))		24,412,316
Accounts payable and accrued liabilities		(845,043)
Advances payable		(1,335,298)
		<u>22,256,513</u>
Non-controlling interest (Note 10)		(8,043,187)
	\$	<u>14,213,326</u>

(b) Equity Investment and Advances in/to Altamura (cont'd...)

Information on the equity investment is as follows:

As at February 28, 2021, the Company's equity investment in Altamura, including dilution gains, less its share of Altamura's accumulated losses was \$Nil (May 31, 2020 - \$Nil). The Company's share of Altamura's equity loss during the nine months ended February 28, 2021 was \$Nil (2020 - \$15,953).

A reconciliation of the equity balance and advances is as follows:

	Altamura
Equity investment	
May 31, 2019	\$ 312,347
Loss for the year	(15,953)
Fair value adjustment ⁽¹⁾	1,547,215
Adjustment on acquisition	(1,843,609)
Total equity investment as at February 28, 2021 and May 31, 2020	\$ -
Advances	
May 31, 2019	\$ 680,596
Additions	262,631
Repayments	(76,355)
Interest	66,801
Adjustment on acquisition	(933,673)
Total advances as at February 28, 2021 and May 31, 2020	\$ -
Management services	
May 31, 2019	\$ 346,500
Additions	55,125
Adjustment on acquisition	(401,625)
Total management services as at February 28, 2021 and May 31, 2020	\$ -

⁽¹⁾ Acquisition date fair value adjustment on purchase of Altamura based on value of common shares issued for remaining interest.

OROCO RESOURCE CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

February 28, 2021

5. CERRO PRIETO ROYALTY

Pursuant to the sale of the Company's interest in the Cerro Prieto Property to Goldgroup in fiscal 2013, 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 of the first 90,000 ounces of gold produced from the Property (approximately 72,000 ounces have been produced as at February 28, 2021).

During the nine months ended February 28, 2021, the Company recorded \$1,057,580 (2020 - \$595,182) in royalty revenue.

6. EXPLORATION AND EVALUATION ASSETS

	Santo Tomas Properties	Xochipala Property	Total
May 31, 2020	\$ 26,982,978	\$ 412,291	\$ 27,395,269
Acquisition costs			
Cash	26,194	-	26,194
	26,194	-	26,194
Deferred exploration expenditures			
Community relations	86,648	-	86,648
Consultants	434,591	-	434,591
Data, analysis, and models	66,000	-	66,000
Fieldwork and supplies	2,521,796	-	2,521,796
Geologists	259,015	-	259,015
Lease payments, assessment fees and taxes	229,366	-	229,366
Travel	6,112	-	6,112
	3,603,528	-	3,603,528
February 28, 2021	\$ 30,612,700	\$ 412,291	\$ 31,024,991

OROCO RESOURCE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

(Unaudited)

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6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

	Santo Tomas Properties	Xochipala Property	Total
May 31, 2019	\$ 1,036,926	\$ 380,217	\$ 1,417,143
Acquisition costs			
Acquisition of Altamura (Note 4(b))	24,412,316	-	24,412,316
Acquisition of Aztec	202,459	-	202,459
Cash	29,559	-	29,559
	24,644,334	-	24,644,334
Deferred exploration expenditures			
Community relations	97,374	-	97,374
Consultants	9,740	-	9,740
Fieldwork and supplies	747,073	-	747,073
Geologists	259,639	25,629	285,268
Lease payments, assessment fees and taxes	178,993	6,445	185,438
Travel	8,899	-	8,899
	1,301,718	32,074	1,333,792
May 31, 2020	\$ 26,982,978	\$ 412,291	\$ 27,395,269

(a) Santo Tomas Properties, Sinaloa State, Mexico*Papago 17, La China II and AMP Santo Tomas Red 1 Concessions*

The Company, through MX, holds a 77.5% interest in each of the Papago 17, La China II and AMP Santo Tomas Red 1 concessions (collectively, the "Santo Tomas Properties") which are contiguous to the concessions held by XG which cover the known core of the Santo Tomas mineralized structure (the "Core Concessions"). The Santo Tomas Properties were acquired for a total cash payment of \$47,247 and the issuance of 2,000,000 common shares, valued at \$240,000. All three concessions comprising the Santo Tomas Properties are subject to a 2% net smelter royalty ("NSR").

Rosy Concession

During the year ended May 31, 2020, the Company, through MX, entered into a letter agreement (the "Rosy Agreement") for the acquisition of an 80% interest in the Rosy mineral concession, which is also contiguous to the Santo Tomas Properties (hereafter included within the term "Santo Tomas Properties"). Following the approval by Mexican tax authorities of a payment plan for the payment by the vendor of accrued concession duties (approved), the Company and the vendor will enter into and register a formal agreement for the transfer of the interest to the Company, pursuant to which the Company will pay the balance of the consideration of US\$125,000, to be paid over two years, issue 300,000 common shares, and agree to the granting to third parties of an aggregate 1.5% NSR.

Core Concessions

During the year ended May 31, 2020, the Company entered into a purchase agreement ("Data Agreement"), as amended, pursuant to which the Company acquired geological data, analysis and models related to the Santo Tomas Properties and the Core Concessions in consideration for 500,000 common shares, valued at \$137,500,

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6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

(a) Santo Tomas Properties, Sinaloa State, Mexico (cont'd...)

Core Concessions (cont'd...)

and US\$500,000, to be paid by way of one payment of US\$50,000 at the time of signing the agreement (paid), a second payment of US\$50,000 (paid) and a final payment of US\$400,000. The final payment of US\$400,000 payment is due upon the direct or indirect sale, assignment or transfer of the Core Concessions to a third party.

XG holds a registered 100% interest in the Core Concessions. The registration of this interest had previously been impeded by a 2016 judgment (the "Judgment") from a claim by Aztec and its Mexican subsidiary, Prime Aztec Mexicana, S.A. de C.V. against Compania Minera Ruero, S.A. de C.V. ("CMR"), the then registered holder of the Core Concessions, Fierce Investments Ltd. ("Fierce"), and Ruero. The Judgment and a related annotation in the Mexican Public Registry of Mining (the "PRM") were nullified in 2019. On December 20, 2019, the transfer of the Core Concessions from CMR to XG was registered in the PRM.

On November 8, 2019, the Company exercised its option (the "Aztec Share Option") to purchase 40,000,000 shares of Aztec (the "Aztec Shares") held by Fierce, being greater than 90% of the issued and outstanding shares of Aztec. The Aztec Shares constitute the primary consideration paid by Aztec in the transaction which was the basis of Aztec's claim that resulted in the Judgement. Aztec disputed Fierce's ownership of the Aztec Shares, which dispute was decided in favour of Fierce by the Superior Court of the State of Arizona. Pursuant to an assignment agreement dated September 3, 2019, the Company took an assignment of Altamura's right to purchase the Aztec Shares under the Aztec Share Option in consideration for the reimbursement of Fierce's legal fees related to Fierce's legal action in Arizona, and of the consideration paid for the grant of the Aztec Share Option. On October 1, 2019, at a meeting of the shareholders of Aztec held pursuant to an order of the Superior Court of Arizona, Craig Dalziel, CEO of the Company, was elected as the sole director of Aztec. Acquisition costs of \$202,459 were recorded for the acquisition of Aztec. The acquisition of Aztec was for its claim to the Santo Tomas property; no value was attributed to other assets or liabilities of the company.

In fiscal 2020, the Company acquired Altamura (Note 4) and its related subsidiaries, whose main asset is its interest in the Core Concessions. The acquisition value attributed to the properties (exploration and evaluation assets) was \$24,412,316 (Note 4(b)).

Subsequent to the acquisition of Altamura, the Company acquired an additional 4% of XG for conversion of intercompany debt of \$1,000,000 into equity resulting in a charge to deficit of \$885,850 (Note 10). Subsequent to February 28, 2021, the Company acquired additional interests in XG (Note 15).

Altamura also holds an option to acquire all of the remaining interest in XG held by the sole other shareholder of XG (the "Other XG Shareholder") (currently 29%) for US\$16,000,000 (the "XG Option"), subject to a 1% NSR (the "Option NSR"), 0.5% of which may be bought back for US\$2,000,000. The Company's interest in the Core Concessions is subject to an NSR of 1.5%, in favour of ATM Mining Corp., a company owned by the spouse of the Company's CEO, Craig Dalziel, and an arm's length third party (the "ATM NSR"). 0.5% of the ATM NSR will be cancelled if the Option NSR is granted, with the result that the Core Concessions will, upon the buy-back of half of the Option NSR, if granted, be subject to a maximum 1.5% NSR.

Subsequent to February 28, 2021, the XG Option was terminated (Note 15)..

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6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

(a) Santo Tomas Properties, Sinaloa State, Mexico (cont'd...)

Altamura had certain fee obligations, as amended, (the "Fee Agreement"), related to the Core Concessions as follows:

- (i) US\$600,000 payable within twelve months of title to the Core Concessions being registered to XG in the PRM (occurred) (US\$600,000 has been paid as at February 28, 2021).

As at February 28, 2021, the Company has \$Nil (May 31, 2020 - \$688,380 (US\$500,000)) owed due to the registration of the Core Concessions (Note 8).

Core Concessions (cont'd...)

Altamura has certain contingent fee obligations (the "Contingent Fee Agreement"), related to the Core Concessions as follows:

- (i) upon the direct or indirect sale, assignment or transfer of the Core Concessions in a transaction intended to be final disposition:
- A. pay 10% of the sale price, to a maximum of US\$3,600,000, (inclusive of the first US\$600,000 (paid)); and
 - B. pay 1.5% of the sale price, to a maximum of US\$4,100,000, of which up to \$1,000,000 is payable to David Rose, an officer of the Company.

Altamura has entered into agreements pursuant to which it granted an aggregate 15% interest in the Core Concessions (the "Contractual Interest") in consideration for: i) assistance with resolving the legal challenges to XG's acquisition of registered title to the Core Concessions; ii) assistance with regard to the Company's assembly of a controlling interest in the Santo Tomas Properties, including; A) the assignment to the Company of majority interests in the Santo Tomas Properties; and (B) the right to cause the assignment to the Company of majority interests in other additional related properties; and (iii) technical and geological services. The Contractual Interest is subject to dilution down to an aggregate 10% on a pro-rata basis upon the funding of up to \$30,000,000 of expenditures on the combined Core Concessions and the Santo Tomas Properties.

(b) Xochipala Property Guerrero State, Mexico

The Xochipala Property, located in Guerrero State, Mexico, is comprised of the contiguous 100% owned Celia Gene and Celia Generosa concessions. MX acquired the Xochipala Property in 2007.

(c) Salvador Property, Guerrero State, Mexico

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

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7. EQUIPMENT

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
Cost					
May 31, 2019	\$ 15,948	\$ 23,110	\$ 10,017	\$ 3,070	\$ 52,145
Additions	-	-	-	-	-
May 31, 2020	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
February 28, 2021	\$ 15,948	\$ 23,110	\$ 10,017	\$ 3,070	\$ 52,145
Depreciation					
May 31, 2019	11,895	22,538	9,049	2,813	46,295
Charge for the year	406	171	194	51	822
May 31, 2020	12,301	22,709	9,243	2,864	47,117
Charge for the period	273	90	116	31	510
February 28, 2021	\$ 12,574	\$ 22,799	\$ 9,359	\$ 2,895	\$ 47,627
Net book value					
May 31, 2020	\$ 3,647	\$ 401	\$ 774	\$ 206	\$ 5,028
February 28, 2021	\$ 3,374	\$ 311	\$ 658	\$ 175	\$ 4,518

The Company rents office space under an operating lease, included in office and general, with monthly payments of \$6,100.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	February 28, 2021	May 31, 2020
Accounts payable	\$ 119,830	\$ 265,423
Accrued liabilities	269,630	452,372
Derivative contract liability for change in fair value	64,079	-
Amount owed on Core Concession registration (Note 6(a))	-	688,380
	\$ 453,539	\$ 1,406,175

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9. SHARE CAPITAL AND RESERVES**Authorized**

An unlimited number of common shares without par value.

Issued share capital

During the nine months ended February 28, 2021, the Company issued:

- i. 12,100,000 units at a price of \$0.60 per unit by way of a private placement for total proceeds of \$7,260,000, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to acquire an additional common share at a price of \$0.90 per common share, for a period of 24 months from the date of issue. The Company paid a total of \$54,719 in cash for fees and issued 575,000 finder's warrants. Each finder's warrant entitles the holder to purchase one common share at a price of \$0.60 per common share, for a period of 24 months from the date of issue. The finder's warrants were valued at \$381,732, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk-free interest rate of 0.26%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 100%;
- i. 5,500,000 units at a price of \$0.30 per unit by way of a private placement for total proceeds of \$1,650,000, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to acquire an additional common share at a price of \$0.42 per common share, for a period of 24 months from the date of issue. The Company paid a total of \$31,155 in cash for fees and issued 40,800 finder's warrants. Each finder's warrant entitles the holder to purchase one common share at a price of \$0.42 per common share, for a period of 24 months from the date of issue. The finder's warrants were valued at \$10,388, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk-free interest rate of 0.28%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 92%;
- ii. 12,900,000 units at a price of \$1.20 per unit for total proceeds of \$15,480,000. Each unit is comprised of one common share and one-half of one common share purchase warrant, exercisable at a price of \$1.60 per common share, for a period of two years from the date of issue. The Company paid a total of \$109,327 in cash for fees, issued 38,400 units, and issued 120,000 finders' warrants. Each finder's unit is comprised of one common share and one-half of one common share purchase warrant, exercisable at a price of \$1.60 per common share, for a period of two years from the date of issue. The finder's units were valued as follows: the common shares were valued at \$46,080 and the warrants were valued at \$20,348, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk-free interest rate of 0.27%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 96%. Each finders' warrant entitles the holder to purchase one common share at a price of \$1.20 per common share, for a period of two years from the date of issue. The finders' warrants were valued at \$143,065, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk-free interest rate of 0.27%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 96%;
- iii. 2,805,000 common shares, pursuant to the exercise of options, for proceeds of \$353,126; and
- iv. 5,831,876 common shares, pursuant to the exercise of warrants, for proceeds of \$2,394,838.

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9. SHARE CAPITAL AND RESERVES (cont'd...)**Issued share capital (cont'd...)**

During the nine months ended February 29, 2020, the Company issued:

- i. 3,000,000 units at a price of \$0.45 per unit by way of a private placement for total proceeds of \$1,350,000, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to acquire an additional common share at a price of \$0.70 per common share, for a period of 24 months from the date of issue. The Company paid a total of \$9,149 in cash for fees and issued 19,200 finder's warrants. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.45 per common share, for a period of two years from the date of issue. The finder's warrants were valued at \$4,380, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk-free interest rate of 1.34%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 105%;
- ii. 4,125,000 common shares, pursuant to the exercise of warrants, for proceeds of \$688,000; and
- iii. 400,000 common shares, pursuant to the exercise of options, for proceeds of \$80,000.

Share subscriptions received in advance

As at February 28, 2021, included in cash was \$9,900 (May 31, 2020 - \$Nil) for warrant exercises received in advance (Note 15(i)).

Warrants

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance, outstanding as at May 31, 2019	7,530,000	\$ 0.25
Issued	2,794,000	0.57
Exercised	(4,125,000)	0.16
Balance, outstanding as at May 31, 2020	6,199,000	0.45
Issued	16,005,000	1.09
Exercised	(5,831,876)	0.41
Expired	(12,500)	0.32
Balance, outstanding as at February 28, 2021	16,359,624	\$ 1.09

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9. SHARE CAPITAL AND RESERVES (cont'd...)**Warrants (cont'd...)**

Warrants outstanding as at February 28, 2021 are as follows:

Number of warrants	Exercise price	Weighted average remaining life (years)	Expiry date
707,500	\$ 0.70	0.44	August 6, 2021
19,200	0.45	0.44	August 6, 2021
370,000	0.70	0.56	September 19, 2021
366,258	0.42	1.03	March 11, 2022
1,762,466	0.42	1.33	June 30, 2022
5,970,000	0.90	1.55	September 15, 2022
575,000	0.60	1.55	September 15, 2022
6,469,200	1.60	1.78	December 9, 2022
120,000	1.20	1.78	December 9, 2022
16,359,624			

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. Options may be granted for a maximum of five years and vesting is determined by the Board of Directors.

During the nine months ended February 28, 2021, a total of 2,600,000 (2020 - 450,000) stock options were granted to certain officers, directors, and consultants of the Company with a fair value of \$1,269,034 (2020 - \$142,411) using the Black-Scholes option pricing model. During the nine months ended September 28, 2021, the Company recognized \$1,315,546 (2020 - \$341,123) as share-based payment for the fair value of the stock options.

The fair value of options granted was estimated on the grant date using the Black-Scholes option pricing model with weighted average assumptions as follows:

	For the Nine Months Ended February 28, 2021	For the Nine Months Ended February 29, 2020
Risk-free interest rate	0.27%	1.37%
Expected option life in years	3.0	3.0
Expected stock price volatility	99%	118%
Expected forfeiture rate	0%	0%

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9. SHARE CAPITAL AND RESERVES (cont'd...)**Stock options (cont'd...)**

Option transactions are summarized as follows:

	Number of options	Weighted average exercise price
Balance, outstanding as at May 31, 2019	7,900,000	\$ 0.19
Granted	1,650,000	0.35
Exercised	(400,000)	0.20
Forfeited	(3,200,000)	0.23
Balance, outstanding as at May 31, 2020	5,950,000	\$ 0.22
Granted	2,600,000	0.73
Exercised	(2,805,000)	0.13
Balance, outstanding as at February 28, 2021	5,745,000	\$ 0.49
Balance, exercisable as at February 28, 2021	4,895,000	\$ 0.49

Options outstanding as at February 28, 2021 are as follows:

Number of options	Number of exercisable options	Exercise price	Weighted average remaining life (years)	Expiry date
1,405,000	1,405,000	\$ 0.225	0.90	October 24, 2021
300,000	300,000	0.250	1.15	January 24, 2022
100,000	100,000	0.350	1.42	May 1, 2022
300,000	300,000	0.550	1.49	May 28, 2022
100,000	100,000	0.550	1.54	June 14, 2022
100,000	100,000	0.550	1.76	September 4, 2022
300,000	240,000	0.250	2.33	April 1, 2023
540,000	240,000	0.300	2.42	May 1, 2023
200,000	100,000	0.500	2.59	July 2, 2023
2,400,000	2,010,000	0.750	2.77	September 8, 2023
5,745,000	4,895,000			

Reserves

As at February 28, 2021, the Company had a Stock Option and Warrant Reserve balance of \$4,912,318 (May 31, 2020 - \$3,259,540) consisting of warrant valuations associated with warrants issued in connection with various private placements and share-based compensation associated with stock option grants to employees, consultants, directors and officers.

As at February 28, 2021, the Company had an Other Comprehensive Loss balance of \$96,232 (May 31, 2020 - \$208,258).

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10. NON-CONTROLLING INTEREST

As at February 28, 2021, the equity attributable to the 29% non-controlling interest in XG is as follows:

	XG
May 31, 2019	\$ -
Non-controlling interest on acquisition of XG (Note 4(b))	8,043,187
Dilution of 4% interest (from 33% to 29%) (Note 4(a))	(885,850)
Share of loss for the year	(4,548)
May 31, 2020	7,152,789
Share of loss for the period	(64,619)
February 28, 2021	\$ 7,088,170

As at February 28, 2021 and for the nine months ended February 28, 2021, summarized financial information about XG is as follows:

	Total
Current assets	\$ 319,080
Non-current assets	26,897,646
Non-current liabilities	(3,372,646)
Loss and comprehensive loss for the period	(225,940)

11. 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 Nine Months Ended February 28, 2021	For the Nine Months Ended February 29, 2020
Management and director fees	\$ 314,833	\$ 188,000
Consulting	13,500	18,000
Professional fees	92,750	76,500
Share-based payment	719,793	2,947
Total	\$ 1,140,876	\$ 285,447

As at February 28, 2021 included in accounts payable and accrued liabilities was \$332,925 (May 31, 2020 - \$319,386) owing to officers and directors. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

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12. SUPPLEMENTAL CASH FLOW INFORMATION

	For the Nine Months Ended February 28, 2021	For the Nine Months Ended February 29, 2020
Non-cash transactions not included in investing or financing activities		
Exploration and evaluation assets included in accounts payable	\$ -	\$ 23,489
Deferred acquisition costs allocated to exploration and evaluation assets	-	29,559
Deferred financing fees included in accounts payable	-	6,064
Advances to associated company allocated to exploration and evaluation assets	-	76,355
Allocation of fair value of options exercised	218,301	63,739
Finders' warrants issued included in share issue costs	555,533	4,380
Finder's shares issued included in share issue costs	20,348	4,380
Unrealized adjustment on fair value of marketable securities	112,025	109,400
Reclassification on sale of marketable securities	-	1,280

13. 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 February 28, 2021

	Canada	Mexico	Total
Equipment	\$ 1,144	\$ 3,374	\$ 4,518
Exploration and evaluation assets	-	31,024,991	31,024,991
Other assets	22,699,006	348,373	23,047,379
Total assets	\$ 22,700,150	\$ 31,376,738	\$ 54,076,888

As at May 31, 2020

	Canada	Mexico	Total
Equipment	\$ 1,381	\$ 3,647	\$ 5,028
Exploration and evaluation assets	-	27,395,269	27,395,269
Other assets	1,092,583	8,696	1,101,279
Total assets	\$ 1,093,964	\$ 27,407,612	\$ 28,501,576

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14. FINANCIAL INSTRUMENT RISK AND CAPITAL MANAGEMENT

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 nine months ended February 28, 2021.

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 marketplace.

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

Management of Financial Risk

The carrying value of cash, receivables, and accounts payable 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 marketable securities are measured at a level 1 of the fair value hierarchy and the BC Co. shares recorded in marketable securities are measured using level 3 of the fair value hierarchy. Investments classified within level 3 have significant unobservable inputs. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. The investments are 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.

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

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 invest in derivatives to mitigate these risks. The effect of a 10% change in the foreign exchange rate on the cash held in foreign currencies at February 28, 2021 is \$164,000.

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.

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.

15. SUBSEQUENT EVENTS

Subsequent to February 28, 2021, the Company:

- i. issued 104,400 common shares pursuant to the exercise of warrants, for proceeds of \$77,928 of which \$9,900 was received prior to February 28, 2021;
- ii. issued 100,000 common shares pursuant to the exercise of options, for proceeds of \$35,000;
- iii. acquired an additional 5 shares (of 180) of XG for conversion of inter-company debt of \$200,000 into equity, increasing the Company's interest in XG from 71% to 72%;
- iv. granted 300,000 stock options, exercisable at a price of \$1.96 per common share for a period of three years, with 50,000 vesting on grant and 62,500 on each of the 6, 12, 18 and 24 month anniversaries of the date of grant;
- v. granted 150,000 stock options, exercisable at a price of \$1.96 per common share for a period of three years, with 30,000 vesting on grant and on each of the 6, 12, 18 and 24 month anniversaries of the date of grant;
- vi. acquired one half (25 shares of XG) of the Other XG Shareholder's rights and interests in XG in consideration for US\$1,500,000, increasing the Company's interest in XG from 72% to 86%; and
- vii. terminated the XG Option upon entering into the alternate transaction to acquire the Other Shareholders rights and interest in 25 shares of XG.