OROCO RESOURCE CORP.

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2022

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Oroco Resource Corp.

Opinion

We have audited the accompanying consolidated financial statements of Oroco Resource Corp. (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael MacLaren.

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

September 28, 2022

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
As at May 31,

	2022	2021
ASSETS		
Current		
Cash	$ 23,026,889	$ 20,213,252
Restricted cash (Note 9)	52,975	97,000
Receivables	839,495	828,428
Prepaid expenses and advances	549,998	605,195
	24,469,357	21,743,875
Marketable securities (Note 4)	168,038	271,044
Exploration and evaluation assets (Note 6)	49,597,502	32,306,267
Equipment (Note 7)	3,360,428	607,690
	$ 77,595,325	$ 54,928,876
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Notes 8 and 12)	$ 4,081,573	$ 1,124,177
Derivative liability (Note 9)	1,927	62,075
	4,083,500	1,186,252
Deferred tax liability (Note 13)	13,443	13,443
	4,096,943	1,199,695
Shareholders' equity		
Share capital (Note 10)	85,250,305	63,754,078
Share subscriptions received in advance (Note 10)	-	138,650
Reserves (Note 10)	12,584,865	6,621,530
Deficit	(27,652,771)	(20,176,091)
Equity attributable to the Company's shareholders	70,182,399	50,338,167
Non-controlling interest (Note 11)	3,315,983	3,391,014
	73,498,382	53,729,181
	$ 77,595,325	$ 54,928,876

Nature of operations and going concern (Note 1)
Contingency (Note 6(a))
Subsequent events (Note 17)

Approved on behalf of the Board:

"Craig Dalziel"
Craig Dalziel – Director

"Ian Rice"
Ian Rice – Director

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

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
Year Ended May 31,

	2022	2021
Expenses		
Business development	$ -	$ 85,120
Consulting fees (Note 12)	304,316	225,973
Depreciation (Note 7)	4,348	681
Foreign currency loss	78,573	157,123
Management and director fees (Note 12)	508,670	421,333
Office and general	697,768	484,406
Professional fees (Note 12)	398,959	446,242
Share-based payment (Notes 10 and 12)	6,352,900	3,305,367
Shareholder communications and investor relations	211,399	101,912
Transfer agent and filing fees	126,437	79,996
Travel	138,162	38,237
Operating loss	(8,821,532)	(5,346,390)
Realized loss on fair value of derivative contract (Note 9)	(23,231)	-
Unrealized gain (loss) on fair value of derivative contract (Note 9)	60,148	(62,075)
Royalty income (Note 5)	1,232,904	1,520,615
	1,269,821	1,458,540
Loss for the year	(7,551,711)	(3,887,850)
Unrealized gain (loss) on fair value of marketable securities (Note 4)	(103,006)	56,013
Loss and comprehensive loss for the year	$ (7,654,717)	$ (3,831,837)
Loss and comprehensive loss attributable to:		
Equity holders of the Company	$ (7,579,686)	$ (3,857,771)
Non-controlling interest (Note 11)	(75,031)	25,934
	$ (7,654,717)	$ (3,831,837)
Basic and diluted loss per common share	$ (0.04)	$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	194,242,696	173,421,205

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

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

	Share Capital			Reserves				
	Number	Amount	Share subscriptions received in advance	Other comprehensive income (loss)	Stock option and warrant	Deficit	Non-controlling interest	Total
		$	$	$	$	$	$	$
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	-	(795,212)	-	-	535,185	-	-	(260,027)
Shares issued for option exercises	3,455,000	865,013	-	-	(345,638)	-	-	519,375
Shares issued for warrant exercises	7,708,081	4,166,644	-	-	(1,027)	-	-	4,165,617
Units issued as finder's fees	38,400	46,080	-	-	20,348	-	-	66,428
Share subscriptions received in advance	-	-	138,650	-	-	-	-	138,650
Unrealized gain on fair value of marketable securities	-	-	-	56,013	-	-	-	56,013
Share-based payment	-	-	-	-	3,305,367	-	-	3,305,367
Increase in ownership of subsidiary	-	-	-	-	-	1,941,359	(3,787,709)	(1,846,350)
Income (loss) for the year	-	-	-	-	-	(3,913,784)	25,934	(3,887,850)
May 31, 2021	189,068,886	63,754,078	138,650	(152,245)	6,773,775	(20,176,091)	3,391,014	53,729,181
Shares issued for cash	10,708,696	18,204,783	-	-	-	-	-	18,204,783
Shares issued for finder's fees	105,000	186,900	-	-	-	-	-	186,900
Share issue costs	-	(922,099)	-	-	128,357	-	-	(793,742)
Shares issued for option exercises	1,763,000	983,679	(55,000)	-	(412,804)	-	-	515,875
Shares issued for warrant exercises	3,270,957	3,042,964	(83,650)	-	(2,112)	-	-	2,957,202
Unrealized loss on fair value of marketable securities	-	-	-	(103,006)	-	-	-	(103,006)
Share-based payment	-	-	-	-	6,352,900		-	6,352,900
Loss for the year	-	-	-	-	-	(7,476,680)	(75,031)	(7,551,711)
May 31, 2022	204,916,539	85,250,305	-	(255,251)	12,840,116	(27,652,771)	3,315,983	73,498,382

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

OROCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
Year Ended May 31,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (7,551,711)	$ (3,887,850)
Adjusted for items not involving cash:		
Depreciation	257,735	32,668
Royalty income	(1,232,904)	(1,520,615)
Foreign exchange	(38,138)	88,744
Share-based payment	6,352,900	3,305,367
Unrealized (gain) loss on fair value of derivative contract	(60,148)	62,075
Changes in working capital items:		
Receivables	(19,846)	(16,241)
Prepaid expenses and advances	(150,820)	(486,307)
Accounts payable and accrued liabilities	341,061	(13,470)
Net cash used in operating activities	(2,101,871)	(2,435,629)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(14,489,283)	(5,179,526)
Royalty income	1,279,821	979,818
Equipment	(3,010,473)	(635,330)
Acquisition of XG shares	-	(1,846,350)
Net cash used in investing activities	(16,219,935)	(6,681,388)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placement shares issued	18,204,783	24,390,000
Proceeds from exercise of options	515,875	519,375
Proceeds from exercise of warrants	2,957,202	4,165,617
Share subscriptions received in advance	-	138,650
Share issue cost	(586,442)	(193,599)
Net cash provided by financing activities	21,091,418	29,020,043
Change in cash	(2,769,612)	19,903,026
Cash, beginning of year	20,310,252	407,226
Cash, end of year	$ 23,079,864	$ 20,310,252

Supplemental cash flow information (Note 14)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Oroco Resource Corp. (the "Company") was incorporated on July 7, 2006 under the Business Corporations Act of British Columbia and is an exploration stage business engaged in the acquisition and exploration of mineral properties 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 has not yet determined whether its exploration and evaluation assets contain reserves that are economically recoverable. The continued operations of the Company and 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. Management estimates it will have sufficient funds to operate for the upcoming twelve months.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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

These consolidated financial statements were authorized by the Audit Committee and Board of Directors of the Company on September 27, 2022.

Basis of presentation

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

2. BASIS OF PRESENTATION (cont'd…)

Functional and presentation currency

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

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities which the Company controls, either directly or indirectly, where control is defined as the power to govern an entity's financial and operating policies and generally accompanies a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. All inter-company transactions and balances have been eliminated upon consolidation. The Company's subsidiaries are as follows:

Name of Subsidiary	Country of Incorporation	Percentage of Ownership	Principal Activity
Minera Xochipala S.A. de C.V. ("MX")	Mexico	100%	Exploration in Mexico
Xochipala Gold S.A. de C.V. ("XG")	Mexico	86%	Exploration in Mexico
0973496 B.C. Ltd.	Canada	100%	Holding company
Altamura Copper Corp. ("Altamura")	Canada	100%	Holding company
Aureum Holding Corporation	Canada	100%	Holding company

The Company also holds: an inactive, nominal company incorporated in Canada; 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; a 100% interest in Desarrollos Copper, S.A. de C.V. ("Desarrollos"), an inactive subsidiary incorporated in Mexico; and a 50% interest in Ruero International Ltd. ("Ruero"), an inactive subsidiary incorporated in the Bahamas.

Significant estimates

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

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

Share-based payment - The fair value of stock options and compensatory warrants 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 and compensatory warrants.

2. BASIS OF PRESENTATION (cont'd…)

Significant estimates (cont'd…)

Valuation of marketable securities - The Company evaluates, among other factors, the financial health of, and near-term business outlook for, the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flow.

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

Rehabilitation provisions - The Company's potential for rehabilitation provisions includes estimates of future costs directly attributable to remediating the liability, inflation, movements in foreign exchange rates, and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting future cash outflows. Changes in the factors above can result in a change to the provision recognized by the Company. To the extent the carrying value of the related mining property is not increased above its recoverable amount, changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related mining properties.

Equipment - The carrying amounts of equipment are depreciated to their estimated residual value over the estimated economic life of the specific assets to which they relate, using the deprecations methods and rates as indicated below. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of the remaining deprecation rate. Depreciation commences on the date the asset is available for its use as intended by management.

Significant judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: amortized cost; fair value through other comprehensive income ("FVTOCI"); or fair value through profit or loss ("FVTPL). The classification of financial assets depends on the purpose for which the financial assets were acquired and is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial assets are measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVTOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. The classification determines the method by which the financial assets are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Financial assets are classified as current assets or non-current assets based on their maturity date.

The Company's financial assets consist of: cash, restricted cash, and receivables classified at amortized cost; and marketable securities classified at FVTOCI.

Financial liabilities

Financial liabilities are designated as either: fair value through profit or loss; or amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded.

The Company's financial liabilities consist of: accounts payable and accrued liabilities classified at amortized cost; and derivative contract classified at FVTPL.

Impairment of financial assets

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost, contract assets and debt investments at FVTOCI, but not to investments in equity instruments. The ECL model requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The Company's financial assets measured at amortized cost are subject to the ECL model.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Investments in associated companies

The Company accounts for its long-term investments in affiliated companies over which it has significant influence using the equity basis of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses and reduced by dividends received.

The Company assesses its equity investments for impairment if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the equity investment and that the event or events has an impact on the estimated future cash flow of the investment that can be reliably estimated. Objective evidence of impairment of equity investments includes:

- significant financial difficulty of the associated companies;
- becoming probable that the associated companies will enter bankruptcy or other financial reorganization; or
- national or local economic conditions that correlate with defaults of the associated companies.

Derivatives

The Company utilizes currency derivative contracts to hedge its exposure to fluctuations in the exchange rate between the Canadian Dollar and Mexican Peso. These derivative contracts are not designated for hedge accounting treatment. Accordingly, changes in the fair value of derivative contracts are recorded in profit or loss to offset the changes in the value of the underlying currency being hedged.

Exploration and evaluation assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Provisions

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the rehabilitation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with rehabilitation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount.

Subsequently, these capitalized rehabilitation costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs).

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

Other provisions

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

Impairment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Equipment

Equipment is stated at cost less accumulated depreciation. Depreciation is provided for using the following methods at the following rates per annum:

Transportation equipment (straight line)	25%
Machinery and equipment (straight line)	10%
Camps (straight line)	5%
Computer equipment (straight line)	30%
Leaseholds (declining balance)	20%
Furniture and equipment (straight line)	10%

During the year ended May 31, 2022, the rates changed used in the depreciation calculation. There was no significant impact on the consolidated financial statements.

Foreign currency translation

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

Share-based payments

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

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

Income (loss) per share

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Share capital

Common shares are classified as share capital. Incremental costs, net of tax effects, directly attributable to the issue of common shares are recognized as a deduction from equity. Common shares issued for consideration other than cash are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

Income taxes

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

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

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

Related party transactions

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

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

There are no new standards or amendments to standards and interpretations issued by the IASB that are not yet effective that would be expected to have a material impact on the consolidated financial statements of the Company.

(Expressed in Canadian Dollars)

4. MARKETABLE SECURITIES

During the year ended May 31, 2022, the Company sold nil (2021 - nil) Goldgroup Mining Inc. ("Goldgroup") shares. As at May 31, 2022, the Company owned 5,601,250 (2021 - 5,601,250) Goldgroup shares with a fair value of $168,038 (2021 - $196,044). The change in market value of the shares resulted in the recording of other comprehensive gain (loss) of $(28,006) for the year ended May 31, 2022 (2021 - $56,013).

As at May 31, 2022, the Company owned 375,000 (2021 - 375,000) common shares in a private British Columbia company ("BC Co.") with a fair value of $nil (2021 - $75,000). The change in market value of the shares resulted in the recording of other comprehensive loss of $75,000 for the year ended May 31, 2022 (2021 - $nil). BC Co. is related by virtue of a common director, and provides satellite based, geological services to the mining and other industries, which services are able to identify, model and monitor subsurface geological structures.

	Goldgroup		BC Co.		Total
	Number	Amount	Number	Amount	Amount
May 31, 2020	5,601,250	$ 140,031	375,000	$ 75,000	$ 215,031
Fair value adjustment	-	56,013	-	-	56,013
May 31, 2021	5,601,250	196,044	375,000	75,000	271,044
Fair value adjustment	-	(28,006)	-	(75,000)	(103,006)
May 31, 2022	5,601,250	$ 168,038	375,000	$ -	$ 168,038

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"). 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 ounce of the first 90,000 ounces of gold produced from the Property (approximately 88,000 ounces have been produced as at May 31, 2022).

During the year ended May 31, 2022, the Company recorded $1,232,904 (2021 - $1,520,615) in royalty income.

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

	Santo Tomas Properties	Xochipala Property	Total
May 31, 2021	$ 31,879,628	$ 426,639	$ 32,306,267
Deferred exploration expenditures			
Camp	325,623	-	325,623
Community relations	324,921	-	324,921
Engineering and modelling	433,593	-	433,593
Fieldwork, physical	2,449,020	-	2,449,020
Fieldwork, technical	7,117,430	-	7,117,430
Health, safety, and risk management	637,917	-	637,917
Logistics and support	1,939,049	-	1,939,049
Property maintenance	751,622	11,782	763,404
Technical and project management	938,788	-	938,788
VAT	2,358,618	2,872	2,361,490
	17,276,581	14,654	17,291,235
May 31, 2022	$ 49,156,209	$ 441,293	$ 49,597,502

	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			
Camp	402,828	-	402,828
Community relations	161,417	-	161,417
Engineering and modelling	172,105	-	172,105
Environmental	6,835	-	6,835
Fieldwork, physical	177,024	-	177,024
Fieldwork, technical	1,514,172	-	1,514,172
Health, safety, and risk management	30,658	-	30,658
Logistics and support	1,236,496	-	1,236,496
Property maintenance	523,517	11,604	535,121
Technical and project management	142,330	-	142,330
VAT (net of recoveries)	503,074	2,744	505,818
	4,870,456	14,348	4,884,804
May 31, 2021	$ 31,879,628	$ 426,639	$ 32,306,267

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

(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"). The effective interest in the concessions and NSR terms were amended subsequent to year end (Note 17).

Rossy Concession

In fiscal 2020, the Company, through MX, entered into a letter agreement (the "Rossy Agreement") for the acquisition of an 80% interest in the Rossy 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 (US$42,500 paid), issue 300,000 common shares, and agree to the granting to third parties of an aggregate 1.5% NSR. The consideration terms were amended subsequent to year end (Note 17).

Papago Fraccion 1 Concession

In fiscal 2021, the Company, through MX, entered into an agreement (the "Papago Fracc 1 Agreement") for the acquisition of an 80% interest in the Papapgo Fraccion 1 mineral concession, which is also contiguous to the Santo Tomas Properties (hereafter included within the term "Santo Tomas Properties") for $5,000 and the granting of an aggregate 1.5% NSR. The Company will pay the cash consideration within 10 days of registration of the Company's interest in the Papago Fracc 1 concession with the Mexican Public Registry of Mining.

Core Concessions

In fiscal 2019, 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, 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.

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

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

Core Concessions (cont'd…)

In fiscal 2020, the Company acquired Altamura 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.

In fiscal 2021, the Company acquired an additional 1% of XG for conversion of intercompany debt of $200,000 into equity resulting in a charge to deficit of $199,440. In fiscal 2021, the Company also acquired an additional 14% of XG for payment of $1,846,350 to the arm's length, sole other shareholder of XG, resulting in a charge to deficit of $1,741,919. This transaction resulted in the cancellation of the option Altamura held to to acquire all of the remaining interest in XG held by the sole other shareholder of XG. The Company now holds an 86% interest in XG.

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 (paid).

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 referred to above (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 in Guerero State, Mexico 100% owned by MX.

(Expressed in Canadian Dollars)

7. EQUIPMENT

	Camps	Transportation equipment	Machinery and equipment	Computer equipment	Leaseholds	Furniture and equipment	Total
Cost							
May 31, 2020	$ -	$ 15,948	$ -	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Additions	-	296,112	137,520	-	-	201,698	635,330
May 31, 2021	-	312,060	137,520	23,110	10,017	204,768	687,475
Additions	1,702,913	135,486	1,099,890	43,442	-	28,742	3,010,473
May 31, 2022	$ 1,702,913	$ 447,546	$1,237,410	$ 66,552	$ 10,017	$ 233,510	$3,697,948
Depreciation							
May 31, 2020	$ -	$ 12,301	$ -	$ 22,709	$ 9,243	$ 2,864	$ 47,117
Charge for the year	-	26,187	6,165	120	155	41	32,668
May 31, 2021	-	38,488	6,165	22,829	9,398	2,905	79,785
Charge for the year	52,687	99,341	76,158	6,966	619	21,964	257,735
May 31, 2022	$ 52,687	$ 137,829	$ 82,323	$ 29,795	$ 10,017	$ 24,869	$ 337,520
Net book value							
May 31, 2021	$ -	$ 273,572	$ 131,355	$ 281	$ 619	$ 201,863	$ 607,690
May 31, 2022	$ 1,650,226	$ 309,717	$1,155,087	$ 36,757	$ -	$ 208,641	$3,360,428

During the year ended May 31, 2022, depreciation of $253,387 (2021 - $31,987) was attributed to logistics and support within exploration and evaluation assets. 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:

	May 31, 2022	May 31, 2021
Accounts payable	$ 3,465,754	$ 584,040
Accrued liabilities	615,819	540,137
	$ 4,081,573	$ 1,124,177

9. DERIVATIVE LIABILITY

The Company has hedged a total of 5,460,000 (2021 - 15,460,000) Mexican Pesos ($353,169 (2021 - $1,000,000)) in a contract maturing in 2023, which hedges a portion of the forecast Mexican Peso denominated operating costs of the Company's Mexican subsidiaries. For the year ended May 31, 2022, the Company recorded a $23,231 (2021 - $nil) realized loss associated with the settlement of 10,000,000 Mexican Pesos (2021 - $nil) of the derivative contact. For the year ended May 31, 2022, the Company recorded a $60,148 (2021 - $(62,075)) unrealized gain (loss) associated with a change in the fair value of the derivative contact and a corresponding adjustment to the derivative liability. As of May 31, 2022, the Company has paid $52,975 (2021 - $97,000) as a deposit on the margin account and has recorded a derivative liability of $1,927 (2021 - $62,075) in connection with the derivative contract.

10. SHARE CAPITAL AND RESERVES

Authorized

An unlimited number of common shares without par value.

Issued share capital

During the year ended May 31, 2022, the Company issued:

i. 10,708,696 units at a price of $1.70 per unit by way of a private placement for total proceeds of $18,204,783, with each unit consisting of one common share and one share purchase warrant. Each whole share purchase warrant will entitle the holder to acquire an additional common share at a price of $2.40 per common share, for a period of 24 months from the date of issue. The Company paid or accrued a total of $606,842 for fees, issued 105,000 common shares, valued at $186,900, and issued 215,415 finders' warrants. Each finder's warrant entitles the holder to purchase one common share at a price of $2.05 per common share, for a period of 24 months from the date of issue. The finders' warrants were valued at $128,357, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk-free interest rate of 2.34%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 62%;
ii. 1,763,000 common shares, pursuant to the exercise of options, for proceeds of $570,875; and
iii. 3,270,957 common shares, pursuant to the exercise of warrants, for proceeds of $3,040,852.

During the year ended May 31, 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%;
ii. 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%;

(Expressed in Canadian Dollars)

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

Issued share capital (cont'd…)

iii. 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 38,400 finder's units were valued as follows: the common shares were valued at $46,080 and the warrant portion was 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 120,000 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%;

iv. 3,455,000 common shares, pursuant to the exercise of options, for proceeds of $519,375; and

v. 7,708,081 common shares, pursuant to the exercise of warrants, for proceeds of $4,165,617

Share subscriptions received in advance

As at May 31, 2022, included in cash was $nil (2021 - $55,000) for option exercises received in advance, and $nil (2021 - $83,650) for warrant exercises received in advance.

Warrants

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance, outstanding as at May 31, 2020	6,199,000	$ 0.45
Issued	16,005,000	1.09
Exercised	(7,708,081)	0.54
Expired	(12,500)	0.32
Balance, outstanding as at May 31, 2021	14,483,419	1.11
Issued	10,924,111	2.39
Exercised	(3,270,957)	0.93
Balance, outstanding as at May 31, 2022	22,136,573	$ 1.77

(Expressed in Canadian Dollars)

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

Warrants (cont'd…)

Warrants outstanding as at May 31, 2022 are as follows:

Number of warrants	Exercise price	Weighted average remaining life (years)	Expiry date
961,465	$ 0.42	0.08	June 30, 2022
4,463,382	$ 0.90	0.29	September 15, 2022
575,000	$ 0.60	0.29	September 15, 2022
5,092,615	$ 1.60	0.53	December 9, 2022
120,000	$ 1.20	0.53	December 9, 2022
8,054,885	$ 2.40	1.81	March 21, 2024
2,653,811	$ 2.40	1.82	March 25, 2024
215,415	$ 2.05	1.82	March 25, 2024
22,136,573			

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 year ended May 31, 2022, a total of 3,700,000 (2021 - 7,475,000) stock options were granted to certain officers, directors, and consultants of the Company with a fair value of $2,780,642 (2021 - $8,812,593) using the Black-Scholes option pricing model, and a total of 450,000 (2021 - nil) stock options were cancelled. The Company also modified the exercise price and/or expiry date of 4,275,000 previously granted stock options. During the year ended May 31, 2022, the Company recognized $6,352,900 (2021 - $3,305,367) 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 year ended May 31, 2022	For the year ended May 31, 2021
Risk-free interest rate	2.55%	0.41%
Expected option life in years	3.0	3.0
Expected stock price volatility	75%	90%
Expected forfeiture rate	0%	0%

(Expressed in Canadian Dollars)

10. 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, 2020	5,950,000	$ 0.22
Granted	7,475,000	2.24
Exercised	(3,455,000)	0.15
Balance, outstanding as at May 31, 2021	9,970,000	1.75
Granted	3,700,000	2.09
Expired/forfeited	(450,000)	2.36
Exercised	(1,763,000)	0.32
Balance, outstanding as at May 31, 2022	11,457,000	$ 1.64
Balance, exercisable as at May 31, 2022	5,974,500	$ 1.27

Options outstanding as at May 31, 2022 are as follows:

Number of options	Number of exercisable options	Exercise price	Weighted average remaining life (years)	Expiry date
300,000	300,000	$ 0.25	0.84	April 1, 2023
440,000	440,000	$ 0.30	0.92	May 1, 2023
200,000	200,000	$ 0.50	1.09	July 2, 2023
2,392,000	2,392,000	$ 0.75	1.27	September 8, 2023
150,000	90,000	$ 1.96	1.84	April 1, 2024
225,000	112,500	$ 2.50	2.35	October 4, 2024
300,000	60,000	$ 2.05	2.75	March 1, 2025
600,000	120,000	$ 2.05	2.83	March 29, 2025
6,850,000	2,260,000	$ 2.05	2.92	May 2, 2025
11,457,000	5,974,500		2.38	

(Expressed in Canadian Dollars)

11. NON-CONTROLLING INTEREST

On March 2, 2020, the Company acquired 67% of XG, through the acquisition of Altamura. In fiscal 2021, the Company acquired an additional 15% of XG for total ownership as at May 31, 2022 of 86% (2021 - 86%).

As at May 31, 2022, the equity attributable to the 14% (2021 - 14%) non-controlling interest in XG is as follows:

	Total
May 31, 2020	$ 7,152,789
15% interest acquired	(3,787,709)
Share of income for the year	25,934
May 31, 2021	3,391,014
Share of loss for the year	(75,031)
May 31, 2022	$ 3,315,983

As at May 31, 2022 and 2021 and for the years ended May 31, 2022 and 2021, summarized financial information about XG is as follows:

	May 31, 2022	May 31, 2021
Current assets	$ 713,190	$ 682,652
Non-current assets	45,834,825	28,563,066
Current liabilities	(2,719,993)	(390,504)
Non-current liabilities	(19,952,944)	(4,439,914)
Net income (loss) and comprehensive income (loss) for the year	(540,222)	93,455

12. RELATED PARTY TRANSACTIONS

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

	For the year ended May 31, 2022	For the year ended May 31, 2021
Management and director fees	$ 508,670	$ 421,333
Consulting fees	13,500	18,000
Professional fees	138,000	118,250
Share-based payment	3,717,007	1,906,099
Total	$ 4,377,177	$ 2,463,682

As at May 31, 2022 included in accounts payable and accrued liabilities was $616,065 (2021 - $392,415) owing to officers and directors. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

(Expressed in Canadian Dollars)

13. DEFERRED INCOME TAXES

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

		2022		2021
Loss for the year before income taxes	$	(7,551,711)	$	(3,887,850)
Expected income tax (recovery)	$	(2,039,000)	$	(1,050,000)
Change in statutory, foreign tax, foreign exchange rates and other		(378,000)		68,000
Permanent differences		2,112,000		903,000
Share issue costs		(214,000)		(52,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		305,000		(92,000)
Change in unrecognized deductible temporary differences		214,000		223,000
Total deferred income tax expense	$	-	$	-

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

		2022		2021
Deferred tax liabilities				
Exploration and evaluation assets – Mexican mining royalty	$	13,443	$	13,443
	$	13,443	$	13,443

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

		2022		2021
Deferred tax assets (liabilities)				
Exploration and evaluation assets	$	241,000	$	329,000
Equipment		138,000		8,000
Share issue costs		206,000		48,000
Marketable securities		49,000		35,000
Allowable capital loss		857,000		857,000
Non-capital losses available for future periods		3,215,000		3,215,000
		4,706,000		4,492,000
Unrecognized deferred tax assets		(4,706,000)		(4,492,000)
Net deferred tax assets	$	-	$	-

(Expressed in Canadian Dollars)

13. DEFERRED INCOME TAXES (cont'd…)

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

		2022	Expiry Date Range
Temporary differences			
Exploration and evaluation assets	$	785,000	No expiry date
Equipment		461,000	No expiry date
Share issue costs		765,000	2023 to 2025
Marketable securities		361,000	No expiry date
Allowable capital loss		3,176,000	No expiry date
Non-capital losses available for future periods		11,891,000	2027 to 2042

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

14. SUPPLEMENTAL CASH FLOW INFORMATION

		For the year ended May 31, 2022		For the year ended May 31, 2021
Interest paid	$	-	$	-
Taxes paid		-		-
Non-cash transactions not included in investing or financing activities				
Exploration and evaluation assets included in accounts payable	$	3,052,456	$	456,521
Share issue costs included in accounts payable		20,400		-
Equipment reallocated from prepaid expenses and advances		206,017		-
Allocation of fair value of options exercised		412,804		345,638
Allocation of fair value of warrants exercised		2,112		1,027
Allocation of share subscriptions received in advance to share capital		138,650		-
Finders' warrants issued included in share issue costs		128,357		535,185
Finder's shares issued included in share issue costs		186,900		-
Fair value of common shares issued in finders' units		-		46,080
Fair value of warrants issued in finders' units		-		20,348
Unrealized change on fair value of marketable securities		103,006		56,013
Acquisition of 1% in XG		-		199,440
Acquisition of 14% in XG		-		1,741,919

(Expressed in Canadian Dollars)

15. SEGMENTED INFORMATION

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

As at May 31, 2022

	Canada	Mexico	Total
Equipment	$ -	$ 3,360,428	$ 3,360,428
Exploration and evaluation assets	-	49,597,502	49,597,502
Other assets	23,733,675	903,720	24,637,395
Total assets	$ 23,733,675	$ 53,861,650	$ 77,595,325

As at May 31, 2021

	Canada	Mexico	Total
Equipment	$ 1,065	$ 606,625	$ 607,690
Exploration and evaluation assets	-	32,306,267	32,306,267
Other assets	21,266,807	748,112	22,014,919
Total assets	$ 21,267,872	$ 33,661,004	$ 54,928,876

16. 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 year ended May 31, 2022.

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.

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

Fair value hierarchy (cont'd…)

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

The carrying value of cash, restricted cash, receivables, and accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments. Derivative liability and the Goldgroup shares, recorded in marketable securities, are measured using level 1 of the fair value hierarchy. 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 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 and receivables. The bank accounts are mainly held with a major Canadian bank and this minimizes the risk to the Company. Receivables are due primarily from Goldgroup.

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 effect of a 10% change in the foreign exchange rate on the monetary balances held in foreign currencies at May 31, 2022 is approximately $78,000.

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.

17. SUBSEQUENT EVENTS

Subsequent to May 31, 2022, the Company:

i. issued 1,817,034 common shares pursuant to the exercise of warrants, for proceeds of $1,001,326;
ii. had 390,000 options expire unexercised;
iii. had 4,182,815 warrants expire unexercised;
iv. entered into an amended agreement for the Rossy concession. The consideration was reduced from USD $125,000 to USD $42,500 (paid) and the Company will take over the responsibility from the vendor for the accrued concession duties. The requirement to issue 300,000 common shares and the grant to third parties of an aggregate 1.5% NSR remains; and
v. increased its interest in each of the Papago 17, La China II and AMP Santo Tomas Red 1 concessions from 77.5% to 80% and reduced the NSR from 2% to 1.5% for no additional consideration.