

**OROCO RESOURCE CORP.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED**

**FEBRUARY 29, 2016**

**(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 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 Canadian Institute of Chartered Accountants 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 29, 2016	May 31, 2015
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 398,106	\$ 419,986
Receivables	97,226	25,859
Prepaid expenses	8,114	6,023
First note receivable (Notes 5 and 6)	1,089,246	1,243,700
Second note receivable (Notes 5 and 6)	-	1,650,000
	1,592,692	3,345,568
<b>Available for sale securities</b> (Notes 5 and 7)	1,236,943	382,500
<b>Exploration and evaluation assets</b> (Note 4)	240,927	219,837
<b>Equipment</b> (Note 8)	10,100	11,546
	\$ 3,080,662	\$ 3,959,451
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Trade payables and accrued liabilities	\$ 335,492	\$ 464,544
Non-refundable deposit	67,655	-
	403,147	464,544
<b>Deferred tax liability</b>	13,443	13,443
	416,590	477,987
<b>Shareholders' equity</b>		
Share capital (Note 9)	16,973,847	16,973,847
Reserves (Note 9)	2,110,254	2,110,254
Deficit	(16,420,029)	(15,602,637)
	2,664,072	3,481,464
	\$ 3,080,662	\$ 3,959,451

**Nature of operations and going concern** (Note 1)**Contingency** (Note 14)**Subsequent event** (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 29, 2016	For the Three Months Ended February 28, 2015	For the Nine Months Ended February 29, 2016	For the Nine Months Ended February 28, 2015
<b>Expenses</b>				
Depreciation	\$ 481	\$ 613	\$ 1,446	\$ 1,839
Consulting fees	31,833	28,750	79,833	80,040
Foreign currency gain	(20,020)	(161,150)	(104,121)	(255,325)
Management and director fees	59,737	51,000	175,974	148,000
Office and general	25,486	23,396	74,833	75,682
Professional fees	52,189	97,338	153,951	229,271
Property investigation costs	-	-	32,881	-
Rent	13,589	8,877	42,866	28,543
Shareholder communications and investor relations	429	1,273	10,991	1,991
Transfer agent and filing fees	3,613	2,607	14,478	9,567
Travel	4,886	-	13,926	9,503
<b>Operating loss</b>	<b>(172,223)</b>	<b>(52,704)</b>	<b>(497,058)</b>	<b>(329,111)</b>
Interest income (Note 6)	39,577	34,366	100,336	100,396
Gain (loss) on sale of available for sale securities (Note 7)	(506,994)	15,375	(1,064,029)	57,571
Gain on settlement of accounts payable (Note 14)	-	-	69,612	-
Gain on sale of subsidiary	5,171	-	5,171	-
Loss on valuation of second note receivable (Note 6)	-	(412,500)	(577,500)	(990,000)
Other income (Notes 5 and 6)	77,402	-	110,085	-
Permanent impairment reversal of available for sale securities (Note 7)	219,115	-	1,035,991	-
Royalty revenue	-	124	-	11,923
	<b>(165,729)</b>	<b>(362,635)</b>	<b>(320,334)</b>	<b>(820,110)</b>
<b>Loss for the period</b>	<b>(337,952)</b>	<b>(415,339)</b>	<b>(817,392)</b>	<b>(1,149,221)</b>
<b>Loss on fair value of available for sale securities</b>	<b>-</b>	<b>(70,538)</b>	<b>-</b>	<b>(234,013)</b>
<b>Comprehensive loss for the period</b>	<b>\$ (337,952)</b>	<b>\$ (485,877)</b>	<b>\$ (817,392)</b>	<b>\$ (1,383,234)</b>
<b>Basic and Diluted Loss per Common Shares</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<b>77,947,405</b>	<b>77,947,405</b>	<b>77,947,405</b>	<b>77,947,405</b>

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		Reserve			Total
	Number	Amount	Other comprehensive income (loss)	Stock option and warrant	Deficit	
		\$	\$	\$	\$	\$
<b>May 31, 2014</b>	77,947,405	16,973,847	207,725	2,110,254	(13,641,222)	5,650,604
Gain on fair value of available for sale securities	-	-	(234,013)	-	-	(234,013)
Loss for the period	-	-	-	-	(1,149,221)	(1,149,221)
<b>February 28, 2015</b>	<u>77,947,405</u>	<u>16,973,847</u>	<u>(26,288)</u>	<u>2,110,254</u>	<u>(14,790,443)</u>	<u>4,267,370</u>
<b>May 31, 2015</b>	77,947,405	16,973,847	-	2,110,254	(15,602,637)	3,481,464
Loss for the period	-	-	-	-	(817,392)	(817,392)
<b>February 29, 2016</b>	<u>77,947,405</u>	<u>16,973,847</u>	<u>-</u>	<u>2,110,254</u>	<u>(16,420,029)</u>	<u>2,664,072</u>

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 29, 2016	For the Nine Months Ended February 28, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (817,392)	\$ (1,149,221)
Adjusted for items not involving cash:		
Depreciation	1,446	1,839
Loss (gain) on sale of available for sale securities	1,064,029	(57,571)
Gain on settlement of accounts payable	(69,612)	-
Loss on valuation of second note receivable	577,500	990,000
Accrued royalty income	-	(11,923)
Foreign exchange gain	(116,968)	(244,350)
Shares received for IVA Refund	(77,402)	-
Gain on sale of subsidiary	(5,171)	-
Permanent impairment reversal of available for sale securities	(1,035,991)	-
Accrued interest income	(100,336)	(100,396)
Changes in working capital items:		
Receivables	(3,973)	67,438
Prepaid expenses	(2,091)	11,834
Trade payables and accrued liabilities	(59,512)	(70,401)
Non-refundable deposit	67,655	-
<b>Net cash used in operating activities</b>	<b>(577,818)</b>	<b>(562,751)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation expenditures	(21,018)	(32,603)
Royalty revenue	134	38,772
Interest income on first note receivable	42,861	121,256
First note receivable	66,310	311,525
Acquisition of available for sale securities	(256,993)	(413)
Cash given up on sale of subsidiary	(3,829)	-
Proceeds on sale of available for sale securities	728,473	287,371
<b>Net cash provided by investing activities</b>	<b>555,938</b>	<b>725,908</b>
<b>Change in cash</b>	<b>(21,880)</b>	<b>163,157</b>
<b>Cash, beginning of period</b>	<b>419,986</b>	<b>130,322</b>
<b>Cash, end of period</b>	<b>\$ 398,106</b>	<b>\$ 293,479</b>

**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)

FOR THE NINE MONTHS ENDED FEBRUARY 29, 2016

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

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

The Company's head office and principal address is located at #1502 – 1166 Alberni Street, Vancouver, British Columbia, Canada, V6E 3Z3.

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

These consolidated financial statements have been prepared on a going concern basis which implies that the Company will continue realizing its assets and discharging its liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate, further adjustments to the carrying values of assets and liabilities may be required. The ability of the Company to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing as needed and ultimately on generating future profitable operations.

The Company's exploration and evaluation assets consist of the Xochipala and Salvador properties in Guerrero State, Mexico. The outlook for the Company is tied to successfully collecting payment of the debt receivable from Goldgroup Mining Inc. ("Goldgroup"), realizing on the value of the available for sale securities it holds, raising the financing necessary to maintain operations thereafter, and ultimately on generating future profitable operations. These uncertainties may cast significant doubt as to the ability of the Company to continue as a going concern.

**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 IFRS 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, 2015, 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, 2016.

**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)

FOR THE NINE MONTHS ENDED FEBRUARY 29, 2016

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

Name of Subsidiary	Country of Incorporation	Percentage of Ownership
Minera Xochipala S.A. de C.V. ("Minera Xochipala")	Mexico	100%
Xochipala Gold, S.A. de C.V. ("Xochipala Gold") *	Mexico	100%
0973496 B.C. Ltd.	Canada	100%

\* sold on February 26, 2016

**Significant estimates**

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

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

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

Recovery of deferred tax assets - Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.



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

**Significant estimates (cont'd...)**

Valuation of First Note receivable and IVA - The value of the First Note receivable and the IVA are based on management's assessment of collectability and probability of recovery as disclosed in Notes 5 and 6.

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.

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.

**Significant judgments**

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

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

**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, 2015, except as noted below.

**New accounting policies adopted**

The following standards and amendments to existing standards have been adopted by the Company effective June 1, 2015:

Effective for annual periods beginning on or after January 1, 2015:

*IFRS 7, Financial instruments: disclosures*

This standard was amended to require additional disclosures on transition from IAS 39 and IFRS 9.

The adoption of this standard did not have an impact on the condensed interim consolidated financial statements.

**OROCO RESOURCE CORP.**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE NINE MONTHS ENDED FEBRUARY 29, 2016

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

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

The following standards, amendments to standards and interpretations have been issued but are not effective for annual periods beginning on or after January 1, 2016:

*IFRS 11, Joint arrangements*

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

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

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

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

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

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

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

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

*IFRS 9, Financial instruments*

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

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

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

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE NINE MONTHS ENDED FEBRUARY 29, 2016

**4. EXPLORATION AND EVALUATION ASSETS**

	Xochipala Property	Total
Balance at May 31, 2015	\$ 219,837	\$ 219,837
Deferred exploration expenditures:		
Geologists	13,353	13,353
IVA	2,136	2,136
Lease payments, assessment fees and taxes	5,601	5,601
	21,090	21,090
Balance at February 29, 2016	\$ 240,927	\$ 240,927

  

	Xochipala Property	Total
Balance at May 31, 2014	\$ 179,240	\$ 179,240
Deferred exploration expenditures:		
Geologists	30,707	30,707
IVA	4,650	4,650
Lease payments, assessment fees and taxes	5,240	5,240
	40,597	40,597
Balance at May 31, 2015	\$ 219,837	\$ 219,837

**(a) Xochipala Property Guerrero State, Mexico**

The Xochipala Property, located in Guerrero State, Mexico, is comprised of the contiguous Celia Gene and Celia Generosa concessions. Minera Xochipala acquired the Xochipala Property in 2007. In February, 2014, following six years of legal issues associated with acquiring uncontested registration of its acquisition of the Xochipala Property, the Company obtained a judgement from the Federal Tribunal of Mexico upholding the 2012 registration of the Xochipala Property in the name of Minera Xochipala and terminating a competing claim to the Company's title.

**(b) Salvador Property, Guerrero State, Mexico**

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

**OROCO RESOURCE CORP.**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE NINE MONTHS ENDED FEBRUARY 29, 2016

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**5. SALE OF CERRO PRIETO PROPERTY**

The Cerro Prieto Property was an exploration and evaluation asset of the Company's from 2008, when it completed its acquisition of Minera Polimetalicos Mexicanos, S.A. ("Polimetalicos"), a Panamanian company and its subsidiary, Minas de Oroco, the owner of the mineral concessions making up the Cerro Prieto Property until August 30, 2013. On that date the Company sold the Cerro Prieto Property (the "Transaction") by way of the sale of Polimetalicos and its subsidiary Minas de Oroco, to Goldgroup pursuant to an Amended and Restated Debt Assignment and Share Purchase Agreement (the "Amended Agreement").

Pursuant to the terms of the Amended Agreement, the following occurred on closing:

- a) Goldgroup made payment of:
  - i) \$4,748,850 (US\$4,500,000);
  - ii) \$66,666 in reimbursement of interest accrued on the Company's outstanding debentures since June 28, 2013;
  - iii) 5,500,000 common shares in the capital of Goldgroup valued at \$825,000;
  - iv) a promissory note (the "First Note") in the principal amount of US\$1,500,000 bearing 8% simple interest and payable in six equal monthly instalments of US\$250,000 each, commencing on the later of either January 31, 2015 or the first day of the month following the date the Property achieves Commercial Production (after 1,000 ounces of gold have been produced from the Property); and
  - v) a second promissory note (the "Second Note") in the principal amount of US\$4,125,000, bearing no interest. The principal amount of the Second Note will be repayable on the second anniversary of the Transaction closing date. Goldgroup may elect to pay the principal of the Second Note by issuing and delivering to the Company 16,500,000 Goldgroup common shares in lieu of cash.
- b) In addition, Goldgroup agreed to pay to the Company a production royalty (the "Production Royalty") quarterly in arrears. The Production Royalty, payable for each month in which the monthly average of the daily PM London gold fix is in excess of US\$1,250 per ounce, is calculated at the rate of 20% of the dollar value of that excess for each ounce of gold produced from the property during that month, to a maximum royalty of US\$90 per ounce. This Production Royalty will be payable for each and every of the greater of:
  - i) the first 90,000 ounces of gold produced from the Property; and
  - ii) all ounces of gold produced from the Property until the completion of five full years of commercial production.

**OROCO RESOURCE CORP.**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE NINE MONTHS ENDED FEBRUARY 29, 2016

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**5. SALE OF CERRO PRIETO PROPERTY (cont'd...)**

- c) Minas de Oroco has, with the consent of Goldgroup, assigned to the Company all of Minas de Oroco's rights and interest in and to all value added taxes paid by Minas de Oroco in the years 2008 through 2012, and all refunds in relation thereto (collectively, "the IVA Refund"), in consideration of the settlement of US\$500,000 of the debt owed by Minas de Oroco to the Company at the time of the IVA assignment. The IVA Refund at August 31, 2013 was \$535,325. The Company has assigned a fair value of zero to the IVA Refund as collectability is uncertain.

Goldgroup also agreed to assume from the Company all obligations with respect to the 2% net smelter royalty on the property.

On February 4, 2013, as a condition precedent to the Transaction, Goldgroup purchased 5,000,000 units of the Company at a price of \$0.20 per unit. Each unit consisted of one common share and one non-transferrable share purchase warrant with each warrant exercisable into one additional common share for a period of two years at a price of \$0.25 per share.

On August 30, 2013, in furtherance of closing the Transaction, the Company entered into a subordination agreement (the "2013 Subordination Agreement") with Goldgroup and the agent for the holders of the Company's outstanding debentures, who are also the lenders to Goldgroup of a \$4,250,000 senior secured loan facility (the "Loan Facility"). Pursuant to the Subordination Agreement, the Company would not accept any payment related to the First Note, the Second Note and the Production Royalty until after the Loan Facility has been repaid. However, if Goldgroup elected to pay the Second Note with 16,500,000 of its common shares in lieu of cash, the Company may accept those shares.

On September 19, 2014, Goldgroup settled the Loan Facility and the Company was released from the 2013 Subordination Agreement.

On September 19, 2014, the Company entered into a subordination agreement (the "Subordination Agreement") with Goldgroup and RMB Resources Inc. ("RMB") with regard to the production royalty, the First Note, and the Second Note remaining to be paid by Goldgroup pursuant to the terms and conditions of the Transaction. Pursuant to the Subordination Agreement, Goldgroup shall pay the production royalty and redeem the First Note in accordance with the terms of the Transaction. However, Goldgroup may only redeem the Second Note with either: (a) cash proceeds from the sale of Goldgroup shares; or (b) 16,500,000 Goldgroup common shares in lieu of cash (as is Goldgroup's right pursuant to the terms of that promissory note). The terms of the Second Note have also been amended such that the Company shall have the right, in the event that Goldgroup does not redeem the promissory note on time, to demand payout by way of the 16,500,000 Goldgroup common shares in lieu of cash. However, other than with regard to the demand for payout of the Second Note with shares, the Company may only demand or enforce payment of any of the Goldgroup payment obligations after either the current credit facility has been repaid in full or RMB has granted its consent, which consent is not to be unreasonably withheld.

On September 19, 2014, the Company also entered into a debt assignment agreement (the "IVA Assignment Agreement") with Goldgroup, pursuant to which the Company assigned to Goldgroup the Company's right to all refunds obtained by Minas de Oroco of value added tax paid prior to August 30, 2013 (the "IVA Refund"). In consideration of the assignment, Goldgroup issued to the Company 1,200,000 common shares, valued at \$216,000, and will pay 50% of all IVA Refund in excess of \$400,000, which amounts Goldgroup may elect to pay in Goldgroup shares valued at the five day, volume weighted trading average at the time of payment. The Company will reimburse Goldgroup 60% of any amount less than CDN\$400,000 of IVA Refund recovered by August 30, 2015, though the Company will remain entitled to recover that amount back from any future IVA recoveries. As of August 31, 2015, Goldgroup had recovered less than CDN\$400,000 of IVA Refund, but had claimed IVA Refund credits against IVA otherwise owed, which an aggregate total in excess of CDN\$400,000.

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

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE NINE MONTHS ENDED FEBRUARY 29, 2016

**5. SALE OF CERRO PRIETO PROPERTY (cont'd...)**

During the nine months ended February 29, 2016, Goldgroup issued to the Company 1,290,025 common shares, valued at \$77,402, as a partial payment of the IVA Refund owing pursuant to the IVA Agreement. This amount was recorded in other income.

The following table shows the fair value of the proceeds on the date of disposition:

Proceeds	Agreement Amount in US\$	Fair Value Recorded CAN\$
Cash	\$ 4,500,000	\$ 4,748,850
Shares (5,500,000)	-	825,000
First Note receivable	1,500,000	-
Second Note receivable	4,125,000	2,475,000
Production Royalty up to	8,100,000	-
		<u>\$ 8,048,850</u>

The estimated Fair Value of Consideration received as at August 30, 2013 was determined as follows:

Cash – recorded at face value;

Goldgroup common shares – recorded at market value as at August 31, 2013 (\$0.15 per share);

First Note – no value was attributed as this promissory note was considered to be a contingent asset under IAS37. Realization of the promissory note is dependent upon several uncertain future events not wholly within the control of the Company (see Note 6);

Second Note – the value of the Second Note was determined as the lesser of the present value of the note and the market value of Goldgroup shares at the time of the transaction, which may be issued to the Company at Goldgroup's election to settle the note, including an assessment of the likelihood that the note is settled with the issuance of Goldgroup shares. The present value of the note was calculated using a discount rate of 25%. The likelihood of Goldgroup settling the note by issuing shares in the future (at a fixed value of \$0.25 per share) was projected by utilizing a stock price probability calculator employing an implied volatility of 67% (see Note 6);

Production Royalty – no value was attributed as the royalty was considered to be a contingent item under IAS37. Realization of the proceeds from the royalty is dependent upon several uncertain future events not wholly within the control of the Company.

The loss on the sale of the Cerro Prieto Property was as follows:

Total estimated fair value of consideration received	<u>\$ 8,048,850</u>
Carrying value of assets sold	
Cash	1,008
Exploration and evaluation assets	<u>8,062,163</u>
	<u>8,063,171</u>
Loss on sale	<u>\$ (14,321)</u>

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(Unaudited)

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**6. NOTES RECEIVABLE**

Pursuant to the sale of the Cerro Prieto Property, the Company received a contingent US\$1,500,000 First Note and the US\$4,125,000 Second Note (Note 5) which were valued on the date of sale as \$Nil and \$2,475,000 respectively. During fiscal 2014, Goldgroup achieved production levels triggering realization of the contingent First Note receivable resulting in a gain of \$1,664,550.

First Note – During fiscal 2015, Goldgroup made the first two payment instalments totalling \$615,548 (US\$500,000) due on the First Note. On May 31, 2015, the Company agreed with Goldgroup to amend the payment terms for the remaining US\$1,000,000 balance of principal owing. Goldgroup issued the Company two promissory notes in replacement of the First Note. The first of these two promissory notes, in the principal amount of US\$250,000, is payable on demand (the “Demand Note”). The second promissory notes, in the principal amount of US\$750,000, was payable on September 15, 2015 (the September Note”). These two notes are recorded collectively as the First Note. Both notes bore 8% interest, payable monthly in arrears. During the nine months ended February 29, 2016, the Company demanded payment of the Demand Note. Goldgroup paid US\$50,000 of the principal and has not yet paid the balance. On September 15, 2015, Goldgroup failed to pay the \$750,000 September Note.

On September 28, 2015, the Company and Goldgroup agreed to a revised payment schedule for the US\$950,000 outstanding balance of the Demand and September Notes. Pursuant to the agreement, Goldgroup had until November 16, 2015 to enter into a formal debt payment agreement (the “Payment Agreement”) with the Company, pursuant to which Goldgroup would pay the Company US\$300,000 on signing and US\$20,000 per month, commencing October 1, 2015 (payments due before signing of the formal agreement to accrue and be paid at signing), until September 15, 2016, with the balance of the remaining principal on or before that date. The outstanding principal will bear 12% interest, payable monthly in arrears. In the event that Goldgroup fails to pay all amounts by September 16, 2016, the Company has the option to demand that Goldgroup issue shares in lieu of cash. If the Payment Agreement was not signed by November 16, 2015, or if Goldgroup failed to perform all of its obligations under the Payment Agreement, it was to pay the Company a cash break fee equal to \$100,000.

In a related transaction, the Company also agreed to sell a total of 6,000,000 of its available for sale securities of Goldgroup (the “Shares”), at a price of \$0.06 per share, which transactions have been completed.

In November 2015, the Company agreed with Goldgroup to extend the November 16, 2015 deadline for signing the Payment Agreement to January 16, 2016 in consideration of a \$32,683 (US\$25,000) fee, recorded in other income.

On February 12, 2016, the Company and Goldgroup agreed that Goldgroup would pay US\$145,000 of the outstanding balance of the First Note by way of an issuance of 3,400,975 shares of Goldgroup, valued at \$204,059, in lieu of cash.

The Company has not entered into any agreement with Goldgroup with regard to the remaining outstanding balance of the First Note and accrued interest. The Company is in discussions with Goldgroup with regard to an amended payment schedule for the payment of remaining outstanding balance of the First Note and accrued interest.

Second Note – On August 28, 2015, Goldgroup issued to the Company 16,500,000 common shares, valued at \$1,072,500, in settlement of the Second Note. During the nine months ended February 29, 2016, the Company recorded a loss on valuation of second note receivable of \$577,500 (February 28, 2015 - 990,000).

As at February 29, 2016 the estimated fair value of the First Note was recorded as the principal amount of the note and allocated \$1,089,246 (US\$805,000) (May 31, 2015 - \$1,243,700 (US\$1,000,000)) to current assets. Accrued interest receivable on the note of \$75,150 (US\$55,539) at February 29, 2016 (May 31, 2015 - \$16,628 (US\$13,370)) was recorded with receivables in current assets.

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**7. AVAILABLE FOR SALE SECURITIES**

Pursuant to the sale of the Cerro Prieto Property, the Company received 5,500,000 shares of Goldgroup, pursuant to the IVA Assignment Agreement, the Company received an additional 2,409,025 shares of Goldgroup (Note 5), and, pursuant to the settlement of the Second Note, the Company received an additional 16,500,000 shares of Goldgroup (Note 6). During nine months ended February 29, 2016, the Company sold 11,950,000 (February 28, 2015 - 1,532,000) of these shares resulting in a gain / (loss) on sale of (\$1,064,029) (February 28, 2015 - \$57,571). Pursuant to a Shares of Debt Agreement dated February 12, 2016, the Company received 3,400,975 shares of Goldgroup in settlement of US\$145,000 of the outstanding principal owing on the First Note, and 1,290,025 shares of Goldgroup in settlement of US\$55,000 of IVA Refund owing. As at February 29, 2016, the remaining shares had a fair value of \$979,950 (May 31, 2015 - \$382,500). During the nine months ended February 29, 2016, the Company recorded a permanent impairment reversal of \$1,035,991 (February 28, 2015 - \$Nil).

During the nine months ended February 29, 2016, the Company purchased 200,000 units, at a cost of \$187,560, of a private British Columbia company ("BC Co") which has an interest in mineral concessions in Mexico, at a price of US\$0.75 per unit, with each unit being comprised of one common share and one half of one share purchase warrant (the "Warrants"). Each full warrant entitles the Company to purchase one additional common share at a price of US\$0.90 until May 30, 2016. During the nine months ended February 29, 2016, the Company exercised 60,000 of the Warrants to acquire a further 60,000 shares of BC Co., at a cost of \$69,433.

**8. EQUIPMENT**

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
<b>Cost:</b>					
At May 31, 2014	\$ 15,948	\$ 23,110	\$ 10,017	\$ 3,070	\$ 52,145
Additions	-	-	-	-	-
At May 31, 2015	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
At February 29, 2016	\$ 15,948	\$ 23,110	\$ 10,017	\$ 3,070	\$ 52,145
<b>Depreciation:</b>					
At May 31, 2014	\$ 9,084	\$ 19,712	\$ 7,063	\$ 2,287	\$ 38,146
Charge for the year	686	1,019	591	157	2,453
At May 31, 2015	9,770	20,731	7,654	2,444	40,599
Charge for the period	463	535	354	94	1,446
At February 29, 2016	\$ 10,233	\$ 21,266	\$ 8,008	\$ 2,538	\$ 42,045
<b>Net book value:</b>					
At May 31, 2015	\$ 6,178	\$ 2,379	\$ 2,363	\$ 626	\$ 11,546
At February 29, 2016	\$ 5,715	\$ 1,844	\$ 2,009	\$ 532	\$ 10,100



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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 29, 2016 and February 28, 2015, there was no share capital activity.

**Warrants**

	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, May 31, 2014	6,785,625	\$ 0.28
Expired	(6,785,625)	0.28
Balance outstanding, February 29, 2016 and May 31, 2015	-	\$ -

**Stock options**

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

	Number of Stock Options	Weighted Average Exercise Price
Balance outstanding, May 31, 2014	2,850,000	\$ 0.26
Expired/forfeited/cancelled	(2,450,000)	0.25
Balance outstanding and exercisable, February 29, 2016 and May 31, 2015	400,000	\$ 0.30

The following table summarizes information about stock options outstanding at February 29, 2016:

Number of options	Exercise price \$	Weighted average remaining life (years)	Expiry date
400,000	0.30	0.76	December 1, 2016

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

At February 29, 2016, the Company had a Stock Option and Warrant Reserve balance of \$2,110,254 (February 28, 2015 - \$2,110,254) consisting of warrant valuations on warrants attached to various private placements and stock-based compensation associated with stock option grants to employees, consultants, directors and officers.

At February 29, 2016, the Company had an Other Comprehensive Loss balance of \$Nil (February 28, 2015 - \$26,288) due to a permanent impairment of available for sale securities.

**10. RELATED PARTY TRANSACTIONS**

The following expenses were incurred with directors and officers of the Company:

	For the Nine Months Ended February 29, 2016	For the Nine Months Ended February 28, 2015
Management and director fees	\$ 175,974	\$ 148,000
Consulting	7,833	6,750
Professional fees	76,500	76,500
<b>Total</b>	<b>\$ 260,307</b>	<b>\$ 231,250</b>

As at February 29, 2016 included in accounts payable and accrued liabilities was \$235,341 (May 31, 2015 - \$183,545) owing to officers and directors. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

**11. 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 29, 2016

	Canada	Mexico	Total
Equipment	\$ 4,385	\$ 5,715	\$ 10,100
Exploration and evaluation assets	-	240,927	240,927
Other assets	2,828,459	1,176	2,829,635
<b>Total assets</b>	<b>\$ 2,832,844</b>	<b>\$ 247,818</b>	<b>\$ 3,080,662</b>

As at May 31, 2015

	Canada	Mexico	Total
Equipment	\$ 5,368	\$ 6,178	\$ 11,546
Exploration and evaluation assets	-	219,837	219,837
Other assets	3,718,330	9,738	3,728,068
<b>Total assets</b>	<b>\$ 3,723,698</b>	<b>\$ 235,753</b>	<b>\$ 3,959,451</b>

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FOR THE NINE MONTHS ENDED FEBRUARY 29, 2016

**12. SUPPLEMENTAL CASH FLOW INFORMATION**

	For the Nine Months Ended February 29, 2016	For the Nine Months Ended February 28, 2015
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -
Non-cash transactions not included in investing or financing activities		
Exploration and evaluation assets included in accounts payable	\$ 3,011	\$ 5,928
Available for sale securities received from the IVA assignment agreement	\$ 77,402	\$ -
Available for sale securities received for partial repayment of First Note	\$ 204,059	\$ -
Available for sale securities received for settlement of Second Note	\$ 1,072,500	\$ -

**13. FINANCIAL INSTRUMENT RISK AND CAPITAL**

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises shareholders' equity. There has been no significant change in the Company's objectives, policies and processes for managing its capital during the nine months ended February 29, 2016.

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

**Fair value hierarchy**

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

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

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

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

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**13. FINANCIAL INSTRUMENT RISK AND CAPITAL (cont'd...)****Management of Industry Risk**

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

**Management of Financial Risk**

The carrying value of cash, receivables, notes receivable 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 available for sale securities are measured at a level 1 of the fair value hierarchy and the BC Co shares recorded in available for sale securities are measured using level 3 of the fair value hierarchy based on cost at time of acquisition. Second note receivable derivative is measured using level 3 of the fair value hierarchy based on estimates as disclosed in Note 6. 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 First Note receivable and its bank accounts. The bank accounts are mainly held with a major Canadian bank and this minimizes the risk to the Company.

**Liquidity Risk**

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

**Foreign Exchange Risk**

The Company's property interests in Mexico make it subject to foreign currency fluctuations, which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian dollar and foreign currencies. The Company does not invest in derivatives to mitigate these risks. The effect of a 1% change in the foreign exchange rate on the cash held in foreign currencies at February 29, 2016 is nominal.

**Interest Rate Risk**

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

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**14. CONTINGENCY**

The Company and Goldgroup were subject to a legal action related to a terminated service agreement for the Cerro Prieto Property. The Plaintiff, Sonoran, was seeking damages in excess of \$3,000,000. The Company had agreed to indemnify and defend Goldgroup in this action. In April, 2015, the United States District Court, Arizona District, (the "Court") granted summary judgement in favour of the Company's, Minas de Oroco's and Goldgroup's (the "Defendants") motion for partial summary judgement and denied in its entirety Sonoran's concurrent motion for summary judgement on all of its claims. The court ruled in favour of the Defendant's with regard to Sonoran's claims for fraud and misrepresentation, punitive damages, Sonoran's employee severance costs and unspecified damages for breaches of environmental permits. The Court denied the Defendants application for summary judgement on Sonoran's claims for performance bonus shares and post-termination fees. The court also ruled in favour of Goldgroup with regard to all claims against it. As a result of this ruling, the remaining outstanding claims against the Company and Minas de Oroco were those for breach of contract relating to 250,000 performance bonus shares, and certain invoices and for breach of good faith and fair dealing.

On December 16, 2015, the Company received a Dismissal Order (the "Order") with regard to the remaining claims by Sonoran. The Order, which dismisses the matter with prejudice, was issued as a result of a settlement agreement between all the parties to the matter pursuant to which the Company agreed to pay Sonoran US\$49,000 in full settlement of all Sonoran claims, which originally were in excess of US\$3,000,000. The Company has paid this amount. As a result of the settlement agreement and Order, the Company recorded a gain on settlement of accounts payable of \$69,612 during the nine months ended February 29, 2016.

**15. SUBSEQUENT EVENT**

On April 25, 2016, the Company exercised 40,000 Warrants to acquire 40,000 shares of BC Co. at a cost of US\$36,000.