OROCO RESOURCE CORP.

CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2016

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Oroco Resource Corp.

We have audited the accompanying consolidated financial statements of Oroco Resource Corp., which comprise the consolidated statements of financial position as at May 31, 2016 and 2015 and the consolidated statements of loss and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Oroco Resource Corp. as at May 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

September 26, 2016

A member of Nexia International

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

	2016	2015
ASSETS		
Current		
Cash	$ 407,127	$ 419,986
Receivables	384,907	25,859
Prepaid expenses and advances	8,826	6,023
First note receivable (Notes 5 and 6)	1,055,355	1,243,700
Second note receivable (Notes 5 and 6)	-	1,650,000
	1,856,215	3,345,568
Available for sale securities (Notes 5 and 7)	2,028,365	382,500
Exploration and evaluation assets (Note 4)	250,355	219,837
Equipment (Note 8)	9,617	11,546
	$ 4,144,552	$ 3,959,451
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade payables and accrued liabilities	$ 260,279	$ 464,544
Deferred tax liability (Note 13)	13,443	13,443
	273,722	477,987
Shareholders' equity		
Share capital (Note 10)	16,973,847	16,973,847
Reserves (Note 10)	3,238,582	2,110,254
Deficit	(16,341,599)	(15,602,637)
	3,870,830	3,481,464
	$ 4,144,552	$ 3,959,451

Nature of operations and going concern (Note 1)
Contingency (Note 16)
Subsequent event (Note 17)

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 consolidated financial statements.

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

	2016	2015
Expenses		
Business development	$ 17,613	$ -
Depreciation	1,929	2,453
Consulting fees (Note 11)	108,600	106,290
Foreign currency gain	(62,841)	(220,885)
Management and director fees (Note 11)	239,000	204,250
Office and general	96,086	91,517
Professional fees (Note 11)	215,614	323,859
Property investigation costs	32,881	-
Rent	61,129	39,566
Shareholder communications and investor relations	10,945	3,366
Transfer agent and filing fees	18,145	20,739
Travel	17,278	15,719
Operating loss	(756,379)	(586,874)
Gain on recovery of note receivable (Note 7)	51,015	-
Gain on settlement of accounts payable (Notes 9 and 16)	69,612	92,209
Gain on sale of available for sale securities (Note 7)	277,498	57,561
Gain on sale of subsidiary	5,171	-
Interest income	134,579	126,046
Loss on valuation of second note receivable (Note 6)	(577,500)	(1,650,000)
Other income (Note 6)	132,683	-
Permanent impairment of available for sale securities (Note 7)	(328,125)	(227,288)
Recovery on property previously sold (Note 5)	248,828	216,000
Royalty revenue	3,656	10,931
	17,417	(1,374,541)
Loss for the year	(738,962)	(1,961,415)
Reclassification of gain on disposal included in loss	-	(57,561)
Unrealized gain (loss) on fair value of available for sale securities (Note 7)	1,128,328	(377,452)
Reclassification of permanent loss on available for sale securities	-	227,288
Loss and comprehensive income (loss) for the year	$ 389,366	$ (2,169,140)
Basic and diluted loss per common shares	$ (0.01)	$ (0.03)
Weighted average number of common shares outstanding - basic and diluted	77,947,405	77,947,405

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

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

	Share Capital		Reserves			
	Number	Amount	Other comprehensive income	Stock option and warrant	Deficit	Total
		$	$	$	$	$
May 31, 2014	77,947,405	16,973,847	207,725	2,110,254	(13,641,222)	5,650,604
Reclassification of gain on sale of available for securities	-	-	(57,561)	-	-	(57,561)
Unrealized loss on fair value of available for sale securities	-	-	(377,452)	-	-	(377,452)
Reclassification of permanent impairment of available for sale securities	-	-	227,288	-	-	227,288
Loss for the year	-	-	-	-	(1,961,415)	(1,961,415)
May 31, 2015	77,947,405	16,973,847	-	2,110,254	(15,602,637)	3,481,464
Unrealized gain on fair value of available for sale securities	-	-	1,128,328	-	-	1,128,328
Loss for the year	-	-	-	-	(738,962)	(738,962)
May 31, 2016	77,947,405	16,973,847	1,128,328	2,110,254	(16,341,599)	3,870,830

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (738,962)	$ (1,961,415)
Adjusted for items not involving cash:		
Depreciation	1,929	2,453
Gain on sale of available for sale securities	(277,498)	(57,561)
Gain on recovery of note receivable	(51,015)	-
Loss on valuation of second note receivable	577,500	1,650,000
Accrued royalty income	(3,656)	(10,931)
Foreign exchange gain	(81,045)	(238,708)
Accrued interest income	(109,571)	(126,044)
Gain on settlement of accounts payable	(69,612)	(92,209)
Recovery on property previously sold	(248,828)	(216,000)
Permanent impairment of available for sale securities	328,125	227,288
Gain on sale of subsidiary	(5,171)	-
Changes in working capital items:		
Receivables	(128,717)	(3,343)
Prepaid expenses	(2,803)	7,575
Trade payables and accrued liabilities	(134,819)	(6,877)
Net cash used in operating activities	(944,143)	(825,772)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(30,352)	(41,203)
Proceeds on sale of available for sale securities	1,160,711	287,371
Acquisition of available for sale securities	(304,550)	(423)
Royalty revenue	134	39,034
Interest income on first note receivable	42,861	215,109
First note receivable	66,310	615,548
Cash given up on sale of subsidiary	(3,830)	-
Net cash provided by investing activities	931,284	1,115,436
Change in cash	(12,859)	289,664
Cash, beginning of year	419,986	130,322
Cash, end of year	$ 407,127	$ 419,986

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 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.

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") (collected subsequent to year end (Note 6)), 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.

2. BASIS OF PRESENTATION

Statement of compliance

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

These consolidated financial statements were authorized by the Audit Committee and Board of Directors of the Company on September 26, 2016.

Basis of presentation

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

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

Functional and presentation currency

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

2. BASIS OF PRESENTATION (cont'd…)

Basis of consolidation

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

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

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

Significant estimates

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

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

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

2. BASIS OF PRESENTATION (cont'd…)

Significant estimates (cont'd…)

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.

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

Financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial assets (cont'd…)

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables and First Note receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. Available for sale securities have been classified as available for sale assets.

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

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. The Company has not classified any financial liabilities as FVTPL.

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

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

Exploration and evaluation assets

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets (cont'd…)

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

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

Provisions

Rehabilitation provisions

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

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss. The Company had no measurable rehabilitation obligations as at May 31, 2016 and 2015.

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. The Company had no other provisions as at May 31, 2016 and 2015.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment (cont'd…)

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

Equipment

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

Computer equipment	30%
Furniture and fixtures	20%
Leasehold improvements	20%
Automotive equipment	10%

Foreign currency translation

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

Share-based payments

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

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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.

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, entitles would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income.

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

(Expressed in Canadian Dollars)

4. EXPLORATION AND EVALUATION ASSETS

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

	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 fiscal 2014, 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.

5. SALE OF CERRO PRIETO PROPERTY

The Cerro Prieto Property was an exploration and evaluation asset sold to Goldgroup on August 30, 2013 (the "Transaction. The Company received $4,748,850 (US$4,500,000) cash, 5,500,000 common shares of Goldgroup valued at $825,000, a contingent promissory note (the "First Note") in the principal amount of US$1,500,000 (initial fair value of $Nil) bearing 8%, with payment commencing after 1,000 ounces of gold have been produced from the Property (commenced), and a second promissory note (the "Second Note") in the principal amount of US$4,125,000, bearing no interest, due two years from closing and repayable, at Goldgroup's election, in cash or 16,500,000 Goldgroup common shares.

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, which period commenced on March 1, 2014.

And, in addition, prior to the closing of the Transaction, Minas de Oroco 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 assigned a fair value of zero to the IVA Refund as collectability was uncertain.

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.

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

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 the IVA Refund. Goldgroup is to pay 50% of all IVA Refund in excess of $400,000 (the "IVA Refund Split"), 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 would reimburse Goldgroup 60% of any amount less than CDN$400,000 of IVA Refund recovered by August 30, 2015, though the Company would remain entitled to recover that amount back from any future IVA recoveries. In consideration of the assignment, Goldgroup issued to the Company 1,200,000 common shares, with a fair value on grant of $216,000. In February, 2016, pursuant to a Shares for Debt Settlement Agreement, Goldgroup issued to the Company a further 1,290,025 common shares, with a fair value on grant of $96,752, in settlement of US$55,000 of IVA Refund Split owing. As at May 31, 2016, $152,076 (US$116,000) of IVA Refund Split remained due and owing to the Company and is included in receivables. Subsequent to May 31, 2016, Goldgroup made payments to the Company in August and September, 2016 to fully settle the IVA Refund Split due (Note 17).

6. NOTES RECEIVABLE

First Note

Pursuant to the sale of the Cerro Prieto Property, the Company received the 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 at Cerro Prieto triggering realization of the contingent First Note receivable resulting in a gain of $1,664,550.

During fiscal 2015, the Company received two instalment payments from Goldgroup on the First Note, totaling $615,548 (US$500,000) and agreed to amend the payment due date. In fiscal 2016, the Company received payments of $66,310 (US$50,000) and 3,400,975 common shares of Goldgroup, valued at $255,073 (US$145,000) and agreed to further amend the terms of payment of the First Note.

Pursuant to the First Note's amended terms, the interest rate payable on the outstanding principal of the First Note was changed to 12%, the Company received $32,683 (US$25,000) as an extension fee, and accrued $100,000 as a break fee (the "Break Fee"). Also in connection with the amended terms, the Company sold 6,000,000 common shares of Goldgroup (Note 7) at $0.06 per share.

As at May 31, 2016 the estimated fair value of the First Note was $1,055,355 (US$805,000) (2015 - $1,243,700 (US$1,000,000)) recorded as the principal amount of the note and allocated to current assets together with accrued interest of $107,280 (US$81,830) at May 31, 2016 (2015 - $16,628 (US$13,370)).

Subsequent to May 31, 2016, the Company and Goldgroup entered into a payment agreement (Note 17), with regard to payment of the outstanding principal and interest owing on the First Note, the Break Fee and the outstanding IVA Refund Split. Goldgroup paid the entire debt in full in August and September 2016.

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 year ended May 31, 2016, the Company recorded a loss on valuation of second note receivable of $577,500 (2015 - $1,650,000).

(Expressed in Canadian Dollars)

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). Pursuant to a Shares for Debt Agreement dated February 12, 2016, the Company received 3,400,975 shares of Goldgroup, with a fair value on grant of $255,073 ($0.075 per share) in settlement of $204,059 (US$145,000) of the outstanding principal owing on the First Note, resulting in a gain on recovery of $51,015. During year ended May 31, 2016, the Company sold 15,439,250 (2015 - 1,532,000) of these shares resulting in a gain on sale of $277,498 (2015 - $57,571), which includes a permanent impairment recovery of $29,960 (2015 - $Nil) on previously impaired available for sale securities. As at May 31, 2016, the remaining shares had a fair value of $1,723,815 (2015 - $382,500), resulting in other comprehensive income (loss) of $1,128,328 (2015 – ($377,452)). During the year ended May 31, 2016, the Company recorded a permanent impairment of $328,125 (2015 - $227,288).

During the year ended May 31, 2016, the Company purchased 200,000 units, at a cost of $187,560, of a private British Columbia company ("BC Co"), a company related by virtue of a member of the Company's management and a private company owned by the spouse of a director collectively having significant influence in BC Co, which has an interest in mineral concessions in Mexico, 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 year ended May 31, 2016, the Company exercised 100,000 Warrants to acquire a further 100,000 shares of BC Co., at a cost of $116,990.

8. EQUIPMENT

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
Cost:					
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 May 31, 2016	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Depreciation:					
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 year	618	713	473	125	1,929
At May 31, 2016	$ 10,388	$ 21,444	$ 8,127	$ 2,569	$ 42,528
Net book value:					
At May 31, 2015	$ 6,178	$ 2,379	$ 2,363	$ 626	$ 11,546
At May 31, 2016	$ 5,560	$ 1,666	$ 1,890	$ 501	$ 9,617

(Expressed in Canadian Dollars)

9. GAIN ON SETTLEMENT OF ACCOUNTS PAYABLE

On December 16, 2015, the Company received a Dismissal Order (the "Order") with regard to the remaining claims by Sonoran (Note 16). 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. 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 year ended May 31, 2016.

The Company had previously recorded an amount for employee severance costs claimed by Sonoran Resources LLC ("Sonoran") as owing, which claim was contested by the Company. Sonoran commenced a legal action with regard to this invoiced amount and other claims. (Note 16). During fiscal 2015, the Company recorded a gain on settlement of accounts payable of $92,209 (USD $75,861) as a result of the court granting summary judgement in favour of the Company with regard to Sonoran's claims for these employee severance costs.

10. SHARE CAPITAL AND RESERVES

Authorized

An unlimited number of common shares without par value.

Issued share capital

During the years ended May 31, 2016 and 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, May 31, 2016 and 2015	-	$ -

(Expressed in Canadian Dollars)

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

Stock options

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

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

The following table summarizes information about stock options outstanding as at May 31, 2016:

Number of options	Exercise price	Weighted average remaining life (years)	Expiry date
400,000	$ 0.30	0.50	December 1, 2016

Reserves

At May 31, 2016, the Company had a Stock Option and Warrant Reserve balance of $2,110,254 (2015 - $2,110,254) consisting of warrant valuations on warrants attached to various private placements and share-based compensation associated with stock option grants to employees, consultants, directors and officers.

At May 31, 2016, the Company had an Other Comprehensive Income balance of $1,128,328 (2015 - $ Nil).

(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS

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

	For the year ended May 31, 2016	For the year ended May 31, 2015
Management and director fees	$ 239,000	$ 204,250
Consulting	12,600	9,000
Professional fees	102,000	109,500
Total	$ 353,600	$ 322,750

As at May 31, 2016 included in accounts payable and accrued liabilities was $129,622 (2015 - $183,545) owing to officers and directors. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

During the year ended May 31, 2016, the Company purchased 300,000 common shares of BC Co, a company related by virtue of a member of the Company's management and a private company owned by the spouse of a director collectively having significant influence in BC Co. (Note 7).

12. 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, 2016

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

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
Total assets	$ 3,723,698	$ 235,753	$ 3,959,451

(Expressed in Canadian Dollars)

13. DEFERRED INCOME TAXES

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

		2016		2015
Income (loss) for the year before income taxes and discontinued operations	$	(738,962)	$	(1,961,415)
Expected income tax (recovery)	$	(192,000)	$	(510,000)
Change in statutory, foreign tax, foreign exchange rates and other		78,000		(73,000)
Permanent difference		57,000		234,000
Adjustment to prior years provision versus statutory tax returns		61,000		(774,000)
Change in unrecognized deductible temporary differences		(4,000)		1,123,000
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 as follows:

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

		2016		2015
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:

		2016		2015
Deferred tax assets (liabilities)				
Exploration and evaluation assets	$	779,000	$	790,000
Equipment		1,000		1,000
Share issue costs		-		5,000
Available for sale securities		(123,000)		-
Allowable capital loss		975,000		942,000
Non-capital losses available for future periods		1,990,000		1,888,000
		3,622,000		3,626,000
Unrecognized deferred tax assets		(3,622,000)		(3,626,000)
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:

		2016	Expiry Date Range
Temporary differences			
Exploration and evaluation assets	$	2,998,000	No expiry date
Equipment		2,000	No expiry date
Allowable capital loss		3,750,000	No expiry date
Available for sale securities		(948,000)	No expiry date
Non-capital losses available for future periods		7,639,000	2017 to 2036

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

14. SUPPLEMENTAL CASH FLOW INFORMATION

		For the year ended May 31, 2016		For the year ended May 31, 2015
Interest paid	$	-	$	-
Taxes paid	$	-	$	-
Non-cash transactions not included in investing or financing activities				
Exploration and evaluation assets included in accounts payable	$	3,105	$	2,939
Available for sale securities received for partial repayment of First Note	$	204,058	$	-
Available for sale securities received for settlement of Second Note	$	1,072,500	$	-
Unrealized gain on fair value of available for sale securities	$	1,128,328	$	

15. FINANCIAL INSTRUMENT RISK AND CAPITAL

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

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

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.

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.

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

Foreign Exchange Risk

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

16. 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 invoices totalling $101,221 and for breach of good faith and fair dealing.

On December 4, 2015, all of the parties to the legal action entered into a settlement agreement pursuant to which the Company agreed to pay Sonoran US$49,000 in full settlement of all of Sonoran's claims.

17. SUBSEQUENT EVENTS

On June 28, 2016, at an annual general and extraordinary meeting of the shareholders of the Company, a resolution was passed approving a change of the Company's business from a "Mining Issuer" to an "Investment Issuer", as those terms are used in the policies of the TSX Venture Exchange.

On August 5, 2016, the Company and Goldgroup entered into a payment agreement, which, in addition to the outstanding First Note balance of US$805,000, also includes all accrued interest, the Break Fee of $100,000, and US$116,000 of IVA Refund Split, for an aggregate debt total US$1,098,700 (the "Goldgroup Debt"). In evidence of this debt, Goldgroup issued a promissory note to the Company in the amount of US$1,098,700, with outstanding principal bearing 12% per annum simple interest. On August 11, 2016, Goldgroup paid the Company $100,000 and US$223,500 in settlement of US$300,000 of the Goldgroup Debt. On September 21, 2016, Goldgroup paid the Company US$811,691 in full settlement of the Goldgroup Debt.