

OROCO RESOURCE CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

AUGUST 31, 2018

(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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

OROCO RESOURCE CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian Dollars)

(Unaudited)

As at

	August 31, 2018	May 31, 2018
ASSETS		
Current		
Cash	\$ 541,558	\$ 938,804
Receivables	38,191	33,162
Prepaid expenses and advances	10,388	4,011
	590,137	975,977
Marketable securities (Note 4)	376,063	548,600
Investment in and advances to associated company (Note 4)	750,478	721,608
Deferred acquisition costs	9,759	9,759
Exploration and evaluation assets (Note 6)	963,874	681,547
Equipment (Note 7)	6,600	6,851
	\$ 2,696,911	\$ 2,944,342
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade payables and accrued liabilities (Note 9)	\$ 329,975	\$ 296,859
Deferred tax liability	13,443	13,443
	343,418	310,302
Shareholders' equity		
Share capital (Note 8)	18,253,178	18,115,678
Reserves (Note 8)	2,282,607	2,392,571
Deficit	(18,182,292)	(17,874,209)
	2,353,493	2,634,040
	\$ 2,696,911	\$ 2,944,342

Nature of operations and going concern (Note 1)**Subsequent events** (Note 13)**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 August 31, 2018	For the Three Months Ended August 31, 2017
Expenses		
Business development	\$ 16,650	\$ 11,773
Depreciation (Note 7)	251	308
Consulting fees (Note 9)	17,650	15,938
Foreign currency loss (gain)	(390)	80,966
Management and director fees (Note 9)	59,000	59,000
Office and general	23,080	26,583
Professional fees (Note 9)	54,225	40,035
Property investigation costs	2,057	136,255
Rent	19,719	16,373
Share-based payment (Notes 8 and 9)	62,573	93,809
Shareholder communications and investor relations	740	-
Transfer agent and filing fees	4,588	3,134
Travel	17,185	6,996
Operating loss	(277,328)	(491,170)
Equity loss in associated company (Note 4)	(31,025)	-
Gain on sale of marketable securities (Note 4)	-	1,616
Royalty revenue (Note 5)	270	8,625
	(30,755)	10,241
Loss for the period	(308,083)	(480,929)
Unrealized gain (loss) on fair value of marketable securities (Note 4)	(172,537)	97,058
Loss and comprehensive loss for the period	\$ (480,620)	\$ (383,871)
Basic and diluted loss per common shares	\$ (0.00)	\$ (0.01)
Weighted average number of common shares outstanding - basic and diluted	89,196,318	77,947,405

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

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

(Expressed in Canadian Dollars)

(Unaudited)

	Share Capital		Reserves			
	Number	Amount	Other comprehensive income	Stock option and warrant	Deficit	Total
		\$	\$	\$	\$	\$
May 31, 2017	77,947,405	16,973,847	183,420	2,110,254	(16,496,968)	2,770,553
Unrealized gain on fair value of marketable securities	-	-	97,058	-	-	97,058
Share-based payment	-	-	-	93,809	-	93,809
Loss for the period	-	-	-	-	(480,929)	(480,929)
August 31, 2017	<u>77,947,405</u>	<u>16,973,847</u>	<u>280,478</u>	<u>2,204,063</u>	<u>(16,977,897)</u>	<u>2,480,491</u>
May 31, 2018	89,147,405	18,115,678	103,031	2,289,540	(17,874,209)	2,634,040
Shares issued for exploration and evaluation assets	500,000	137,500	-	-	-	137,500
Unrealized loss on fair value of marketable securities	-	-	(172,537)	-	-	(172,537)
Share-based payment	-	-	-	62,573	-	62,573
Loss for the period	-	-	-	-	(308,083)	(308,083)
August 31, 2018	<u>89,647,405</u>	<u>18,253,178</u>	<u>(69,506)</u>	<u>2,352,113</u>	<u>(18,182,292)</u>	<u>2,353,493</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 Three Months Ended August 31, 2018	For the Three Months Ended August 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (308,083)	\$ (480,929)
Adjusted for items not involving cash:		
Depreciation	251	308
Equity loss in associated company	31,025	-
Gain on sale of marketable securities	-	(1,616)
Accrued royalty income	(270)	(8,625)
Foreign exchange gain (loss)	(201)	563
Share-based payment	62,573	93,809
Changes in working capital items:		
Receivables	(6,340)	11,080
Prepaid expenses and advances	(6,377)	(31,489)
Trade payables and accrued liabilities	33,198	(20,632)
Net cash used in operating activities	(194,224)	(437,531)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(144,909)	(11,645)
Proceeds on sale of marketable securities	-	4,291
Royalty revenue	1,782	-
Advances to associated company	(59,895)	(25,510)
Net cash used in investing activities	(203,022)	(32,864)
Change in cash	(397,246)	(470,395)
Cash, beginning of period	938,804	1,373,872
Cash, end of period	\$ 541,558	\$ 903,477

Supplemental cash flow information (Note 11)

The accompanying notes are an integral part of these condensed interim 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 and exploring exploration and evaluation assets in Mexico. The Company is listed on the TSX Venture Exchange (the "TSX-V").

The Company's head office and principal address is located at #1201 - 1166 Alberni Street, Vancouver, British Columbia, Canada, V6E 3Z3.

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

The Company's exploration and evaluation assets consist of the Xochipala, Santo Tomas, and Salvador properties in Mexico. The outlook for the Company is tied to realizing on the value of its exploration and evaluation assets and marketable securities, raising the financing necessary to maintain operations thereafter, and ultimately on generating future profitable operations. These uncertainties may cast significant doubt as to the ability of the Company to continue as a going concern.

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

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, 2018, 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 October 29, 2018.

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.

Functional and presentation currency

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

OROCO RESOURCE CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (Expressed in Canadian Dollars)
 (Unaudited)
 For the three months ended August 31, 2018

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

Basis of consolidation

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

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

The Company also holds an inactive, nominal company incorporated in Canada.

The Company holds a 13.0% interest in Altamura Copper Corp. ("Altamura") which is accounted for as an equity investment.

Significant estimates

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

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

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

Valuation of marketable securities - The Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of, and near term business outlook for, the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flow.

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.

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

Significant estimates (cont'd...)

Valuation of production royalty - The Company is entitled to royalty income as disclosed in Note 5. The Company has estimated the value of the production royalty to be \$Nil due to lack of certainty of future ongoing production and values.

Significant judgments

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

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

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

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, 2018, 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, 2018:

IFRS 9, Financial instruments

The Company retrospectively adopted IFRS 9, "Financial Instruments". IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, "Financial Instruments: Recognition and Measurement". Prior periods were not restated and there was no material impact to the Company's condensed interim consolidated financial statements as a result of transitioning to IFRS 9.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting treatment related to financial liabilities and financial assets. The impact of IFRS 9 on the classification and measurement of financial assets and financial liabilities is set out below.

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

New accounting policies adopted (cont'd...)

Classification and measurement of financial assets and liabilities

Under IFRS 9, financial assets, on initial recognition, are recognized at fair value and subsequently classified and measured at: amortized cost; fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). IFRS 9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The classification of financial assets depends on the purpose for which the financial assets were acquired. The Company’s financial assets which consist of cash and receivables are classified as amortized cost. Financial assets are classified as current assets or non-current assets based on their maturity date. Cash has changed classification from FVTPL to amortized cost. The carrying value is equal to its fair value given the short-term nature of the asset, therefore, there is no change in the carrying value as a result of the change in classification. Marketable securities are classified as FVOCI.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, and, as such, the Company’s accounting policy with respect to financial liabilities is substantially unchanged. The Company’s financial liabilities which consist of trade payables and accrued liabilities are classified as amortized cost.

Impairment of financial assets

An expected credit loss (“ECL”) model applies to financial assets measured at amortized cost. The ECL model requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The adoption of the ECL impairment model had a negligible impact on the carrying amounts of the Company’s financial assets given the nature of the items and that receivables are substantially all current and there is a minimal level of default.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

There was no impact on the condensed interim consolidated financial statements as a result of adopting this standard.

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, 2019:

IFRS 16, Leases

This standard sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. It eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company is currently evaluating the impact this standard is expected to have on the Company's consolidated financial statements.

4. INVESTMENTS AND ADVANCE

(a) Marketable Securities

During the three months ended August 31, 2018, the Company sold Nil (2017 - 43,000) Goldgroup Mining Inc. ("Goldgroup") shares resulting in a gain on sale of \$Nil (2017 - \$1,616). As at August 31, 2018, the remaining 5,601,250 shares had a fair value of \$280,063 (May 31, 2018 - \$448,100), resulting in other comprehensive loss of \$168,037 (2017 - \$97,058 gain).

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

As at August 31, 2018, the Company owned 5,950,000 common shares (representing a 13.0% ownership), at a cost of \$451,073, in Altamura, a company related by virtue of a director and officer of the Company and a member of the Company's management collectively having significant influence in Altamura. Altamura has an un-registered interest in mineral concessions in Mexico (the "Interest"), the registration of which Interest is subject to a legal dispute between the vendor of the Interest and a third party. The mineral concessions are subject to a 1.5% NSR.

The Company owns 75,000 common shares of a publicly traded company ("Pub Co."). As at August 31, 2018, the shares had a fair value of \$21,000 (May 31, 2018 - \$25,500), resulting in other comprehensive loss of \$4,500 (2017 - \$Nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. INVESTMENTS AND ADVANCE (cont'd...)

(a) Marketable Securities (cont'd...)

	Goldgroup		Altamura		BC Co.	
	Number	Amount	Number	Amount	Number	Amount
May 31, 2017	6,593,250	\$ 593,393	5,950,000	\$ 451,073	375,000	\$ 75,000
Additions	-	-	-	-	-	-
Disposals	(992,000)	(61,684)	-	-	-	-
Transfer to equity investment	-	-	-	(451,073)	-	-
Fair value adjustment	-	(83,609)	-	-	-	-
May 31, 2018	5,601,250	448,100	5,950,000	-	375,000	75,000
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Fair value adjustment	-	(168,037)	-	-	-	-
August 31, 2018	5,601,250	\$ 280,063	5,950,000	\$ -	375,000	\$ 75,000

	Pub Co.		Total Amount
	Number	Amount	
May 31, 2017	-	\$ -	\$ 1,119,466
Additions	75,000	22,280	22,280
Disposals	-	-	(61,684)
Transfer to equity investment	-	-	(451,073)
Fair value adjustment	-	3,220	(80,389)
May 31, 2018	75,000	25,500	548,600
Additions	-	-	-
Disposals	-	-	-
Fair value adjustment	-	(4,500)	(172,537)
August 31, 2018	75,000	\$ 21,000	\$ 376,063

(b) Equity Investment and Advance

During the three months ended August 31, 2018, the Company advanced to and/or paid on behalf of Altamura \$59,895 and received \$Nil, for total outstanding advances of \$349,298 (May 31, 2018 - \$289,403) (the "Advances"). Pursuant to an agreement with Altamura dated September 26, 2017, as amended, the Company holds an option to convert the Advances into shares of Altamura (the "Share Option") at a price of US\$0.057 per share, to a maximum of 3,500,000 shares. Exercise of the Share Option for all 3,500,000 shares would result in the Company holding 9,450,000 common shares, representing a 19.2% interest in Altamura and accordingly, as of September 27, 2017, the investment has been accounted for as an equity investment. The term of the Share Option has been extended to September 30, 2018. The Advances are secured by promissory notes. Subsequent to August 31, 2018, the Company entered into a Restated Option Agreement and a Loan Agreement with Altamura (Note 13).

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

(b) Equity Investment and Advance (cont'd...)

Information on the equity investment is as follows:

As at August 31, 2018, the Company's investment in Altamura, including dilution gains, less its share of Altamura's accumulated losses was \$401,180 (May 31, 2018 - \$432,205). The Company's share of the loss for the three months ended August 31, 2018 was \$31,025 (2017 - \$Nil). The Company does not control operational decisions and the Company's judgment is that it has significant influence, but not control and accordingly equity accounting is appropriate.

As at August 31, 2018, Altamura's aggregate assets, aggregate liabilities and loss for the period then ended are as follows:

	Altamura
Aggregate assets	\$ 210,628
Aggregate liabilities	441,133
Loss for the three months ended August 31, 2018	238,657
The Company's ownership percentage	13.0%
The Company's share of the loss	31,025

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

	Altamura
Equity investment	
May 31, 2018	\$ 432,205
Additions	-
Loss for the period	(31,025)
Total equity investment as at August 31, 2018	401,180
Advances	
May 31, 2018	289,403
Additions	59,895
Total advances as at August 31, 2018	349,298
Total equity investment and advances as at August 31, 2018	\$ 750,478

5. CERRO PRIETO ROYALTY

Pursuant to the sale of the Company's interest in the Cerro Prieto Property to Goldgroup in fiscal 2013, Goldgroup agreed to pay to the Company a production royalty (the "Production Royalty") quarterly in arrears. The Production Royalty, payable for each month in which the monthly average of the daily PM London gold fix is in excess of US\$1,250 per ounce, is calculated at the rate of 20% of the dollar value of that excess for each ounce of gold produced from the property during that month, to a maximum royalty of US\$90 per ounce. This Production Royalty will be payable for each and every ounce of the greater of:

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5. CERRO PRIETO ROYALTY (cont'd...)

- 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.

During the three months ended August 31, 2018, the Company accrued or received \$270 (2017 - \$8,625) in royalty revenue.

6. EXPLORATION AND EVALUATION ASSETS

	Santo Tomas Properties	Xochipala Property	Total
May 31, 2018	\$ 347,793	\$ 333,754	\$ 681,547
Acquisition costs			
Cash	-	-	-
Shares issued	-	-	-
Deferred exploration expenditures			
Geologists	270,299	8,899	279,198
Lease payments, assessment fees and taxes	-	3,129	3,129
	270,299	12,028	282,327
August 31, 2018	\$ 618,092	\$ 345,782	\$ 963,874
	Santo Tomas Properties	Xochipala Property	Total
May 31, 2017	\$ -	\$ 292,329	\$ 292,329
Acquisition costs			
Cash	47,247	-	47,247
Shares issued	240,000	-	240,000
	287,247	-	287,247
Deferred exploration expenditures			
Geologists	39,453	35,708	75,161
Lease payments, assessment fees and taxes	21,093	5,717	26,810
	60,546	41,425	101,971
May 31, 2018	\$ 347,793	\$ 333,754	\$ 681,547

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

(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.

(b) Salvador Property, Guerrero State, Mexico

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

(c) Santo Tomas Properties, Sinaloa State, Mexico

In February 2018, the Company acquired a 77.5% interest in each of the La China II and the AMP Santo Tomas Red 1 concessions and in August 2018, acquired the Papago 17 concession (the "Santo Tomas Properties") all of which are contiguous to the concessions which cover the known core of the Santo Tomas mineralized structure (the "Core Concessions"). The Santo Tomas Properties were acquired for a total cash payment of \$47,247 and the issuance of 2,000,000 common shares, valued at \$240,000.

All three concessions are subject to a 2% net smelter royalty ("NSR").

Altamura holds an un-registered interest in the Core Concessions. The registration of this interest is subject to a legal dispute between the vendor of the interest, who holds a registered 100% interest in the Core Concessions, and third parties. Altamura also holds an indirect 50% interest in the vendor and has an option to acquire the other 50% for US\$16,000,000, subject to a 1% NSR, one half of which can be purchased for US\$2,000,000.

During the three months ended August 31, 2018, the Company entered into a purchase agreement pursuant to which the Company acquired geological data, analysis and models related to the Santo Tomas properties in consideration for 500,000 common shares (Note 8) and US\$500,000, to be paid by way of three payments of US\$50,000 each and a final payment of US\$350,000, all to be made over a period of no more than three years.

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(Unaudited)
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7. EQUIPMENT

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
Cost					
May 31, 2017	\$ 15,948	\$ 23,110	\$ 10,017	\$ 3,070	\$ 52,145
Additions	-	-	-	-	-
May 31, 2018	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
August 31, 2018	\$ 15,948	\$ 23,110	\$ 10,017	\$ 3,070	\$ 52,145
Depreciation					
May 31, 2017	\$ 10,945	\$ 21,943	\$ 8,505	\$ 2,669	\$ 44,062
Charge for the year	500	350	302	80	1,232
May 31, 2018	11,445	22,293	8,807	2,749	45,294
Charge for the period	113	61	61	16	251
August 31, 2018	\$ 11,558	\$ 22,354	\$ 8,868	\$ 2,765	\$ 45,545
Net book value					
May 31, 2018	\$ 4,503	\$ 817	\$ 1,210	\$ 321	\$ 6,851
August 31, 2018	\$ 4,390	\$ 756	\$ 1,149	\$ 305	\$ 6,600

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8. SHARE CAPITAL AND RESERVES

Authorized

An unlimited number of common shares without par value.

Issued share capital

During the three months ended August 31, 2018, the Company issued 500,000 common shares, valued at \$137,500, pursuant to the purchase agreement in which the Company acquired geological data, analysis and models related to the Santo Tomas Properties (Note 6(c)).

During the three months ended August 31, 2017, there was no share capital activity.

Warrants

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance, outstanding as at May 31, 2017	-	\$ -
Issued	4,500,000	0.16
Balance, outstanding as at August 31 and May 31, 2018	4,500,000	\$ 0.16

Warrants outstanding as at August 31, 2018 are as follows:

Number of warrants	Exercise price	Weighted average remaining life (years)	Expiry date
4,500,000	\$ 0.16	1.15	October 26, 2019
4,500,000			

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.

During the three months ended August 31, 2018, a total of 750,000 (2017 - 3,750,000) stock options were granted to certain officers, directors, and consultants of the Company using the Black-Scholes option pricing model. During the three months ended August 31, the Company recognized \$62,573 (2017 - \$93,809) as share-based payment for the fair value of the stock options.

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

Stock options (cont'd...)

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

	For the three months ended August 31, 2018	For the three months ended August 31, 2017
Risk-free interest rate	1.98%	1.24%
Expected option life in years	3.0 years	3.0
Expected stock price volatility	145%	147%
Expected forfeiture rate	0%	0%

Option transactions are summarized as follows:

	Number of options	Weighted average exercise price
Balance, outstanding as at May 31, 2017	-	\$ -
Granted	4,900,000	0.075
Exercised	(200,000)	0.075
Balance, outstanding as at May 31, 2018	4,700,000	0.075
Granted	750,000	0.20
Balance, outstanding as at August 31, 2018	5,450,000	\$ 0.092
Balance, exercisable as at August 31, 2018	4,725,000	\$ 0.079

Options outstanding as at August 31, 2018 are as follows:

Number of options	Number of exercisable options	Exercise price \$	Weighted average remaining life (years)	Expiry date
3,550,000	3,550,000	0.075	1.95	August 11, 2020
150,000	150,000	0.075	2.05	September 18, 2020
500,000	375,000	0.075	2.05	September 18, 2020
500,000	500,000	0.075	2.15	October 24, 2020
750,000	150,000	0.20	2.84	July 2, 2021
5,450,000	4,725,000			

Reserves

As at August 31, 2018, the Company had a Stock Option and Warrant Reserve balance of \$2,352,113 (May 31, 2018 - \$2,289,540) consisting of warrant valuations associated with warrants issued in connection with various private placements and share-based compensation associated with stock option grants to employees, consultants, directors and officers.

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

Reserves (cont'd...)

As at August 31, 2018, the Company had an Other Comprehensive Income (Loss) balance of \$(69,506) (May 31, 2018 - \$103,031).

9. 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 three months ended August 31, 2018	For the three months ended August 31, 2017
Management and director fees	\$ 59,000	\$ 59,000
Consulting	5,400	5,400
Professional fees	25,500	25,500
Share-based payment	-	67,543
Total	\$ 89,900	\$ 157,443

As at August 31, 2018 included in accounts payable and accrued liabilities was \$232,710 (May 31, 2018 - \$215,151) owing to officers and directors. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

10. 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 August 31, 2018

	Canada	Mexico	Total
Equipment	\$ 2,210	\$ 4,390	\$ 6,600
Exploration and evaluation assets	-	963,874	963,874
Other assets	1,705,061	11,385	1,726,437
Total assets	\$ 1,707,271	\$ 989,640	\$ 2,696,911

As at May 31, 2018

	Canada	Mexico	Total
Equipment	\$ 2,348	\$ 4,503	\$ 6,851
Exploration and evaluation assets	-	681,547	681,547
Other assets	2,244,559	11,385	2,255,944
Total assets	\$ 2,246,907	\$ 697,435	\$ 2,944,342

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11. SUPPLEMENTAL CASH FLOW INFORMATION

	For the three months ended August 31, 2018	For the three months ended August 31, 2017
Interest paid	\$ -	\$ -
Taxes paid	-	-
Non-cash transactions not included in investing or financing activities		
Exploration and evaluation assets included in accounts payable	\$ 3,012	\$ 2,889
Shares issued for exploration and evaluation assets	137,500	-
Unrealized gain (loss) on fair value of marketable securities	(172,537)	97,058

12. 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 three months ended August 31, 2018.

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.

12. 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, note receivable and trade payables 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 and Pub Co. shares recorded in marketable securities are measured at a level 1 of the fair value hierarchy and the BC Co. shares recorded in marketable securities are measured using level 3 of the fair value hierarchy based on cost at time of acquisition. The Company's financial instruments are exposed to certain financial risks, which include credit risk, liquidity risk, and market risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts. The bank accounts are mainly held with a major Canadian bank and this minimizes the risk to the Company.

Liquidity Risk

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

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 August 31, 2018 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.

13. SUBSEQUENT EVENTS

Subsequent to August 31, 2018, the Company:

- i. entered into an agreement pursuant to which the Company acquired, subject to TSX-V and shareholder approval, if required, a three-year option (the "Option") to acquire all of the equity in Altamura not already held by the Company in consideration for 39,800,000 shares of the Company. If the Company exercises the Option, it will comply with Altamura's obligation to pay certain contingency fees as follows:
 - US\$600,000 within six months of successful registration of the Core Concessions;
 - 10% of the sale price, to a maximum of US\$3,600,000, (inclusive of the first US\$600,000) upon the sale of the Core Concessions to a third party; and
 - 1.5% of the sale price, to a maximum of \$4,100,000 on the sale of the Core Concession to a third party;
- ii. in consideration for the granting of the Option, entered into an agreement to lend up to US\$600,000 to Altamura, inclusive of funds loaned to date;
- iii. in replacement of the September 26, 2017 option agreement with Altamura (Note 4), entered into a restated option agreement pursuant to which, in the event that the Company does not exercise the Option (Note 13(i)), the Company may convert all advances to Altamura into common shares of Altamura at a price of US\$0.057 per share at any time within the first six months after the expiry of the Option; and
- iv. on October 24, 2018, the Company granted a total of 1,500,000 incentive stock options to consultants to the Company, vesting in five equal installments over the next year, with each option granting the holder the right to purchase common shares at a price of \$0.225 per share for three years.