OROCO RESOURCE CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

AUGUST 31, 2017

(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, 2017	May 31, 2017
ASSETS		
Current		
Cash	$ 903,477	$ 1,373,872
Receivables	17,964	20,982
Prepaid expenses and advances	36,404	4,915
	957,845	1,399,769
Advance to associated company (Notes 6 and 9)	190,066	164,556
Available for sale securities (Notes 6 and 9)	1,213,849	1,119,466
Exploration and evaluation assets (Note 4)	303,858	292,329
Equipment (Note 7)	7,775	8,083
	$ 2,673,393	$ 2,984,203
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade payables and accrued liabilities (Note 9)	$ 179,459	$ 200,207
Deferred tax liability	13,443	13,443
	192,902	213,650
Shareholders' equity		
Share capital (Note 8)	16,973,847	16,973,847
Reserves (Note 8)	2,484,541	2,293,674
Deficit	(16,977,897)	(16,496,968)
	2,480,491	2,770,553
	$ 2,673,393	$ 2,984,203

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 INCOME (LOSS) AND COMPREHENSIVE (INCOME) LOSS
(Expressed in Canadian Dollars)
(Unaudited)

	For the Three Months Ended August 31, 2017	For the Three Months Ended August 31, 2016
Expenses		
Business development	$ 11,773	$ 26,906
Depreciation (Note 7)	308	384
Consulting fees (Note 9)	15,938	17,200
Foreign currency loss (gain)	80,966	(1,760)
Management and director fees (Note 9)	59,000	62,000
Office and general	26,583	20,157
Professional fees (Note 9)	40,035	38,026
Property investigation costs	136,255	-
Rent	16,373	15,957
Share-based payment (Note 8)	93,809	-
Transfer agent and filing fees	3,134	5,930
Travel	6,996	-
Operating loss	(491,170)	(184,800)
Gain on sale of available for sale securities (Note 6)	1,616	499,296
Interest income	-	34,721
Royalty revenue	8,625	76,933
	10,241	610,950
Income (loss) for the period	(480,929)	426,150
Unrealized gain on fair value of available for sale securities (Note 6)	97,058	343,371
Income (loss) and comprehensive income (loss) for the period	$ (383,871)	$ 769,521
Basic and diluted income (loss) per common share	$ (0.01)	$ 0.01
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 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 options and warrants	Deficit	Total
		$	$	$	$	$
May 31, 2016	77,947,405	16,973,847	1,128,328	2,110,254	(16,341,599)	3,870,830
Gain on fair value of available for sale securities	-	-	343,371	-	-	343,371
Income for the period	-	-	-	-	426,150	426,150
August 31, 2016	77,947,405	16,973,847	1,471,699	2,110,254	(15,915,449)	4,640,351
May 31, 2017	77,947,405	16,973,847	183,420	2,110,254	(16,496,968)	2,770,553
Gain on fair value of available for sale securities	-	-	97,058	-	-	97,058
Share-based payment (Note 8)				93,809		93,809
Loss for the period	-	-	-	-	(480,929)	(480,929)
August 31, 2017	77,947,405	16,973,847	280,478	2,204,063	(16,977,897)	2,480,491

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, 2017	For the Three Months Ended August 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the period	$ (480,929)	$ 426,150
Adjusted for items not involving cash:		
Depreciation	308	384
Gain on sale of available for sale securities	(1,616)	(499,296)
Accrued royalty income	(8,625)	(76,933)
Foreign exchange loss	563	2,464
Share-based payment	93,809	-
Accrued interest income	-	(6,870)
Changes in working capital items:		
Receivables	11,080	(32,049)
Prepaid expenses and advances	(31,489)	(2,584)
Trade payables and accrued liabilities	(20,632)	(47,480)
Net cash used in operating activities	(437,531)	(236,214)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(11,645)	(11,629)
Advance to associated company	(25,510)	-
Interest income on first note receivable	-	2,813
First note receivable	-	387,290
Proceeds on sale of available for sale securities	4,291	664,788
Net cash provided by (used in) investing activities	(32,864)	1,043,262
Change in cash	(470,395)	807,048
Cash, beginning of period	1,373,872	407,127
Cash, end of period	$ 903,477	$ 1,214,175

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, 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 #1201 - 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 realizing on the value of its exploration and evaluation assets and available for sale securities, raising the financing necessary to maintain operations thereafter, and ultimately on generating future profitable operations. The Company estimates it has sufficient working capital to fund operations for the upcoming year.

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, 2017, 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 30, 2017.

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.

2. BASIS OF PRESENTATION (cont'd…)

Functional and presentation currency

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

Basis of consolidation

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

Name of Subsidiary	Country of Incorporation	Percentage of Ownership	Principal Activity
Minera Xochipala S.A. de C.V. ("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.

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.

2. BASIS OF PRESENTATION (cont'd…)

Significant estimates (cont'd…)

Valuation of available for sale 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.

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 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.

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. The Company has not recorded any deferred tax assets.

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, 2016, 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, 2017:

IFRS 7, Financial instruments: disclosures

Amendments to IFRS 7 related to the application of IFRS 9, *Financial Instruments*.

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

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, 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.

IFRS 15, Revenue from contracts with customers

This standard deals with revenue recognition and establishes principles of reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

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 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, 2017	$ 292,329	$ 292,329
Deferred exploration expenditures:		
Geologists	7,648	7,648
IVA	1,224	1,224
Lease payments, assessment fees and taxes	2,657	2,657
	11,529	11,529
Balance at August 31, 2017	$ 303,858	$ 303,858

	Xochipala Property	Total
Balance at May 31, 2016	$ 250,355	$ 250,355
Deferred exploration expenditures:		
Geologists	31,955	31,955
IVA	5,113	5,113
Lease payments, assessment fees and taxes	4,906	4,906
	41,974	41,974
Balance at May 31, 2017	$ 292,329	$ 292,329

(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.

5. SALE OF CERRO PRIETO PROPERTY

On August 30, 2013, the Company sold its interest in the Cerro Prieto Property to Goldgroup Mining Inc. ("Goldgroup") by way of the sale of the Company's then wholly owned subsidiary, Minera Polimetalicos Mexicanos, S.A. ("Polimetalicos") and assignment of the 2% (two percent) net smelter returns royalty payable.

In addition to cash, promissory notes (an interest bearing first note in the amount of US$1,500,000, valued on the date of receipt as $Nil, and a non-interest bearing Second Note in the amount of US$4,125,000) and share consideration paid by Goldgroup to the Company, 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:

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, 2017, the Company accrued or received $8,625 (2016 - $76,933) in royalty revenue.

6. 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 VAT 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. Pursuant to a Shares for Debt Agreement, the Company received 3,400,975 shares of Goldgroup, with a fair value on grant of $255,073 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 in fiscal 2016.

During the three months ended August 31, 2017, the Company sold 43,000 (2016 - 2,661,500) of the Goldgroup shares resulting in a gain on sale of $1,616 (2016 - 499,296). As at August 31, 2017, the remaining shares had a fair value of $687,776 (May 31, 2017 - $593,393), resulting in other comprehensive income of $97,058 (August 31, 2016 - $343,371).

The Company owns 425,000 common shares, at a cost of $451,073, in 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. During the three months ended August 31, 2017, the Company paid for expenses on behalf of BC Co of $25,510 (2016 - $6,164) and received $Nil (2016 - $Nil) from BC Co. The advances are unsecured with no specific terms of repayment. Subsequent to August 31, 2017, the Company advanced additional funds and entered into an option to convert the advances into shares of BC Co (Note 13).

The Company owns 375,000 common shares, at a cost of $75,000, in a private British Columbia company ("BC Co2"), which provides satellite based, geological services to the mining and other industries, which are able to identify, model and monitor subsurface geological structures.

(Expressed in Canadian Dollars)

6. AVAILABLE FOR SALE SECURITIES (cont'd)

	Goldgroup		BC Co		BC Co2	
	Number	Amount	Number	Amount	Number	Amount
May 31, 2016	9,576,750	$ 1,723,815	300,000	$ 304,550	-	$ -
Additions	-	-	125,000	146,523	375,000	75,000
Disposals	(2,983,500)	(185,514)	-	-	-	-
Fair value adjustment	-	(944,908)	-	-	-	-
May 31, 2017	6,593,250	593,393	425,000	451,073	375,000	75,000
Additions	-	-	-	-	-	-
Disposals	(43,000)	(2,675)	-	-	-	-
Fair value adjustment	-	97,058	-	-	-	-
August 31, 2017	6,550,250	$ 687,776	425,000	$ 451,073	375,000	$ 75,000

7. EQUIPMENT

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
Cost:					
May 31, 2016	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Additions	-	-	-	-	-
May 31, 2017	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
August 31, 2017	$ 15,948	$ 23,110	$ 10,017	$ 3,070	$ 52,145
Depreciation:					
May 31, 2016	$ 10,388	$ 21,444	$ 8,127	$ 2,569	$ 42,528
Charge for the year	557	499	378	100	1,534
May 31, 2017	10,945	21,943	8,505	2,669	44,062
Charge for the period	125	87	76	20	308
August 31, 2017	$ 11,070	$ 22,030	$ 8,581	$ 2,689	$ 44,370
Net book value:					
May 31, 2017	$ 5,003	$ 1,167	$ 1,512	$ 401	$ 8,083
August 31, 2017	$ 4,878	$ 1,080	$ 1,436	$ 381	$ 7,775

(Expressed in Canadian Dollars)

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, 2017 and 2016, there was no share capital activity.

Warrants

During the three months ended August 31, 2017 and 2016, there were no warrants outstanding.

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, 2017, a total of 3,750,000 stock options were granted to certain officers, directors and consultants of the Company at a price of $0.075 per share, exercisable for a term of three years and fully vested on grant. The fair value of these options at the date of grant of $93,809 was estimated using the Black-Scholes option pricing model with the following assumptions: expected life of three years, risk-free interest rate of 1.24%; expected dividend yield of 0% and an expected volatility of 147%. During the three months ended August 31, 2017, $93,809 was recorded in share-based payment related to options granted.

	Number of Stock Options	Weighted Average Exercise Price
Balance, outstanding and exercisable, as at May 31, 2017	-	$ -
Granted	3,750,000	0.075
Balance, outstanding and exercisable, as at August 31, 2017	3,750,000	$ 0.075

The following table summarizes information about stock options outstanding at August 31, 2017:

Number of options	Exercise price $	Weighted average remaining life (years)	Expiry date
3,750,000	0.075	2.95	August 11, 2020

(Expressed in Canadian Dollars)

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

Reserves

At August 31, 2017, the Company had a Stock Option and Warrant Reserve balance of $ 2,204,063 (August 31, 2016 - $2,110,254) consisting of warrant valuations on warrants attached to various private placements and share-based payment associated with stock option grants to employees, consultants, directors and officers.

At August 31, 2017, the Company had an Other Comprehensive Income balance of $280,478 (August 31, 2016 - $1,471,699).

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, 2017	For the Three Months Ended August 31, 2016
Management and director fees	$ 59,000	$ 62,000
Consulting	5,400	5,200
Professional fees	25,500	25,500
Share-based payment	45,029	-
Total	$ 134,929	$ 92,700

The following amounts were incurred with respect to the Company's non-executive directors:

	For the Three Months Ended August 31, 2017	For the Three Months Ended August 31, 2016
Share-based payment	$ 22,514	$ -
Total	$ 22,514	$ -

As at August 31, 2017 included in accounts payable and accrued liabilities was $131,595 (May 31, 2017 - $142,525) owing to officers and directors. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms.

As at August 31, 2017, the Company has an advance of $190,066 (May 31, 2017- $164,556) to BC Co (Note 6).

(Expressed in Canadian Dollars)

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, 2017

	Canada	Mexico	Total
Equipment	$ 2,897	$ 4,878	$ 7,775
Exploration and evaluation assets	-	303,858	303,858
Other assets	2,338,049	23,711	2,361,760
Total assets	$ 2,340,946	$ 332,447	$ 2,673,393

As at May 31, 2017

	Canada	Mexico	Total
Equipment	$ 3,080	$ 5,003	$ 8,083
Exploration and evaluation assets	-	292,329	292,329
Other assets	2,666,926	16,865	2,683,791
Total assets	$ 2,670,006	$ 314,197	$ 2,984,203

11. SUPPLEMENTAL CASH FLOW INFORMATION

	For the Three Months Ended August 31, 2017	For the Three Months Ended August 31, 2016
Interest paid	$ -	$ -
Taxes paid	$ -	$ -
Non-cash transactions not included in investing or financing activities		
Exploration and evaluation assets included in accounts payable	$ 2,889	$ 3,206
Reallocation of receivables to first note receivable	$ -	$ 386,627
Unrealized gain on fair value of available for sale securities	$ 97,058	$ 343,371

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 of 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, 2017.

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.

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, First 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 shares recorded in available for sale securities are measured at a level 1 of the fair value hierarchy and the BC Co and BC Co2 shares recorded in available for sale 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.

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

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 does not have investments in any asset-backed deposits.

Foreign Exchange Risk

The Company's property interests in Mexico make it subject to foreign currency fluctuations, which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian dollar and foreign currencies. The Company does not invest in derivatives to mitigate these risks. The effect of a 1% change in the foreign exchange rate on the cash held in foreign currencies at August 31, 2017 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, 2017, the Company:

i) granted to consultants a total of 1,150,000 incentive stock options at a price of $0.075 per share for a period of three years;

ii) provided additional advances to BC Co of $29,123; and

iii) entered into an agreement pursuant to which the Company has the option to convert the advance to BC Co into shares of BC Co at a price of US$0.80 per share, to a maximum of 250,000 shares, on or before December 31, 2017.