

**OROCO RESOURCE CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MAY 31, 2020**

**(Expressed in Canadian Dollars)**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Oroco Resource Corp.

### *Opinion*

We have audited the accompanying consolidated financial statements of Oroco Resource Corp. (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2020 and 2019, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

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

### *Other Information*

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

September 28, 2020

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

	2020	2019
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 407,226	\$ 488,402
Receivables	360,134	35,491
Prepaid expenses and advances	118,888	14,776
	886,248	538,669
<b>Marketable securities</b> (Note 4(a))	215,031	401,444
<b>Investment in and advances to associated company</b> (Note 4(b))	-	1,339,443
<b>Deferred acquisition costs</b> (Note 6)	-	29,559
<b>Exploration and evaluation assets</b> (Note 6)	27,395,269	1,417,143
<b>Equipment</b> (Note 7)	5,028	5,850
	\$ 28,501,576	\$ 3,732,108

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities (Notes 8 and 12)	\$ 1,406,175	\$ 467,341
<b>Deferred tax liability</b>	13,443	13,443
	1,419,618	480,784
<b>Shareholders' equity</b>		
Share capital (Note 10)	35,081,553	19,913,512
Reserves (Note 10)	3,051,282	2,758,706
Deficit	(18,203,666)	(19,420,894)
Equity attributable to the Company's shareholders	19,929,169	3,251,324
Non-controlling interest (Notes 4(b) and 11)	7,152,789	-
	27,081,958	3,251,324
	\$ 28,501,576	\$ 3,732,108

**Nature of operations and going concern** (Note 1)

**Contingency** (Note 6)

**Subsequent events** (Note 17)

**Approved on behalf of the Board:**

*"Craig Dalziel"*

Craig Dalziel – Director

*"Stephen Leahy"*

Stephen Leahy – Director

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

**OROCO RESOURCE CORP.****CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

(Expressed in Canadian Dollars)

Year Ended May 31,

	2020	2019
<b>Expenses</b>		
Business development	\$ 68,400	\$ 68,400
Consulting fees (Note 12)	266,051	134,179
Depreciation (Note 7)	822	1,001
Foreign currency loss	15,408	1,806
Management and director fees (Note 12)	325,750	263,500
Office and general	218,472	192,501
Professional fees (Note 12)	381,178	344,923
Property investigation costs	13,733	69,543
Share-based payment (Notes 10 and 12)	460,786	538,932
Shareholder communications and investor relations	266,474	106,027
Transfer agent and filing fees	36,592	26,407
Travel	162,396	63,223
<b>Operating loss</b>	<u>(2,216,062)</u>	<u>(1,810,442)</u>
Equity loss in associated company (Note 4(b))	(15,953)	(119,858)
Equity investment fair value adjustment (Note 4(b))	1,547,215	-
Loss on sale of marketable securities (Note 4(a))	(1,290)	-
Interest income (Note 4(b))	70,348	40,621
Management services (Note 4(b))	52,500	330,000
Royalty income (Note 5)	890,072	12,994
	<u>2,542,892</u>	<u>263,757</u>
<b>Income (loss) for the year</b>	326,830	(1,546,685)
<b>Reclassification of loss on sale of marketable securities included in net loss</b> (Note 4(a))	1,280	-
<b>Unrealized loss on fair value of marketable securities</b> (Note 4(a))	<u>(165,413)</u>	<u>(147,156)</u>
<b>Income (loss) and comprehensive income (loss) for the year</b>	<u>\$ 162,697</u>	<u>\$ (1,693,841)</u>
Income (loss) and comprehensive income (loss) attributable to:		
Equity holders of the Company	\$ 167,245	\$ (1,693,841)
Non-controlling interest (Notes 4(b) and 11)	<u>(4,548)</u>	<u>-</u>
	<u>\$ 162,697</u>	<u>\$ (1,693,841)</u>
<b>Basic income (loss) per common share</b>	<u>\$ 0.00</u>	<u>\$ (0.02)</u>
<b>Diluted income (loss) per common share</b>	<u>\$ 0.00</u>	<u>\$ (0.02)</u>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<u>112,955,984</u>	<u>92,183,337</u>

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				Total
	Number	Amount	Other comprehensive income (loss)	Stock option and warrant	Deficit	Non-controlling interest	
<b>May 31, 2018</b>	89,147,405	18,115,678	103,031	2,289,540	(17,874,209)	-	2,634,040
Shares issued for cash	6,950,000	1,550,000	-	-	-	-	1,550,000
Share issue costs	-	(27,207)	-	-	-	-	(27,207)
Shares issued for option exercises	500,000	63,141	-	(25,641)	-	-	37,500
Shares issued for warrant exercises	445,000	74,400	-	-	-	-	74,400
Shares issued for exploration and evaluation assets	500,000	137,500	-	-	-	-	137,500
Unrealized loss on fair value of marketable securities	-	-	(147,156)	-	-	-	(147,156)
Share-based payment	-	-	-	538,932	-	-	538,932
Loss for the year	-	-	-	-	(1,546,685)	-	(1,546,685)
<b>May 31, 2019</b>	97,542,405	19,913,512	(44,125)	2,802,831	(19,420,894)	-	3,251,324
Shares issued for cash	5,500,000	2,047,500	-	52,500	-	-	2,100,000
Share issue costs	-	(29,198)	-	7,162	-	-	(22,036)
Shares issued for option exercises	400,000	143,739	-	(63,739)	-	-	80,000
Shares issued for warrant exercises	4,125,000	668,000	-	-	-	-	668,000
Shares issued for acquisition of Altamura Copper Corp.	39,800,000	12,338,000	-	-	-	-	12,338,000
Unrealized loss on fair value of marketable securities	-	-	(165,413)	-	-	-	(165,413)
Reclassification of loss on sale of marketable securities	-	-	1,280	-	-	-	1,280
Share-based payment	-	-	-	460,786	-	-	460,786
Increase in ownership of subsidiary	-	-	-	-	885,850	(885,850)	-
Non-controlling interest acquired	-	-	-	-	-	8,043,187	8,043,187
Income (loss) for the year	-	-	-	-	331,378	(4,548)	326,830
<b>May 31, 2020</b>	147,367,405	35,081,553	(208,258)	3,259,540	(18,203,666)	7,152,789	27,081,958

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,

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) for the year	\$ 326,830	\$ (1,546,685)
Adjusted for items not involving cash:		
Depreciation	822	1,001
Equity loss in associated company	15,953	119,858
Equity investment fair value adjustment	(1,547,215)	-
Accrued royalty income	(890,072)	(12,994)
Accrued interest income	(66,801)	(40,621)
Accrued management services income	(52,500)	(330,000)
Foreign exchange gain	(17,078)	(882)
Share-based payment	460,786	538,932
Loss on sale of marketable securities	1,290	-
Changes in working capital items:		
Receivables	(18,125)	(25,134)
Prepaid expenses and advances	(104,112)	(10,765)
Accounts payable and accrued liabilities	300,039	87,322
Net cash used in operating activities	(1,590,183)	(1,219,968)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation expenditures	(1,673,323)	(514,936)
Deferred acquisition costs	-	(19,800)
Royalty income	598,007	20,181
Advances to associated company	(262,631)	(350,572)
Proceeds on sale of marketable securities	20,990	-
Net cash used in investing activities	(1,316,957)	(865,127)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from private placement shares issued	2,100,000	1,550,000
Proceeds from exercise of options	80,000	37,500
Proceeds from exercise of warrants	668,000	74,400
Funds received from promissory notes issued	122,000	-
Repayment of promissory notes	(122,000)	-
Share issue cost	(22,036)	(27,207)
Net cash provided by financing activities	2,825,964	1,634,693
<b>Change in cash</b>	(81,176)	(450,402)
<b>Cash, beginning of year</b>	488,402	938,804
<b>Cash, end of year</b>	\$ 407,226	\$ 488,402

**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 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 Santo Tomas, Xochipala, 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. The Company has incurred ongoing losses and will require additional capital to continue operation for the upcoming twelve months. Subsequent to May 31, 2020, the Company raised funds from the issuance of capital stock (Note 17). Management estimates it will have sufficient funds to operate for the upcoming twelve months.

These 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations or its ability to raise funds.

## **2. BASIS OF PRESENTATION**

### **Statement of compliance**

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

These consolidated financial statements were authorized by the Audit Committee and Board of Directors of the Company on September 28, 2020.

### **Basis of presentation**

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



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

**Functional and presentation currency**

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

**Basis of consolidation**

These consolidated financial statements 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. ("MX")	Mexico	100%	Exploration in Mexico
0973496 B.C. Ltd.	Canada	100%	Holding company
Altamura Copper Corp. ("Altamura")	Canada	100%	Holding company
Xochipala Gold S.A. de C.V. ("XG")	Mexico	71%	Exploration in Mexico
Desarrollos Copper, S.A. de C.V.	Mexico	100%	Holding company
Ruero International Ltd.	Bahamas	50%	Holding company (inactive)

The Company also holds an inactive, nominal company incorporated in Canada, and a majority interest in Aztec Copper Inc. ("Aztec"), an inactive subsidiary incorporated in the United States and its subsidiary, Prime Aztec Mexicana, S.A. de C.V. an inactive subsidiary incorporated in Mexico.

**Significant estimates**

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

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

Share-based payment - The fair value of stock options 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.

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

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

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 these consolidated financial statements are, but are not limited to, the following:

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

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. The Company previously accounted for its interest in Altamura as an equity investment as the Company had the ability to convert its advances into an increased interest in Altamura.

Acquisition of a company - The Company acquired shares in companies as further described in Note 4. These companies did not meet the definition of a business under IFRS 3 and accordingly have been accounted for as an acquisition of assets through the issuance of shares in accordance with IFRS 2. Where the acquisition was in steps, the book value of the original interest was adjusted to fair value based on the acquisition date fair value.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Financial instruments**

##### Financial assets

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

The Company’s financial assets which consist of cash and receivables are classified as amortized cost. Marketable securities are classified as FVOCI.

##### Financial liabilities

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

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

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

**Investments in associated companies**

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

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

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

**Deferred acquisition costs**

Costs relating to the acquisition of potential exploration and evaluation assets are recorded as deferred acquisition costs in advance of obtaining the asset. Once the asset has been acquired, the costs will be recorded as capitalized costs. The costs are written-off should the potential acquisition no longer be considered viable.

**Exploration and evaluation assets**

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

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

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

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

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

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

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

**Provisions**

*Rehabilitation provisions*

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

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

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

*Other provisions*

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

**Impairment**

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

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

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

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

**Equipment**

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

Automotive equipment	10%
Computer equipment	30%
Leaseholds	20%
Office furniture	20%

**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. Common shares issued for consideration other than cash are valued based on their market value at the date the shares are issued.

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

**Income taxes**

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

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

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

**Related party transactions**

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

**New accounting policies adopted**

The following standards and amendments to existing standards have been adopted by the Company effective June 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.

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

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**4. INVESTMENTS AND ADVANCES**

**(a) Marketable Securities**

During the year ended May 31, 2020, the Company sold Nil (2019 - Nil) Goldgroup Mining Inc. (“Goldgroup”) shares. As at May 31, 2020, the Company owned 5,601,250 (2019 - 5,601,250) Goldgroup shares with a fair value of \$140,031 (2019 - \$308,069). The change in market value of the shares resulted in the recording of other comprehensive loss of \$168,038 for the year ended May 31, 2020 (2019 - \$140,031).

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. Cost is considered to approximate fair value.

During the year ended May 31, 2020, the Company sold 75,000 (2019 - Nil) common shares of a publicly traded company (“PubCo.”) for proceeds of \$20,990 (2019 - \$Nil) resulting in a loss on sale of \$1,290 (2019 - \$Nil). As at May 31, 2020, the Company owned Nil (2019 - 75,000) PubCo shares with a fair value of \$Nil (2019 - \$18,375). The change in the market value of the shares resulted in the recording of other comprehensive gain (loss) of \$2,625 for the year ended May 31, 2020 (2019 - \$(7,125)). During the year ended May 31, 2020, the Company reclassified \$1,280 (2019 - \$Nil) from other comprehensive loss for the sale of marketable securities.

	Goldgroup		Altamura		BC Co.	
	Number	Amount	Number	Amount	Number	Amount
May 31, 2018	5,601,250	\$ 448,100	5,950,000	\$ -	375,000	\$ 75,000
Fair value adjustment	-	(140,031)	-	-	-	-
May 31, 2019	5,601,250	\$ 308,069	5,950,000	\$ -	375,000	\$ 75,000
Disposals	-	-	-	-	-	-
Consolidated	-	-	(5,950,000)	-	-	-
Fair value adjustment	-	(168,038)	-	-	-	-
Fair value reclassification	-	-	-	-	-	-
May 31, 2020	5,601,250	\$ 143,031	-	\$ -	375,000	\$ 75,000

	PubCo.		Total
	Number	Amount	
May 31, 2018	75,000	\$ 25,500	\$ 548,600
Fair value adjustment	-	(7,125)	(147,156)
May 31, 2019	75,000	\$ 18,375	\$ 401,444
Disposals	(75,000)	(22,280)	(22,280)
Fair value adjustment	-	2,625	(165,413)
Fair value reclassification	-	1,280	1,280
May 31, 2020	-	\$ -	\$ 215,031



**4. INVESTMENTS AND ADVANCES (cont'd...)**

**(b) Equity Investment and Advances in/to Altamura**

During year ended May 31, 2020, the Company advanced to and/or paid on behalf of Altamura \$262,631 (2019 - \$350,572), received re-payments of \$76,355 (2019 - \$Nil), accrued interest owed of \$66,801 (2019 - \$40,621) and allocated \$933,673 (2019 - \$Nil) (Note 5) to the acquisition of Altamura for total outstanding advances of \$Nil (2019 - \$680,596) (the "Advances"). The Advances bore interest of 12% and were due within 90 days of request of the Company.

During year ended May 31, 2020, the Company charged Altamura \$52,500 (2019 - \$330,000) for management services and allocated \$401,625 (2019 - \$Nil) (Note 5) to the acquisition of Altamura for total outstanding management services including GST of \$Nil (2019 - \$346,500).

The Company entered into three agreements with Altamura dated effective September 27, 2018: (i) an option agreement, as amended, (the "Altamura Option Agreement") pursuant to which the Company acquired a three year option (the "Option"), the exercise of which was approved by the shareholders of the Company and the TSX-V, to acquire all of the equity in Altamura not already held by the Company, in consideration for 39,800,000 shares of the Company; (ii) a loan agreement, as amended, (the "Altamura Loan Agreement") pursuant to which the Company agreed to lend up to US\$700,000 to Altamura, inclusive of Advances to date, but exclusive of interest and management services, and (iii) an amended and restated share option agreement (the "Advances Conversion Agreement") pursuant to which, in the event that the Company did not exercise the Option, the Company could 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. The Advances were secured by promissory notes. Prior to its acquisition by the Company, Altamura was considered to be a related party by virtue of share ownership by companies controlled by key management or their family members (Note 11).

The Company exercised its option as per the Altamura Option Agreement on March 2, 2020 and issued 39,800,000 common shares, at a value of \$0.31 per share, for the acquisition of all of the issued and outstanding shares of Altamura and its subsidiaries. The subsidiaries include: a then 67% owned Mexican subsidiary, Xochipala Gold S.A. de C.V.; a wholly owned Mexican subsidiary, Desarrollos Copper, S.A. de C.V.; and a 50% owned Bahamian subsidiary, Ruero International Ltd. The main asset of the companies acquired is the interest in the Santo Tomas Properties in Mexico (Note 6).

For accounting purposes, the acquisition was treated as an asset acquisition. As such, effective as at the date of closing, the fair value assigned to the identified assets acquired and liabilities assumed are presented below:

Purchase price:	
Common shares	\$ 12,338,000
Equity investment	1,843,609
Transaction costs	31,717
	\$ 14,213,326
Allocation of purchase price:	
Cash	\$ 4,552
Receivables	19,986
Exploration and evaluation assets (Note 6(a))	24,412,316
Accounts payable and accrued liabilities	(845,043)
Advances payable	(1,335,298)
	22,256,513
Non-controlling interest (Note 11)	(8,043,187)
	\$ 14,213,326

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**4. INVESTMENTS AND ADVANCES (cont'd...)**

**(b) Equity Investment and Advances in/to Altamura (cont'd...)**

Information on the equity investment is as follows:

As at May 31, 2020, the Company's equity investment in Altamura, including dilution gains, less its share of Altamura's accumulated losses was \$Nil (2019 - \$312,347). The Company's share of Altamura's equity loss during the year ended May 31, 2020 was \$15,953 (2019 - \$119,858).

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

	Altamura
Equity investment	
May 31, 2018	\$ 432,205
Loss for the year	(119,858)
May 31, 2019	312,347
Loss for the year	(15,953)
Fair value adjustment <sup>(1)</sup>	1,547,215
Adjustment on acquisition	(1,843,609)
<b>Total equity investment as at May 31, 2020</b>	<b>\$ -</b>
Advances	
May 31, 2018	\$ 289,403
Additions	350,572
Interest	40,621
May 31, 2019	680,596
Additions	262,631
Repayments	(76,355)
Interest	66,801
Adjustment on acquisition	(933,673)
<b>Total advances as at May 31, 2020</b>	<b>\$ -</b>
Management services	
May 31, 2018	\$ -
Additions	346,500
May 31, 2019	346,500
Additions	55,125
Adjustment on acquisition	(401,625)
<b>Total management services as at May 31, 2020</b>	<b>\$ -</b>
<b>Total equity investment, advances, and management services as at May 31, 2020</b>	<b>\$ -</b>
Total equity investment, advances, and management services as at May 31, 2019	\$ 1,339,443

<sup>(1)</sup> Acquisition date fair value adjustment on purchase of Altamura based on value of common shares issued for remaining interest.

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**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 first 90,000 ounces of gold produced from the Property (approximately 63,000 ounces have been produced as at May 31, 2020).

During the year ended May 31, 2020, the Company received or accrued \$890,072 (2019 - \$12,994) in royalty revenue.

**6. EXPLORATION AND EVALUATION ASSETS**

	Santo Tomas Properties	Xochipala Property	Total
May 31, 2019	\$ 1,036,926	\$ 380,217	\$ 1,417,143
Acquisition costs			
Acquisition of Altamura (Note 4(b))	24,412,316	-	24,412,316
Acquisition of Aztec	202,459	-	202,459
Cash	29,559	-	29,559
	24,644,334	-	24,644,334
Deferred exploration expenditures			
Community relations	97,374	-	97,374
Consultants	9,740	-	9,740
Fieldwork and supplies	747,073	-	747,073
Geologists	259,639	25,629	285,268
Lease payments, assessment fees and taxes	178,993	6,445	185,438
Travel	8,899	-	8,899
	1,301,718	32,074	1,333,792
May 31, 2020	\$ 26,982,978	\$ 412,291	\$ 27,395,269

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

	Santo Tomas Properties	Xochipala Property	Total
May 31, 2018	\$ 347,793	\$ 333,754	\$ 681,547
Acquisition costs			
Cash	-	-	-
Shares issued	-	-	-
Deferred exploration expenditures			
Data, analysis, and models	235,549	-	235,549
Fieldwork	4,888	-	4,888
Geologists	376,354	39,992	416,346
Lease payments, assessment fees and taxes	56,097	6,471	62,568
Travel	16,245	-	16,245
	689,133	46,463	735,596
May 31, 2019	\$ 1,036,926	\$ 380,217	\$ 1,417,143

**(a) Santo Tomas Properties, Sinaloa State, Mexico**

*Papago 17, La China II and AMP Santo Tomas Red 1 Concessions*

The Company, through MX, holds a 77.5% interest in each of the Papago 17, La China II and AMP Santo Tomas Red 1 concessions (collectively, the “Santo Tomas Properties”) which are contiguous to the concessions held by XG which cover the known core of the Santo Tomas mineralized structure (the “Core Concessions”). The Santo Tomas Properties were acquired for a total cash payment of \$47,247 and the issuance of 2,000,000 common shares, valued at \$240,000. All three concessions comprising the Santo Tomas Properties are subject to a 2% net smelter royalty (“NSR”).

*Rossy Concession*

During the year ended May 31, 2020, the Company, through MX, entered into a letter agreement (the “Rossy Agreement”) for the acquisition of an 80% interest in the Rossy mineral concession, which is also contiguous to the Santo Tomas Properties (hereafter included within the term “Santo Tomas Properties”). Upon approval by Mexican tax authorities of a payment plan for the payment by the vendor of accrued concession duties, the Company and the vendor will enter into and register a formal agreement for the transfer of the interest to the Company, pursuant to which the Company will pay the balance of the consideration of US\$125,000, to be paid over two years, issue 300,000 common shares, and agree to the granting to third parties of an aggregate 1.5% NSR. As at May 31, 2020, \$29,559 had been reclassified from deferred acquisition costs to acquisition costs.

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

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

*Core Concessions*

During the year ended May 31, 2019, the Company entered into a purchase agreement (“Data Agreement”), as amended, pursuant to which the Company acquired geological data, analysis and models related to the Santo Tomas Properties and the Core Concessions in consideration for 500,000 common shares, valued at \$137,500, and US\$500,000, to be paid by way of one payment of US\$50,000 at the time of signing the agreement (paid), a second payment of US\$50,000 and a final payment of US\$400,000. The second US\$50,000 payment is due within 15 days following the day upon which the Company closes a minimum \$3,000,000 financing (Note 17) and the US\$400,000 payment is due upon the direct or indirect sale, assignment or transfer of the Core Concessions to a third party.

XG holds a registered 100% interest in the Core Concessions (Note 6(a)). The registration of this interest had previously been impeded by a 2016 judgment (the “Judgment”) from a claim by Aztec and its Mexican subsidiary, Prime Aztec Mexicana, S.A. de C.V. against Compania Minera Ruero, S.A. de C.V. (“CMR”), Fierce Investments Ltd. (“Fierce”), and Ruero International Ltd. (“Ruero”). The Judgment and a related annotation in the Mexican Public Registry of Mining (the “PRM”) were nullified in 2019. On December 20, 2019, the transfer of the Core Concessions from CMR to XG was registered in the PRM.

On November 8, 2019, the Company exercised its option (the “Aztec Share Option”) to purchase 40,000,000 shares of Aztec (the “Aztec Shares”) held by Fierce, being greater than 90% of the issued and outstanding shares of Aztec. The Aztec Shares constitute the primary consideration paid by Aztec in the transaction which was the basis of Aztec’s claim that resulted in the Judgement. Aztec disputed Fierce’s ownership of the Aztec Shares, which dispute was decided in favour of Fierce by the Superior Court of the State of Arizona. Pursuant to an assignment agreement dated September 3, 2019, the Company took an assignment of Altamura’s right to purchase the Aztec Shares under the Aztec Share Option in consideration for the reimbursement of Fierce’s legal fees related to Fierce’s legal action in Arizona, and of the consideration paid for the grant of the Aztec Share Option. On October 1, 2019, at a meeting of the shareholders of Aztec held pursuant to an order of the Superior Court of Arizona, Craig Dalziel, CEO of the Company, was elected as the sole director of Aztec. As at May 31, 2020, \$202,459 had been recorded as acquisition costs for the acquisition of Aztec. The acquisition of Aztec was for its claim to the Santo Tomas property; no value was attributed to other assets or liabilities of the company.

On March 2, 2020, the Company acquired Altamura (Note 4) and its related subsidiaries, who’s main asset is its interest in the Core Concessions. The acquisition value attributed to the properties was \$24,412,316 (Note 4(b)).

Subsequent to the acquisition of Altamura, the Company acquired an additional 4% of XG for conversion of intercompany debt of \$1,000,000 into equity resulting in a charge to deficit of \$885,850.

Altamura also holds an option to acquire all of the remaining interest in XG held by the sole other shareholder of XG (currently 29%) for US\$16,000,000 (the “XG Option”), subject to a 1% NSR (the “Option NSR”), 0.5% of which may be bought back for US\$2,000,000. The Company’s interest in the Core Concessions is subject to an NSR of 1.5%, in favour of ATM Mining Corp., a company owned by the spouse of the Company’s CEO, Craig Dalziel, and an arm’s length third party (the “ATM NSR”). 0.5% of the ATM NSR will be cancelled if the Option NSR is granted, with the result that the Core Concessions will, upon the buy-back of half of the Option NSR, be subject to a maximum 1.5% NSR.

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

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

*Core Concessions (cont'd...)*

Altamura has certain fee obligations, as amended, (the "Fee Agreement"), related to the Core Concessions as follows:

- (i) US\$600,000 payable within twelve months of title to the Core Concessions being registered to XG in the PRM (occurred) (US\$100,000 paid as at May 31, 2020; an additional US\$100,000 paid subsequent to year end (Note 17)).

As at May 31, 2020, the Company has \$688,380 (US\$500,000) (2019 - \$Nil) owed due to the registration of the Core Concessions (Note 8).

Altamura has certain contingent fee obligations (the "Contingent Fee Agreement"), related to the Core Concessions as follows:

- (i) upon the direct or indirect sale, assignment or transfer of the Core Concessions in a transaction intended to be final disposition:
  - A. pay 10% of the sale price, to a maximum of US\$3,600,000, (inclusive of the first US\$600,000); and
  - B. pay 1.5% of the sale price, to a maximum of US\$4,100,000, of which up to \$1,000,000 is payable to David Rose, an officer of the Company.

Altamura has entered into agreements pursuant to which it granted an aggregate 15% interest in the Core Concessions (the "Contractual Interest") in consideration for: i) assistance with resolving the legal challenges to XG's acquisition of registered title to the Core Concessions; ii) assistance with regard to the Company's assembly of a controlling interest in the Santo Tomas Properties, including; A) the assignment to the Company of majority interests in the Santo Tomas Properties; and (B) the right to cause the assignment to the Company of majority interests in other additional properties; and (iii) technical and geological services. The Contractual Interest is subject to dilution down to an aggregate 10% on a pro-rata basis upon the funding of up to \$30,000,000 of expenditures on the combined Core Concessions and the Santo Tomas Properties.

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

The Xochipala Property, located in Guerrero State, Mexico, is comprised of the contiguous 100% owned Celia Gene and Celia Generosa concessions. MX acquired the Xochipala Property in 2007.

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

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

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**7. EQUIPMENT**

	Automotive equipment	Computer equipment	Leaseholds	Office furniture	Total
<b>Cost</b>					
May 31, 2018	\$ 15,948	\$ 23,110	\$ 10,017	\$ 3,070	\$ 52,145
Additions	-	-	-	-	-
May 31, 2019	15,948	23,110	10,017	3,070	52,145
Additions	-	-	-	-	-
May 31, 2020	\$ 15,948	\$ 23,110	\$ 10,017	\$ 3,070	\$ 52,145
<b>Depreciation</b>					
May 31, 2018	\$ 11,445	\$ 22,293	\$ 8,807	\$ 2,749	\$ 45,294
Charge for the year	450	245	242	64	1,001
May 31, 2019	11,895	22,538	9,049	2,813	46,295
Charge for the year	406	171	194	51	822
May 31, 2020	\$ 12,301	\$ 22,709	\$ 9,243	\$ 2,864	\$ 47,117
<b>Net book value</b>					
May 31, 2019	\$ 4,053	\$ 572	\$ 968	\$ 257	\$ 5,850
May 31, 2020	\$ 3,647	\$ 401	\$ 774	\$ 206	\$ 5,028

The Company rents office space under an operating lease, included in office and general, with monthly payments of \$6,100.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities are comprised of the following:

	May 31, 2020	May 31, 2019
Accounts payable	\$ 265,423	\$ 133,842
Accrued liabilities	452,372	333,499
Amount owed on Core Concession registration (Note 6(a))	688,380	-
	\$ 1,406,175	\$ 467,341

**9. PROMISSORY NOTES**

During the year ended May 31, 2020, the Company received \$122,000 (2019 - \$Nil) through the issuance of promissory notes. The promissory notes matured April 2020 and bore no interest or other consideration. During the year ended May 31, 2020, the promissory notes were repaid in full; no interest or other consideration was recorded.

**10. SHARE CAPITAL AND RESERVES**

**Authorized**

An unlimited number of common shares without par value.

**Issued share capital**

During the year ended May 31, 2020, the Company issued:

- i. 3,000,000 units at a price of \$0.45 per unit by way of a private placement for total proceeds of \$1,350,000, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to acquire an additional common share at a price of \$0.70 per common share, for a period of 24 months from the date of issue. The 1,500,000 warrants were valued at \$40,000. The Company paid a total of \$9,149 in cash for fees and issued 19,200 finder's warrants. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.45 per common share, for a period of two years from the date of issue. The finder's warrants were valued at \$4,380, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk free interest rate of 1.34%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 105%;
- ii. 2,500,000 units at a price of \$0.30 per unit by way of a private placement for total proceeds of \$750,000, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to acquire an additional common share at a price of \$0.42 per common share, for a period of 24 months from the date of issue. The 1,250,000 warrants were valued at \$12,500. The Company paid a total of \$12,887 in cash for fees and issued 24,800 finder's warrants. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.42 per common share, for a period of two years from the date of issue. The finder's warrants were valued at \$2,782, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk free interest rate of 0.50%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 91%;
- iii. 400,000 common shares, pursuant to the exercise of options, for proceeds of \$80,000;
- iv. 4,125,000 common shares, pursuant to the exercise of warrants, for proceeds of \$688,000; and
- v. 39,800,000 common shares, valued at \$12,338,000, pursuant to the exercise of the Altamura Option Agreement (Note 4).



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

**Issued share capital (cont'd...)**

During the year ended May 31, 2019, the Company issued:

- i. 3,750,000 units at a price of \$0.20 per unit by way of a private placement for total proceeds of \$750,000, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to acquire an additional common share at a price of \$0.32 per common share, for a period of 18 months from the date of issue. The Company paid a total of \$18,223 in cash for fees;
- ii. 3,200,000 units at a price of \$0.25 per unit by way of a private placement for total proceeds of \$800,000, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to acquire an additional common share at a price of \$0.40 per common share, for a period of 18 months from the date of issue. The Company paid a total of \$8,984 in cash for fees;
- iii. 500,000 common shares, valued at \$137,500, pursuant to the purchase agreement in which the Company received technical and geological services related to the Santo Tomas Properties (Note 6(a));
- iv. 500,000 common shares, pursuant to the exercise of options, for proceeds of \$37,500; and
- v. 445,000 common shares, pursuant to the exercise of warrants, for proceeds of \$74,400.

**Warrants**

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance, outstanding as at May 31, 2018	4,500,000	\$ 0.16
Issued	3,475,000	0.36
Exercised	(445,000)	0.17
Balance, outstanding as at May 31, 2019	7,530,000	0.25
Issued	2,794,000	0.57
Exercised	(4,125,000)	0.16
Balance, outstanding as at May 31, 2020	6,199,000	\$ 0.45

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

**Warrants (cont'd...)**

Warrants outstanding as at May 31, 2020 are as follows:

Number of warrants	Exercise price	Weighted average remaining life (years)	Expiry date
1,805,000	\$ 0.32	0.18	August 3, 2020 <sup>(1)</sup>
1,600,000	0.40	0.38	October 17, 2020 <sup>(2)</sup>
1,000,000	0.70	1.18	August 6, 2021 <sup>(3)</sup>
19,200	0.45	1.18	August 6, 2021
500,000	0.70	1.30	September 19, 2021
1,274,800	0.42	1.78	March 11, 2022 <sup>(4)</sup>
6,199,000			

<sup>(1)</sup> Subsequent to year end, 1,792,500 warrants were exercised (Note 17) and 12,500 warrants expired unexercised.

<sup>(2)</sup> Subsequent to year end, 863,500 warrants were exercised (Note 17).

<sup>(3)</sup> Subsequent to year end, 25,200 warrants were exercised (Note 17).

<sup>(4)</sup> Subsequent to year end, 105,000 warrants were exercised (Note 17).

**Stock options**

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

During the year ended May 31, 2020, a total of 1,650,000 (2019 - 3,700,000) stock options were granted to certain officers, directors, and consultants of the Company with a fair value of \$352,885 (2019 - \$908,721) using the Black-Scholes option pricing model. During the year ended May 31, 2020, the Company recognized \$460,786 (2019 - \$538,932) as share-based payment for the fair value of the stock options.

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

	For the year ended May 31, 2020	For the year ended May 31, 2019
Risk-free interest rate	0.61%	1.97%
Expected option life in years	3.0	3.0
Expected stock price volatility	107%	136%
Expected forfeiture rate	0%	0%

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

**Stock options (cont'd...)**

Option transactions are summarized as follows:

	Number of options	Weighted average exercise price
Balance, outstanding as at May 31, 2018	4,700,000	\$ 0.08
Granted	3,700,000	0.33
Exercised	(500,000)	0.08
Balance, outstanding as at May 31, 2019	7,900,000	0.19
Granted	1,650,000	0.35
Exercised	(400,000)	0.20
Forfeited	(3,200,000)	0.23
Balance, outstanding as at May 31, 2020	5,950,000	\$ 0.22
Balance, exercisable as at May 31, 2020	4,965,000	\$ 0.20

Options outstanding as at May 31, 2020 are as follows:

Number of options	Number of exercisable options	Exercise price	Weighted average remaining life (years)	Expiry date
1,600,000	1,600,000	\$ 0.075	0.20	August 11, 2020 <sup>(1)</sup>
650,000	650,000	0.075	0.30	September 18, 2020 <sup>(2)</sup>
1,500,000	1,500,000	0.225	1.40	October 24, 2021 <sup>(3)</sup>
300,000	300,000	0.250	1.65	January 24, 2022
100,000	100,000	0.350	1.92	May 1, 2022
300,000	300,000	0.550	1.99	May 28, 2022
100,000	75,000	0.550	2.04	June 14, 2022
100,000	100,000	0.550	2.23	August 22, 2022
100,000	100,000	0.550	2.26	September 4, 2022
300,000	60,000	0.250	2.84	April 1, 2023
900,000	180,000	0.300	2.92	May 1, 2023 <sup>(4)</sup>
5,950,000	4,965,000			

<sup>(1)</sup> Subsequent to year end, 1,600,000 options were exercised (Note 17).

<sup>(2)</sup> Subsequent to year end, 650,000 options were exercised (Note 17).

<sup>(3)</sup> Subsequent to year end, 75,000 options were exercised (Note 17).

<sup>(4)</sup> Subsequent to year end, 240,000 options were exercised (Note 17).

**Reserves**

As at May 31, 2020, the Company had a Stock Option and Warrant Reserve balance of \$3,259,540 (2019 - \$2,802,831) 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.

As at May 31, 2020, the Company had an Other Comprehensive Loss balance of \$208,258 (2019 - \$44,125).

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**11. NON-CONTROLLING INTEREST**

As at May 31, 2020, the equity attributable to the 29% non-controlling interest in XG is as follows:

	Total
Non-controlling interest on acquisition of XG (Note 4(b))	\$ 8,043,187
Dilution of 4% interest	(885,850)
Share of loss for the period	(4,548)
	<u>\$ 7,152,789</u>

As at May 31, 2020 and for the period from March 2 to May 31, 2020, summarized financial information about XG is as follows:

	Total
Current assets	\$ 98,880
Non-current assets	25,402,315
Current liabilities	(11,194)
Non-current liabilities	(374,584)
Loss and comprehensive loss for the period	<u>(15,903)</u>

**12. RELATED PARTY TRANSACTIONS**

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

	For the year ended May 31, 2020	For the year ended May 31, 2019
Management and director fees	\$ 272,250	\$ 263,500
Consulting	22,500	21,800
Professional fees	102,000	102,000
Share-based payment	9,833	-
Total	<u>\$ 406,583</u>	<u>\$ 387,300</u>

As at May 31, 2020 included in accounts payable and accrued liabilities was \$319,386 (2019 - \$254,937) 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, 2019, the Company entered into the Altamura Option Agreement (Notes 4 and 6), the Altamura Loan Agreement and the Advances Conversion Agreement with Altamura, which was a related party by virtue of a company controlled by the spouse of a director and an officer of the Company, a company controlled by family members of a director and officer of the Company and a member of the Company's management being significant shareholders of Altamura (Note 4).

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

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**12. RELATED PARTY TRANSACTIONS (cont'd...)**

Pursuant to the terms of the Altamura Option Agreement, the Company issued 39,800,000 shares to the shareholders of Altamura. 8,302,000 shares were issued to a company controlled by the spouse of a director and officer of the Company, 9,506,000 shares were issued to a company controlled by family members of a director and officer of the Company and 8,302,000 shares were issued to an officer of the Company (Note 4(b)).

**13. DEFERRED INCOME TAXES**

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

	2020	2019
Net income (loss) for the year before income taxes	\$ 326,830	\$ (1,546,685)
Expected income tax (recovery)	\$ 88,000	\$ (418,000)
Change in statutory, foreign tax, foreign exchange rates and other	112,000	(7,000)
Permanent differences	(300,000)	183,000
Share issue costs	(6,000)	(7,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	74,000	226,000
Change in unrecognized deductible temporary differences	32,000	23,000
Total deferred income tax expense	\$ -	\$ -

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

	2020	2019
<b>Deferred tax liabilities</b>		
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:

	2020	2019
Deferred tax assets (liabilities)		
Exploration and evaluation assets	\$ 312,000	\$ 718,000
Equipment	2,000	2,000
Share issue costs	9,000	9,000
Marketable securities	42,000	39,000
Allowable capital loss	858,000	857,000
Non-capital losses available for future periods	3,046,000	2,612,000
	4,269,000	4,237,000
Unrecognized deferred tax assets	(4,269,000)	(4,237,000)
Net deferred tax assets	\$ -	\$ -

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**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:

	2020	Expiry Date Range
Temporary differences		
Exploration and evaluation assets	\$ 1,175,000	No expiry date
Equipment	5,000	No expiry date
Share issue costs	35,000	2021 to 2024
Marketable securities	313,000	No expiry date
Allowable capital loss	3,177,000	No expiry date
Non-capital losses available for future periods	11,305,000	2027 to 2040

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

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	For the year ended May 31, 2020	For the year ended May 31, 2019
Interest paid	\$ -	\$ -
Taxes paid	-	-
Non-cash transactions not included in investing or financing activities		
Exploration and evaluation assets included in accounts payable	\$ 725,049	\$ 86,254
Deferred acquisition costs allocated to exploration and evaluation assets	29,559	-
Advances to associated company allocated to exploration and evaluation assets	76,355	-
Allocation of fair value of options exercised	63,739	25,641
Finder's warrants issued included in share issue costs	7,162	-
Shares issued for exploration and evaluation assets	-	137,500
Shares issued for acquisition of Altamura	12,338,000	-
Fair value of warrants issued in private placement	52,500	-
Unrealized loss on fair value of marketable securities	165,413	147,156
Reclassification of other comprehensive loss on sale of marketable securities	1,280	-
Acquisition of 4% in XG	885,850	-

**15. SEGMENTED INFORMATION**

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

As at May 31, 2020

	Canada	Mexico	Total
Equipment	\$ 1,381	\$ 3,647	\$ 5,028
Exploration and evaluation assets	-	27,395,269	27,395,269
Other assets	1,092,583	8,696	1,101,279
<b>Total assets</b>	<b>\$ 1,093,964</b>	<b>\$ 27,407,612</b>	<b>\$ 28,501,576</b>

As at May 31, 2019

	Canada	Mexico	Total
Equipment	\$ 1,797	\$ 4,053	\$ 5,850
Exploration and evaluation assets	-	1,417,143	1,417,143
Other assets	2,291,958	17,157	2,309,115
<b>Total assets</b>	<b>\$ 2,293,755</b>	<b>\$ 1,438,353</b>	<b>\$ 3,732,108</b>

**16. FINANCIAL INSTRUMENT RISK AND CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises shareholders' equity. There has been no significant change in the Company's objectives, policies and processes for managing its capital during the year ended May 31, 2020.

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

**Fair value hierarchy**

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

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

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

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

**Fair value hierarchy (cont'd...)**

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

**Management of Financial Risk**

The carrying value of cash, receivables, 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 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. Investments classified within level 3 have significant unobservable inputs. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. The investments are 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.

**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 10% change in the foreign exchange rate on the cash held in foreign currencies at May 31, 2020 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. FINANCIAL INSTRUMENT RISK AND CAPITAL MANAGEMENT (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.

**17. SUBSEQUENT EVENTS**

Subsequent to May 31, 2020, the Company:

- i. granted 200,000 stock options, exercisable at a price of \$0.50 per common share for a period of three years, with 50,000 vesting on each of the date of grant and the 6, 12 and 18 month anniversaries of the date of grant;
- ii. granted 1,800,000 stock options, exercisable at a price of \$0.75 per common share for a period of three years, with vesting on grant;
- iii. granted 450,000 stock options, exercisable at a price of \$0.75 per common share for a period of three years, with 150,000 vesting on grant and each of the 6 and 12 month anniversaries of the date of grant;
- iv. granted 150,000 stock options, exercisable at a price of \$0.75 per common share for a period of three years, with 20% vesting on grant and 20% each of the 3, 6, 9, and 12 month anniversaries of the date of grant;
- v. issued 2,565,000 common shares pursuant to the exercise of options, for proceeds of \$257,625;
- vi. issued 2,786,200 common shares pursuant to the exercise of warrants, for proceeds of \$973,684;
- vii. issued 5,500,000 units at a price of \$0.30 per unit for total proceeds of \$1,650,000. Each unit is comprised of one common share and one-half of one common share purchase warrant, exercisable at a price of \$0.42 per common share, for a period of two years from the date of issue, subject to acceleration, and issued 40,800 finder's fee warrants with the same terms and conditions as the unit warrants;
- viii. issued 12,100,000 units at a price of \$0.60 per unit for total proceeds of \$7,260,000. Each unit is comprised of one common share and one-half of one common share purchase warrant, exercisable at a price of \$0.90 per common share, for a period of two years from the date of issue, subject to acceleration. The Company paid a total of \$6,000 in cash for finder's fees and issued 575,000 finder's warrants. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.60 per common share, for a period of two years from the date of issue, subject to acceleration;
- ix. paid US\$100,000 as per the Contingency Fee Agreements (Note 6(a));
- x. paid US\$50,000 as per the Data Agreement (Note 6(a)); and
- xi. paid US\$20,000 as per the Rossy Agreement (Note 6(a)).