



XALI
GOLD CORP

**Consolidated Financial Statements
For the years ended March 31, 2021 and 2020
(Expressed in United States dollars, unless otherwise noted)**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Xali Gold Corp. (formerly Candente Gold Corp.)

Opinion

We have audited the accompanying consolidated financial statements of Xali Gold Corp. (formerly Candente Gold Corp.) (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2021 and 2020, and the consolidated statements of comprehensive loss, changes in shareholders' deficiency, 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 March 31, 2021 and 2020, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of \$1,091,990 during the year ended March 31, 2021 and, as of that date, the Company's current liabilities exceeded its current assets by \$2,394,683. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 Carmen Newnham.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is fluid and cursive, with "Davidson" on the first line and "& Company LLP" on the second line.

Vancouver, Canada

Chartered Professional Accountants

July 27, 2021

Xali Gold Corp. (formerly “Candente Gold Corp.”)
Consolidated Statements of Financial Position

At March 31, 2021 and 2020

(expressed in United States dollars unless otherwise noted)

| | Note | March 31, 2021 | March 31, 2020 |
|---|-------|--------------------|-------------------|
| Assets | | | |
| Current Assets | | | |
| Cash | | \$ 32,671 | \$ 6,767 |
| Receivables | | 1,545 | 652 |
| Prepaid expenses and deposits | | 10,252 | 5,803 |
| | | 44,468 | 13,222 |
| Non-current assets | | | |
| Unproven mineral right interests | 4 | 45,983 | 291,104 |
| Equipment | 5 | 199,453 | 1,104 |
| Total non-current assets | | 245,436 | 292,208 |
| Total assets | | \$ 289,904 | \$ 305,430 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 4,6,8 | \$ 2,439,151 | \$ 1,683,003 |
| Total Liabilities | | 2,439,151 | 1,683,003 |
| Shareholders' deficiency | | | |
| Share capital | 7 | 24,617,507 | 24,247,717 |
| Obligation to issue shares | 4 | 26,861 | 53,722 |
| Reserves | 7 | 5,819,301 | 5,841,914 |
| Accumulated deficit | | (32,612,916) | (31,520,926) |
| Total shareholders' deficiency | | (2,149,247) | (1,377,573) |
| Total liabilities and shareholders' deficiency | | \$ 289,904 | \$ 305,430 |
| Nature of operations and going concern | 1 | | |
| Subsequent events | 13 | | |

Approved on behalf of the Board of Directors on July 27, 2021

(signed) Larry Kornze
 Director

(signed) Ian Ward
 Director

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

Xali Gold Corp. (formerly “Candente Gold Corp.”)
Consolidated Statements of Comprehensive Loss

For years ended March 31, 2021 and 2020
 (expressed in United States dollars unless otherwise noted)

| | Note | Year ended March 31, | |
|--|------|-----------------------|---------------------|
| | | 2021 | 2020 |
| Expenses | | | |
| Exploration expenses | 10 | \$ 276,734 | \$ 276,968 |
| General and administrative expenses | 10 | 343,143 | 162,180 |
| | | 619,877 | 439,148 |
| Other expenses | | | |
| Reversal of payables | | - | (69,000) |
| Impairment of unproven mineral right interests | 4 | 284,576 | - |
| (Gain) loss on foreign exchange | | 187,537 | (76,448) |
| Net loss | | \$ (1,091,990) | \$ (293,700) |
| Other comprehensive loss | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Foreign currency translation | | (82,412) | 31,407 |
| Comprehensive loss | | \$ (1,174,402) | \$ (262,293) |
| Loss per share attributable to shareholders, basic and diluted | | | |
| | | \$ (0.01) | \$ (0.00) |
| Weighted average number of common shares outstanding: basic and diluted | | | |
| | | 112,724,731 | 108,966,486 |

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

Xali Gold Corp. (formerly “Candente Gold Corp.”)
Consolidated Statements of Changes in Shareholders’ Deficiency
For years ended March 31, 2021 and 2020
(expressed in United States dollars unless otherwise noted)

| | Notes | Share Capital | | Reserves | | | | | | Obligation to issue shares | Deficit | Total |
|---|-------|---------------------|---------------|---|---------------|--------------------------|----------------|------------|-----------------|----------------------------|-----------|-------|
| | | Total common shares | Share capital | Equity settled employee compensation and warrants | Other reserve | Foreign currency reserve | Total reserves | | | | | |
| Balance at March 31, 2019 | | 107,206,923 | \$ 24,193,995 | \$ 5,907,257 | \$ 52,046 | \$ (153,871) | \$ 5,805,432 | \$ 107,444 | \$ (31,227,226) | \$ (1,120,355) | | |
| Shares issued for property | 4,7 | 2,000,000 | 53,722 | - | - | - | - | - | (53,722) | - | | |
| Share-based payments | 7 | - | - | 5,075 | - | - | 5,075 | - | - | - | 5,075 | |
| Net loss | | - | - | - | - | - | - | - | - | (293,700) | (293,700) | |
| Foreign currency translation | | - | - | - | - | 31,407 | 31,407 | - | - | - | 31,407 | |
| Balance at March 31, 2020 | | 109,206,923 | 24,247,717 | 5,912,332 | 52,046 | (122,464) | 5,841,914 | 53,722 | (31,520,926) | (1,377,573) | | |
| Shares issued for property | 4,7 | 1,000,000 | 26,861 | - | - | - | - | - | (26,861) | - | - | |
| Shares issued for cash | 7 | 4,000,000 | 152,880 | - | - | - | - | - | - | - | 152,880 | |
| Share issuance costs | 7 | - | (3,626) | - | - | - | - | - | - | - | (3,626) | |
| Shares issued for asset under acquisition (SDA Plant) | 5,7 | 5,000,000 | 193,675 | - | - | - | - | - | - | - | 193,675 | |
| Share-based payments | 7 | - | - | 59,799 | - | - | 59,799 | - | - | - | 59,799 | |
| Net loss | | - | - | - | - | - | - | - | (1,091,990) | (1,091,990) | | |
| Foreign currency translation | | - | - | - | - | (82,412) | (82,412) | - | - | - | (82,412) | |
| Balance at March 31, 2021 | | 119,206,923 | \$ 24,617,507 | \$ 5,972,131 | \$ 52,046 | \$ (204,876) | \$ 5,819,301 | \$ 26,861 | \$ (32,612,916) | \$ (2,149,247) | | |

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

Xali Gold Corp. (formerly “Candente Gold Corp.”)
Consolidated Statements of Cash Flows

For years ended March 31, 2021 and 2020
 (expressed in United States dollars unless otherwise noted)

| | Year ended March 31, 2021 | | 2020 |
|--|--------------------------------------|-----------------|-------------|
| Cash provided by (used) in | | | |
| Operating | | | |
| Loss for year | \$ (1,091,990) | \$ (293,700) | |
| Items not affecting cash | | | |
| Impairment of unproven mineral right interests | 284,576 | - | |
| Depreciation | 326 | 1,558 | |
| Share-based payments | 59,799 | 5,075 | |
| Reversal of payables | - | (69,000) | |
| Foreign exchange | (188,362) | (44,244) | |
| Changes in non-cash working capital items: | | | |
| Decrease (increase) in receivables | (893) | 8,116 | |
| Decrease (increase) in prepaid expenses and deposits | (5,297) | 1,397 | |
| Increase in accounts payable and accrued liabilities | 862,946 | 336,913 | |
| Net cash used in operating activities | (78,895) | (53,885) | |
| Investing | | | |
| Valued added tax | (2,695) | (1,211) | |
| Option payments | (30,000) | - | |
| Addition to unproven mineral right interests | (6,760) | (2,592) | |
| Asset under acquisition (SDA Plant) | (5,000) | - | |
| Net cash used in investing activities | (44,455) | (3,803) | |
| Financing | | | |
| Proceeds from private placement | 152,880 | - | |
| Share issuance costs | (3,626) | - | |
| Net cash provided by financing activities | 149,254 | - | |
| Net change in cash | 25,904 | (57,688) | |
| Cash at beginning of year | 6,767 | 64,455 | |
| Cash at end of year | \$ 32,671 | \$ 6,767 | |

Significant non-cash transactions:

| | | |
|---|------------|-----------|
| Shares issued in accordance with obligation to issue shares | \$ 26,861 | \$ 53,722 |
| Shares issued for SDA plant (Note 5) | \$ 193,675 | \$ - |

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

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

1. Nature of operations and going concern

Xali Gold Corp. (formerly Candente Gold Corp.) and its subsidiaries (the “Company”) are engaged in the exploration of mineral right interests in Mexico and Peru. The Company was incorporated on April 24, 2009 under the Business Corporation Act of British Columbia.

The principal subsidiaries of the Company as at March 31, 2021 are as follows:

| Subsidiary | Interest | Functional Currency |
|--|-----------------|----------------------------|
| Candente Mexico Resource Corp. | 100% | CDN Dollars |
| El Oro (BC) Exploration Inc. | 100% | CDN Dollars |
| Candente Gold Peru S.A. | 100% | US Dollars |
| Minera CCM, S.A. de C.V. (“CCM”) | 100% | US Dollars |
| Minera CCM El Oro Jales S.A. de C.V. | 100% | US Dollars |
| Candente Mexico Servicios S.A. de C.V. | 100% | US Dollars |
| Minera Xali Oro S.A. de C.V. | 100% | US Dollars |

The Company’s common shares are listed on the TSX Venture Exchange (“TSX-V”) under the trading symbol XGC.V. The Company’s share options and warrants are not listed.

These consolidated financial statements were authorized for issue by the Board of Directors on July 27, 2021.

As of the date of these consolidated financial statements, the Company has not yet determined whether any of its mineral right interests contain economically recoverable mineral reserves. Accordingly, the value of mineral right interests represents cumulative acquisition costs incurred to date and does not necessarily reflect present or future values. The recovery of these costs is dependent upon the discovery of economically recoverable mineral reserves and the ability of the Company to obtain the necessary financing to complete their exploration and development and to resolve any environmental, regulatory, or other constraints.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the year ended March 31, 2021, the Company had a net loss of \$1,091,990, and, as at March 31, 2021, current liabilities exceed current assets by \$2,394,683, and the Company had cumulative losses of \$32,612,916. The Company does not generate cash flows from operations and accordingly, the Company will need to raise additional funds through the issuance of securities, resource secured debt or joint venture projects. Although, the Company has been successful in raising funds in the past there can be no assurance that the Company will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. In addition, the Company is subject to sovereign risk, including political and economic instability, changes in existing government regulations relating to mining, as well as currency fluctuations and local inflation. These factors indicate the existence of a material uncertainty that may cast significant doubt regarding the Company’s ability to continue as a going concern. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts on the statement of financial position.

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 effect on the Company’s business or ability to raise funds.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

2. Statement of compliance and basis of presentation

These consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board in effect as of March 31, 2021.

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

3. Significant accounting policies

a. Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements. These estimates and judgments have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Critical accounting estimates

i. Valuation of share-based payments and warrants

When options and warrants are issued, the Company calculates their estimated fair value using the Black-Scholes valuation model. The Company uses its historical stock prices to determine volatility and historical exercise terms to determine expected lives to arrive at the inputs that are used in the valuation model to calculate the fair value of the option or warrant.

(b) Critical accounting judgments

i. Going concern

Management assesses the Company's ability to continue as a going concern in relation to its ability to raise funds.

ii. Unproven mineral right interests and impairment

Unproven mineral right interests consist of the cost of acquiring licenses. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist, the rights of tenure are current, and it is considered probable that the costs will be recouped through successful development and exploitation of the area or alternatively by sale of the property. Management is required to exercise significant judgment in determining the timing of the determination of the technical and economic feasibility of the mineral resource. The Company considers both external and internal sources of information in assessing whether there are any indicators that unproven mineral right interests are impaired

iii. Functional currency

The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment in which the entity operates, and the Company reconsiders its functional currency and that of its subsidiaries if there is a change in events and conditions which determined the primary economic environment.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

3. Significant accounting policies (continued)

b. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, an investor controls an investee if and only if the investor has all the following: power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

Inter-company transactions, balances and income and expenses on transactions between the Company and its subsidiaries are eliminated.

c. Foreign currency translation

The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates, which has been determined to be the US or Canadian dollar. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated at the period end date exchange rates. Non-monetary items are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non- monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The presentation currency of the Company is the US dollar. The accounts of group companies with a functional currency other than the US dollar are translated from their functional currency into US dollars on consolidation. Items in the statement of comprehensive loss are translated using weighted average exchange rates that reasonably approximate the exchange rate at the transaction date. Items in the statement of financial position are translated at the exchange rate at the financial position date. Exchange differences on the translation of the net assets of the entities are recognized in a separate component of equity.

d. Unproven mineral right interests

The Company capitalizes all costs, net of any recoveries, of acquiring an unproven mineral right interest, until the rights to which they relate are placed into production, at which time these deferred costs will be amortized over the estimated useful life of the rights upon commissioning the property or written-off if the rights are disposed of, impaired or abandoned. Exploration costs prior to the discovery of commercially viable reserves and resources are expensed as incurred.

Management reviews the carrying amounts of mineral rights interest annually or when there are indicators of impairment and will recognize impairment based upon current exploration results and upon assessment of the probability of profitable exploitation of the rights. An indication of impairment includes but is not limited to expiration of the right to explore, substantive expenditure in the specific area is neither budgeted nor planned, or if the entity has decided to discontinue exploration activity in a specific area.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

3. Significant accounting policies (continued)

Costs include the cash consideration and the fair value of shares issued on the acquisition of mineral rights interest. Rights acquired under option or joint venture agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. Proceeds from property option payments received by the Company are netted against the costs of the related mineral rights interest, with any excess being included in operations.

Expenses incurred by the Company in Peru, including exploration expenses, are subject to Peruvian Value Added Tax (“VAT”). Given that the Company is in the exploration stage and has no sources of revenue, the VAT is not currently refundable to the Company, but can be used in the future to offset amounts due to the Peruvian taxation authorities by the Company resulting from VAT charged to clients on future sales. The VAT has been included as part of unproven mineral right interests.

e. Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Equipment items are depreciated over their estimated useful lives on a straight-line basis over their estimated useful lives, at the following rates: 3 to 10 years for equipment and 4 years for vehicles and field equipment.

An item of equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for equipment and any changes arising from the assessment are applied by the Company prospectively.

f. Financial instruments

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company classifies its cash as FVTPL and its receivables and accounts payable at amortized cost.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

3. Significant accounting policies (continued)

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and are subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If, at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

3. Significant accounting policies (continued)

g. Income taxes

Current taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Deferred taxation

Deferred tax is recognized by providing for 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 substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference 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. Additional income taxes that arise from the distribution of dividends are recognized at the same time that the liability to pay the related dividend is recognized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where, the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

h. Share-based payments

Employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

In situations where equity instruments are issued for goods or services, the share-based payment is measured at the fair value of the goods and services received. Where the consideration cannot be specifically identified, they are measured at the fair value of the share-based payment.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

3. Significant accounting policies (continued)

h. Share-based payments (continued)

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification. The dilutive effect of outstanding options is reflected in the computation of diluted earnings per share.

i. Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve the issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants. Depending upon the terms and conditions of each equity financing agreement, the warrants are exercisable into additional common shares prior to expiry at a price stipulated by the agreement. Warrants that are part of units are valued using the residual value method and are included in equity with the common shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transaction cost are accounted for as share-based payments.

j. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. Any increase in a provision due solely to passage of time is recognized as interest expense.

k. Impairment of non-financial assets

Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

3. Significant accounting policies (continued)

k. Impairment of non-financial assets (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized in the statement of loss and comprehensive loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

I. Loss per share

Basic earnings/(loss) per share is calculated as net profit/(loss) attributable to shareholders, divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit attributable to owners of the parent, adjusted for:

- The after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognized as expenses
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

The Company has incurred losses since its inception and, therefore, basic loss per share has been equal to diluted loss per share as these impacts would be anti-dilutive.

m. Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases of right-of-use assets are recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company's incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

3. Significant accounting policies (continued)

m. Leases (continued)

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option a right-of-use asset is depreciated over the asset's useful life.

n. Future accounting standards

As the date of authorization of these consolidated financial statements, certain new standards and amendments to existing standards have been published by the IASB that are not yet effective and have not been adopted early by the Company. Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments are not expected to have a material impact on the Company's consolidated financial statements.

4. Unproven mineral right interests

As at March 31, 2021 and 2020, the Company's capitalized unproven mineral right interests costs are as follows:

| | Balance at April 1, 2020 | Acquisition costs and additions | Impairment | Balance at March 31, 2021 |
|----------------------------|-----------------------------|------------------------------------|---------------------|------------------------------|
| Mexican Properties | | | | |
| El Oro - Hardrock | \$ 1 | \$ - | \$ - | \$ 1 |
| Cocula Project | - | 32,400 | - | 32,400 |
| Peruvian Properties | 215,130 | 4,360 | (219,489) | 1 |
| Value-added tax | 75,973 | 2,695 | (65,087) | 13,581 |
| Closing balance | \$ 291,104 | \$ 39,455 | \$ (284,576) | \$ 45,983 |

| | Balance at April 1, 2019 | Acquisition costs and additions | Impairment | Balance at March 31, 2020 |
|---------------------------|-----------------------------|------------------------------------|------------|------------------------------|
| Mexican Properties | | | | |
| El Oro - Hardrock | \$ 1 | \$ - | \$ - | \$ 1 |
| Peruvian Properties | 212,538 | 2,592 | - | 215,130 |
| Value-added tax | 74,762 | 1,211 | - | 75,973 |
| Closing balance | \$ 287,301 | \$ 3,803 | 0 | \$ 291,104 |

Mexican Properties:

El Oro – Hardrock

On January 31, 2017, the Company acquired the remaining 30% interest in the El Oro Project (the “El Oro Project”) in Mexico (the “Transferred Interest”) from Desarrollos Mineros San Luis, S.A. de C.V. (“DMSL”), a subsidiary of Goldcorp Inc. (“Goldcorp”). The Company now holds a 100% interest in the El Oro Project as it had previously earned a 70% interest in the El Oro Project from Goldcorp. As consideration for the acquisition of the Transferred Interest, the Company agreed to issue to DMSL (or its nominee) an aggregate of 5,000,000 common shares of the Company. 1,000,000 common shares were issued on the date of acquisition of the Transferred Interest (issued with a fair value of \$26,861 (CDN\$35,000)) and further tranches of 1,000,000 common shares are to be issued to DMSL (or its

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

4. Unproven mineral right interests (continued)

nominee) on the four successive anniversary dates, with the Company having the right but not the obligation to issue any or all of such 4,000,000 common shares in advance of such anniversary dates in its sole discretion. The 4,000,000 common shares were fair valued at \$107,444 (CDN\$140,000) and were recorded as an obligation to issue shares as at March 31, 2017. During the year ended March 31, 2020, 2,000,000 of the 4,000,000 common shares were issued and the obligation to issue shares was reduced to \$53,722. During the year ended March 31, 2021, 1,000,000 common shares were issued and the obligation to issue shares was reduced to \$26,861 (Note 6b).

The property consists of twenty-six claims and is subject to two 3% net smelter return (“NSR”) royalty agreements. One agreement is on twenty of the twenty-six claims and the other is on twelve of the twenty-six claims.

For the year ended March 31, 2017, bi-annual land holding payments were made by Goldcorp. When the Company acquired the remaining 30% of the El Oro property in January 2017, these payments became the responsibility of the Company, and, as at March 31, 2021, \$1,255,427 (March 31, 2020 - \$756,392) has been accrued as a liability to the Mexican government for land holding costs.

El Oro Mine Tailings

During the year ended March 31, 2014, the Company signed an agreement with the Municipality of El Oro (“Municipality”) that provides the Company with the access and processing rights to tailings deposits. Upon signing the agreement, \$25,000 was due and paid with monthly contributions of \$3,000 for community projects. The Municipality cancelled the obligation to pay \$3,000 per month in April 2015, when their tourist activities in the San Juan tunnel started interfering with normal usage of the tunnel by the Company. Under the terms of the agreement, the Company will pay an 8% net profits interest (“NPI”) royalty to the Municipality on any products produced from the tailings properties. The Company is entitled to retain the first \$1,500,000 of the 8% NPI payable to the Municipality.

On March 8, 2016, the Company entered into an agreement with Sun River Gold Corp. (“SRG”) to grant SRG the right and option to earn a 51% interest in the Company’s tailings project in El Oro Mexico. On November 9, 2018, the 2016 Agreement was superseded by a new Letter of Intent (“LOI”) granting SRG the right and option to further test and, if proven economic, develop and operate the Company’s tailings project in El Oro Mexico, through an indirect ownership of the Company’s Mexican subsidiary, Minera CCM El Oro Jales, S.A. de C.V. (“CCM El Oro Jales”), according to the agreement CCM El Oro Jales executed with the Municipality of El Oro.

The LOI was superseded by a definitive agreement signed in November 2018. In order to exercise the option, SRG is required to make staged payments totaling US\$300,000 (paid), over a period of fifteen months, commencing upon the date of signing of the LOI; bring the mine tailings properties into commercial production within 36 months of the effective date of the option agreement; and grant to the Company a 10% of NPI royalty on production from the properties. The definitive agreement also allows

SRG to reduce the NPI payable to the Company from 10% to 5% by paying an additional US\$200,000 in increments of \$50,000 at the end of each quarter, commencing 18 months from the date of the LOI.

During the year ended March 31, 2021, the Company received the final payments of \$110,325 (March 31, 2020 - \$89,675) of which \$5,325 was applied directly against certain general and administrative fees from Sun River required to reduce the NPI to 5%.

Upon making the totality of the staged payments and, if commercial production has been achieved by October 31, 2021, Sun River will indirectly acquire a 100% interest in the subsidiary Minera CCM El Oro Jales.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

4. Unproven mineral right interests (continued)

Cocula property

On November 25, 2020 the Company entered into an agreement with concession holders for the right to explore certain concessions, referred to as the Cocula Gold Project (“Cocula Project”), in Jalisco State, Mexico. Under the terms of the agreement, the Company will have three years to bring the project to commercial production and must make the following payments in cash:

- i) A payment of \$20,000 on the execution date (paid);
- ii) A payment of \$20,000 six months following the execution date (paid subsequent to year end);
- iii) A payment of \$25,000 twelve months following the execution date;
- iv) A payment of \$30,000 eighteen months following the execution date;
- v) A payment of \$35,000 twenty-four months following the execution date;
- vi) A payment of \$45,000 thirty months following the execution date;
- vii) A payment of \$55,000 thirty-six months following the execution date;

Should the Company be unable to reach commercial production within three years of the execution date, it has the right to extend the term for an additional two years in the event it is demonstrated by one or more mining experts paid by the Company that such extension is needed for the commencement of the commercial production.

Peruvian properties:

As at March 31, 2021, the Company has maintained in good standing a portion of the Tres Marias and Las Brujas properties. There is a legal mortgage over the mining concession associated with the Tres Marias property of \$50,000 and a 1.5% NSR royalty on the sale of mineral products extracted from the concession, both in favour of a third party. As of March 31, 2021, the Company has recorded an impairment loss of \$284,576, as the Company has no immediate plans to pursue the property; however, the Company will maintain the title to the property and will continue to seek opportunities

5. Equipment

Mill

On September 23, 2020, the Company closed on a definitive agreement with Magellan Acquisition Corp. (“Magellan”) that gives the Company through its wholly owned subsidiary Minera Xali Oro S.A. de C.V. in Mexico the right to earn up to a 100% interest in an ore mill processing plant located in San Dieguito de Arriba, Mexico (the “SDA Plant”) and take over an option agreement on the El Dorado property (Note 12). Under the terms of the agreement the Company is required to make the following payments in cash and common shares:

- i) A payment of \$5,000 upon signing (paid);
- ii) 5,000,000 common shares upon the completion of due diligence and the signing of a definitive agreement to earn a 10% interest (issued – Note 7b);
- iii) Common shares with a value of \$100,000 on or before March 23, 2021 to earn a 20% interest (1,428,571 shares issued subsequent to year end);
- iv) Common shares with a value of \$150,000 on or before September 23, 2021 to earn a 30% interest;
- v) Common shares with a value of \$275,000 on or before March 23, 2022 to earn a 50% interest;
- vi) Common shares with a value of \$400,000 on or before September 23, 2022 to earn a 70% interest and
- vii) Common shares with a value of \$500,000 on or before March 23, 2023 to earn a 100% interest.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

5. Equipment (continued)

The total number of shares to be issued for the 100% interest will not exceed 33,500,000 common shares. As of March 31, 2021, the Company has acquired 10% interest by complying with (i) and (ii) noted above.

The Company can, at its discretion, elect to terminate this agreement either by serving a notice of termination in writing or by failure to complying with options (ii) through (vii) noted above within the prescribed time for each option. On such a termination event, the Company shall pay a penalty of US\$5 per tonne of ore processed for a period 24 months. This rate will be reduced in proportion to the Company's ownership interests prior to such termination.

A continuity schedule of the Company's equipment is as follows:

| | Equipment | SDA Plant | Total |
|---------------------------------|---------------|-------------------|-------------------|
| Cost | | | |
| As at March 31, 2019 | \$ 5,745 | \$ - | \$ 5,745 |
| Additions | - | - | - |
| Disposals | - | - | - |
| As at March 31, 2020 | 5,745 | - | 5,745 |
| Additions | - | 198,675 | 198,675 |
| Disposals | - | - | - |
| As at March 31, 2021 | \$ 5,745 | \$ 198,675 | \$ 204,420 |
| Accumulated depreciation | | | |
| As at March 31, 2019 | \$ (3,083) | \$ - | \$ (3,083) |
| Additions | (1,558) | - | (1,558) |
| Disposals | - | - | - |
| As at March 31, 2020 | (4,641) | - | (4,641) |
| Additions | (326) | - | (326) |
| Disposals | - | - | - |
| As at March 31, 2021 | \$ (4,967) | \$ - | \$ (4,967) |
| Net book value | | | |
| As at March 31, 2020 | \$ 1,104 | \$ - | \$ 1,104 |
| As at March 31, 2021 | \$ 778 | \$ 198,675 | \$ 199,453 |

The SDA Plant requires certain restorations to be commissioned, accordingly, no depreciation was recorded since it is not yet available for its intended use.

6. Accounts payable and accrued liabilities

| | March 31, 2021 | March 31, 2020 |
|---------------------|---------------------|---------------------|
| Accounts payable | \$ 1,489,285 | \$ 914,168 |
| Accrued liabilities | 949,866 | 768,835 |
| | \$ 2,439,151 | \$ 1,683,003 |

From accounts payable \$1,255,427 relates to mining fees (note 4), and from accrued liabilities \$341,561 is due to directors and officers of the Company while \$608,305 is due to Candente Copper Corp (note 8b).

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

7. Capital and equity reserve

a. Shares authorized

The Company has an unlimited number of common shares with no par value.

b. Shares issued

At March 31, 2021, the Company had 119,206,923 (March 31, 2020 – 109,206,923) common shares issued and outstanding.

During the year ended March 31, 2021, the following common shares were issued:

1,000,000 common shares were issued to DMSL at a value of \$26,861 in accordance with the agreement for the acquisition of the Transferred Interest (Note 4);

4,000,000 common shares issued at a price of CDN\$0.05 per share for gross proceeds of CDN\$200,000 via private placement for proceeds of \$152,880; and

5,000,000 common shares issued at a value of \$193,675 in accordance with the agreement for the SDA Plant (Note 5).

During the year ended March 31, 2020, 2,000,000 common shares were issued to DMSL in accordance with the agreement for the acquisition of the Transferred Interest (Note 4).

c. Share options

The Company has an incentive share option plan (the “Plan”). Under the Plan a total of 10% of the Company’s outstanding common shares are reserved for the issuance of shares at discretion of the Board of Directors. Terms of each option award is fixed by the Board of Directors at time of grant. Share option awards have a maximum term of ten years.

Stock option transactions for the years ended March 31, 2021 and 2020 were as follows:

| | Number of Options | Weighted Average Exercise Price (CDN\$) |
|---|--------------------------|--|
| Options outstanding March 31, 2019 | 9,695,000 | 0.06 |
| Options granted | 250,000 | 0.05 |
| Options expired | (2,445,000) | 0.09 |
| Options outstanding March 31, 2020 | 7,500,000 | 0.05 |
| Options granted | 3,200,000 | 0.05 |
| Options outstanding March 31, 2021 | 10,700,000 | 0.05 |

During the year ended March 31, 2021, the Company granted a total of 3,200,000 incentive stock options (1,200,000 to senior officers; 1,000,000 to directors and 1,000,000 to consultants). The options are exercisable at \$0.05 per common share for a period of five years.

During the year ended March 31, 2020, the Company granted 250,000 stock options to a director. The options are exercisable at \$0.05 per common share for a period of five years from the date of issue.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

7. Capital and equity reserve (continued)

c. Share options (continued)

As at March 31, 2021, the following options were exercisable and outstanding:

| Grant date | Outstanding | | Exercisable | | |
|------------|---------------------------|-------------------|---------------------------|-------------------|-------------|
| | Exercise price (CDN\$) | Number of options | Exercise price (CDN\$) | Number of options | Expiry date |
| 20-May-16 | 0.05 | 5,000,000 | 0.05 | 5,000,000 | 20-May-26 |
| 28-Feb-17 | 0.05 | 300,000 | 0.05 | 300,000 | 28-Feb-22 |
| 28-Feb-17 | 0.05 | 250,000 | 0.05 | 250,000 | 28-Feb-27 |
| 07-May-18 | 0.05 | 1,450,000 | 0.05 | 1,450,000 | 07-May-23 |
| 01-Oct-18 | 0.05 | 250,000 | 0.05 | 250,000 | 01-Oct-23 |
| 29-Jul-19 | 0.05 | 250,000 | 0.05 | 125,000 | 29-Jul-24 |
| 18-Jan-21 | 0.05 | 3,200,000 | 0.05 | 800,000 | 18-Jan-26 |
| | 0.05 | 10,700,000 | 0.05 | 8,175,000 | |

The Company used the Black-Scholes Option Pricing model under the following weighted average assumptions and recorded total share-based payments expense for the years ended March 31, 2021 and 2020, of \$59,799 and \$5,075, respectively for the vested portion of options granted. The total fair value of options granted was \$140,999 (2020 - \$4,333) or \$0.056 (2020 - \$0.017) per option.

| | Year ended March 31, 2021 | Year ended March 31, 2020 |
|--------------------------|------------------------------|------------------------------|
| Dividend yield | 0.00% | 0.00% |
| Risk-free interest rate | 0.42% | 1.46% |
| Expected life of options | 5 years | 5 years |
| Annualized volatility | 162.29% | 165.05% |
| Forfeiture rate | Nil | Nil |

d. Warrants

At March 31, 2021, and 2020, the Company had 5,000,000 warrants exercisable at \$0.10 until August 20, 2021.

e. Reserves

Other reserve:

Other reserve records the reserve resulting from the acquisition of subsidiaries.

Equity settled employee compensation and warrants reserve

Equity settled employee compensation and warrants reserve consists of share-based payments expense and other warrant payments. When stock options or warrants are exercised, the corresponding amount will be transferred from this reserve to share capital.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

7. Capital and equity reserve (continued)

e. Reserves (continued)

Foreign currency reserve:

Foreign currency reserve records unrealized exchange differences arising on translation of group companies that have a functional currency other than the Company's reporting currency.

f. Obligation to issue shares

Obligation to issue shares consists of the fair value of 1,000,000 (2020 – 2,000,000) common shares that are due to be issued to DMSL for the acquisition of the Transferred Interest (Note 4).

8. Related party disclosures

The Company's related parties consist of companies owned by executive officers and directors. The following is a list of related parties that the Company enters into trading transactions with:

- Ridley Rocks Inc. – Management fees;
- SW Project Management – Project management and engineering fees;
- Candente Copper Corp. - shared administrative expenses with a company related by directors and management in common; and
- Lotz CPA Inc. – Financial services, fees thereto.

a. Related party transactions

The Company incurred the following compensation with companies controlled by members of management and with directors.

| | Year ended March 31, | |
|----------------------|-----------------------------|------------------|
| | 2021 | 2020 |
| Management fees | \$ 128,032 | \$ 59,175 |
| Share-based payments | 42,795 | 4,901 |
| | \$ 170,827 | \$ 64,076 |

Share-based payments are the expensing of the fair value of options issued to directors and key management personnel during the period ended March 31, 2021 and 2020.

b. Balance owing

Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable at March 31, 2021 includes \$341,561 (March 31, 2020 - \$217,121) owing to directors and officers and \$608,305 (March 31, 2020 - \$500,521) owing to Candente Copper Corp., a shareholder of the Company who also shares common directors and officers.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

8. Related party disclosures (continued)

c. Management and consulting agreements

On March 1, 2018, the Company entered into a management agreement with a company controlled by the CEO of the Company to provide management services for an indefinite term. Under the agreement, in the event of termination without cause, the Company will pay a one-time termination payment of \$200,000. In the event of a change of control, the individual will have the right at any time within 60 days to provide notice of termination and will receive a \$500,000 one-time payment. The individual will also be entitled to the \$500,000 if they terminate the agreement or there is a termination without cause and a change of control occurs within one year of the effective date of such termination.

On September 28, 2018, the Company entered into a consulting agreement with a company controlled by the CFO of the Company to provide consulting services for an indefinite term. Under the agreement, in the event of termination without cause or the consultant terminating the agreement within 30 days after a change of control, the Company will pay a one-time termination payment of \$28,500.

9. Segmented information

The Company operates in one segment being the exploration of mineral properties. The Company operates in three geographical areas, being Peru, Mexico and Canada. Following is an analysis of the Company's non-current assets by geographical area:

| | March 31, 2021 | | |
|---|-----------------------|------------------|-------------------|
| | Peru | Mexico | Total |
| Unproven mineral right interests | \$ 13,582 | \$ 32,401 | \$ 45,983 |
| Equipment | 199,453 | - | 199,453 |
| | \$ 213,035 | \$ 32,401 | \$ 245,436 |

| | March 31, 2020 | | |
|---|-----------------------|---------------|-------------------|
| | Peru | Mexico | Total |
| Unproven mineral right interests | \$ 291,103 | \$ 1 | \$ 291,104 |
| Equipment | 719 | 385 | 1,104 |
| | \$ 291,822 | \$ 386 | \$ 292,208 |

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

10. Expenses

| | Year ended March 31, 2021 | | 2020 | |
|---|------------------------------|--|-------------------|--|
| GENERAL AND ADMINISTRATIVE | | | | |
| Audit and tax advisory fees | \$ 43,200 | | \$ 37,332 | |
| Bank charges and interest | 125 | | 1,546 | |
| Depreciation | 326 | | 1,558 | |
| Legal | 46,092 | | 12,863 | |
| Management fees, office salaries and benefits (Note 8) | 131,694 | | 59,306 | |
| Office, rent and miscellaneous | 28,656 | | 26,202 | |
| Regulatory and filing fees | 27,522 | | 14,626 | |
| Share-based payments (Notes 7,8) | 59,799 | | 5,075 | |
| Shareholder communications | 5,180 | | 3,671 | |
| Interest and other income | 549 | | - | |
| Total general and administrative expenses | \$ 343,143 | | \$ 162,180 | |
| EXPLORATION | | | | |
| Field support including project administration | \$ 60,493 | | \$ 3,631 | |
| Mining fees | 321,241 | | 363,012 | |
| Option payments received | (105,000) | | (89,675) | |
| Total exploration expenses | \$ 276,734 | | \$ 276,968 | |

11. Financial risk and capital management

The Company is exposed to certain financial risks in the normal course of its operations:

a. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The liquidity position of the Company is managed to ensure sufficient liquid funds are available to meet financial commitments in a timely and cost-efficient manner.

The Company's management continually reviews the liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. The Company plans to make payments of trade payables and commitments from its current working capital and future sources of equity financing. Liquidity risk is considered to be high.

b. Currency risk

Currency risk is the risk that arises on financial instruments that are denominated in a currency, i.e. in a currency other than the functional currency in which they are measured.

The Company operates internationally and is exposed to risks from foreign currency rates. The functional currency of the Company's subsidiaries is the United States and Canadian dollars and some of the subsidiaries' transactions are denominated in Mexican Pesos and Nuevo Soles. The

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

11. Financial risk and capital management (continued)

b. Currency risk (continued)

Company does not enter into any foreign exchange contracts to mitigate this risk. The Company and its subsidiaries do not have significant transactions or hold significant cash denominated currencies other than their functional currencies. The balance owing for mining fees at March 31, 2021 is \$1,255,427. Therefore, a 10% change in the value of the Mexican Peso versus the US dollar would change the Company's net loss by approximately \$125,543.

c. Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. Credit risk arises from cash and receivables. Cash are deposited in highly rated corporations and the credit risk associated with these deposits is low.

d. Fair value hierarchy

The consolidated statements of financial position carrying amounts for receivables and accounts payable, approximate fair value due to their short-term nature.

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash is measured as Level 1. There were no transfers between levels during the period.

e. Capital management

The Company's capital structure is comprised of the components of shareholders' deficiency. The Company's objectives when managing its capital structure is to, maintain financial flexibility to preserve the Company's access to capital markets and its ability to meet its financial obligations.

The Company's corporate office is responsible for capital management. This involves the use of corporate forecasting models, which facilitate analysis of the Company's financial position including cash flow forecasts to determine the future capital management requirements.

In preparing its budgets and corporate forecasting models, the Company considers operating commitments imposed by its subsidiaries and the stability of the global capital markets.

Capital management is undertaken to ensure a secure, cost-effective supply of funds to ensure the Company's operating and capital expenditure requirements are met.

There were no changes in the Company's approach to capital management during the period and the Company is not subject to any restrictions on its capital.

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

12. Income taxes

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

| | 2021 | 2020 |
|---|----------------|--------------|
| Loss for the year | \$ (1,091,990) | \$ (293,700) |
| Expected income tax (recovery) | \$ (295,000) | \$ (79,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | (247,000) | 374,000 |
| Permanent differences | 95,000 | (22,000) |
| Share issue cost | (1,000) | - |
| Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses | 947,000 | 41,000 |
| Change in unrecognized deductible temporary | (499,000) | (314,000) |
| Total income tax expense (recovery) | \$ - | \$ - |

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

| | 2021 | 2020 |
|--|--------------|--------------|
| Deferred tax assets (liabilities) | | |
| Exploration and evaluation assets | \$ 2,105,000 | \$ 2,013,000 |
| Property and equipment | 15,000 | 14,000 |
| Share issue costs | 1,000 | 1,000 |
| Non-capital losses available for future period | 2,547,000 | 3,139,000 |
| | 4,668,000 | 5,167,000 |
| Unrecognized deferred tax assets | (4,668,000) | (5,167,000) |
| Net deferred tax assets | \$ - | \$ - |

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:

| | Expiry Date 2021 | Range | Expiry Date 2020 | Range |
|---|---------------------|----------------|---------------------|----------------|
| Temporary Differences | | | | |
| Exploration and evaluation assets | \$ 7,164,000 | No expiry date | \$ 6,852,000 | No expiry date |
| Property and equipment | 54,000 | No expiry date | 51,000 | No expiry date |
| Share issue costs | 3,000 | 2042 to 2045 | 5,000 | 2041 |
| Non-capital losses available for future periods | 8,913,000 | | 10,882,000 | |
| Canada | 4,156,000 | 2030 to 2041 | 4,080,000 | 2030 to 2040 |
| Peru | 594,000 | No expiry date | 594,000 | No expiry date |
| Mexico | 4,163,000 | 2022 to 2031 | 6,208,000 | 2021 to 2030 |

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

Xali Gold Corp. (formerly “Candente Gold Corp.”)

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

(Expressed in United States dollars unless otherwise noted)

13. Subsequent events

- a) On April 1, 2021, the Company granted 200,000 incentive stock options to a consultant. The options are exercisable at \$0.05 per common share for a period of five years from the date of issue.
- b) On May 20, 2021, the Company announced it has signed a new Exploration and Production Agreement (“EPA”) with Ingenieros Mineros, S.A. de C.V. (“IMSA”) on the El Dorado Property, located in Nayarit State, Mexico. The EPA gives the Company the right to explore and produce gold, silver, and other metals for the life of the mine.

Under the EPA, the Company has the obligation to pay IMSA the following:

- \$30,000 per year until the commencement of commercial production, up to a maximum of 5 years;
- A minimum of \$60,000 per year after 5 years or upon commencement of production;
- During commercial production, a NSR of:
 - 3.5% until payments reach an aggregate amount of \$350,000; of which \$200,000 is payable in cash and \$150,000 in the Company’s common shares (using a 30 day volume weighted average share price)
 - 3.0% to an aggregate of \$600,000
 - 2.5% to an aggregate of \$850,000
 - 1.0% through the life of mine

All annual payments are to be credited towards the NSR payments.

- c) On May 26 and June 21, 2021, the Company signed loan agreements with Ridley Rocks Inc. (owned by the Company’s CFO) for \$29,000 and CDN\$15,000, respectively. The loans are non-interest bearing and payable on demand.
- d) On July 12, 2021, the Company entered into an option agreement (the “Agreement”) to acquire 100% interest in the Victoria property located in Newfoundland and Labrador. The Property comprises 79 claims.

To acquire 100% interest in the Victoria property, the Company must complete the following:

- Issuing a total of 3.5 million shares over 3 years
- Making payments of a total of CDN \$100,000 over 3 years
- Funding exploration activities of CDN \$650,000 over 3 years

This agreement is subject to a 2.0% NSR. The Company has the right to buyback 1% of the NSR for CDN \$1,000,000 at any time.