



Interim Condensed Consolidated Financial Statements
As at and for the three months ended June 30, 2022 and 2021
(Expressed in United States dollars, unless otherwise noted)

NOTICE

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these interim condensed consolidated financial statements, then these financial statements must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

Xali Gold Corp.
Interim Condensed Consolidated Statements of Financial Position

At June 30, 2022 and March 31, 2022

(expressed in United States dollars unless otherwise noted)

| | Note | June 30, 2022 | March 31, 2022 |
|---|-------|--------------------|--------------------|
| Assets | | | |
| Current Assets | | | |
| Cash | | \$ 8,564 | \$ 33,522 |
| Receivables | | 11,668 | 13,208 |
| Prepaid expenses and deposits | | 22,579 | 31,000 |
| | | 42,811 | 77,730 |
| Non-current assets | | | |
| Unproven mineral right interests | 4 | 86,479 | 87,497 |
| Equipment | 5 | 466,462 | 466,462 |
| Total non-current assets | | 552,941 | 553,959 |
| Total assets | | \$ 595,752 | \$ 631,689 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 4,6,8 | \$ 3,149,598 | \$ 3,029,802 |
| Loan from related party | 8 | 7,930 | 8,178 |
| | | 3,157,528 | 3,037,980 |
| Non-current liabilities | | | |
| Asset retirement obligation | 5 | 36,263 | 36,263 |
| Total non-current liabilities | | 36,263 | 36,263 |
| Total Liabilities | | 3,193,791 | 3,074,243 |
| Shareholders' deficiency | | | |
| Share capital | 7 | 25,404,687 | 25,404,687 |
| Obligation to issue shares | 7 | 21,703 | 21,703 |
| Reserves | 7 | 6,227,583 | 6,039,250 |
| Accumulated deficit | | (34,252,012) | (33,908,194) |
| Total shareholders' deficiency | | (2,598,039) | (2,442,554) |
| Total liabilities and shareholders' deficiency | | \$ 595,752 | \$ 631,689 |
| Nature of operations and going concern | 1 | | |
| Subsequent events | 12 | | |

Approved on behalf of the Board of Directors on Aug 25, 2022

(signed) Larry Kornze
Director

(signed) Ian Ward
Director

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

Xali Gold Corp.

Interim Condensed Consolidated Statements of Comprehensive Loss

For the three months ended June 30, 2022 and 2021

(expressed in United States dollars unless otherwise noted)

| | Note | Three months ended June 30, | |
|--|------|-----------------------------|--------------|
| | | 2022 | 2021 |
| Expenses | | | |
| Exploration expenses | 10 | \$ 74,651 | \$ 72,851 |
| General and administrative expenses | 10 | 101,755 | 128,104 |
| | | 176,406 | 200,955 |
| Other expenses | | | |
| Loss on foreign exchange | | 167,412 | 199,947 |
| Net loss | | \$ (343,818) | \$ (400,902) |
| Other comprehensive loss | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Foreign currency translation | | 174,594 | 141,535 |
| Comprehensive loss | | \$ (169,224) | \$ (259,367) |
| Loss per share attributable to shareholders, basic and diluted | | \$ (0.00) | \$ (0.00) |
| Weighted average number of common shares outstanding: basic and diluted | | 133,691,620 | 119,206,923 |

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

Xali Gold Corp.

Interim Condensed Consolidated Statements of Changes in Shareholders' Deficiency

For the three months ended June 30, 2022 and 2021

(expressed in United States dollars unless otherwise noted)

| | Share Capital | | Reserves | | | | | Obligation to issue shares | Deficit | Total |
|----------------------------------|---------------|---------------------|----------------------|---|------------------|--------------------------|---------------------|----------------------------|------------------------|-----------------------|
| | Notes | Total common shares | Share capital | Equity settled employee compensation and warrants | Other reserve | Foreign currency reserve | Total reserves | | | |
| Balance at March 31, 2021 | | 109,206,923 | \$ 24,617,507 | \$ 5,972,131 | \$ 52,046 | \$ (204,876) | \$ 5,819,301 | \$ 26,861 | \$ (32,612,916) | \$ (2,149,247) |
| Share-based payments | | - | - | 40,556 | - | - | 40,556 | - | - | 40,556 |
| Net loss | | - | - | - | - | - | - | - | (400,902) | (400,902) |
| Foreign currency translation | | - | - | - | - | 141,535 | 141,535 | - | - | 141,535 |
| Balance at June 30, 2021 | | 109,206,923 | 24,617,507 | 6,012,687 | 52,046 | (63,341) | 6,001,392 | 26,861 | (33,013,818) | (2,368,058) |
| Balance at March 31, 2022 | | 133,691,620 | \$ 25,404,687 | \$ 6,031,665 | \$ 52,046 | \$ (44,461) | \$ 6,039,250 | \$ 21,703 | \$ (33,908,194) | \$ (2,442,554) |
| Share-based payments | 7 | - | - | 13,739 | - | - | 13,739 | - | - | 13,739 |
| Net loss | | - | - | - | - | - | - | - | (343,818) | (343,818) |
| Foreign currency translation | | - | - | - | - | 174,594 | 174,594 | - | - | 174,594 |
| Balance at June 30, 2022 | | 133,691,620 | \$ 25,404,687 | \$ 6,045,404 | \$ 52,046 | \$ 130,133 | \$ 6,227,583 | \$ 21,703 | \$ (34,252,012) | \$ (2,598,039) |

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

Xali Gold Corp.
Interim Condensed Consolidated Statements of Cash Flows
For the three months ended June 30, 2022 and 2021
(expresses in United States dollars unless otherwise noted)

| | Three months ended June 30, | |
|--|-----------------------------|------------------|
| | 2022 | 2021 |
| Cash provided by (used) in | | |
| Operating | | |
| Loss for the period | \$ (343,818) | \$ (400,902) |
| Items not affecting cash | | |
| Share-based payments | 13,739 | 40,556 |
| Foreign exchange | 118,852 | 189,742 |
| Changes in non-cash working capital items: | | |
| Decrease in receivables | 1,540 | 657 |
| Decrease (increase) in prepaid expenses and deposits | (3,668) | 1,756 |
| Increase in accounts payable and accrued liabilities | 187,379 | 193,301 |
| Net cash change in operating activities | (25,976) | 25,110 |
| Investing | | |
| Value added tax | 1,018 | (8,742) |
| Option payments | - | (5,147) |
| Addition to unproven mineral right interests | - | (31,296) |
| Net cash used in investing activities | 1,018 | (45,185) |
| Effect on exchange rate changes on cash | | |
| Net change in cash | (24,958) | (20,075) |
| Cash at beginning of period | 33,522 | 32,671 |
| Cash at end of period | \$ 8,564 | \$ 12,596 |

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

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

1. Nature of operations and going concern

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

The principal subsidiaries of the Company as at June 30, 2022 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 |
| Candente Gold Mexico Jales (BVI) Ltd. | 100% | US Dollars |
| El Oro Jales I (BVI) Ltd. | 100% | US Dollars |
| El Oro Jales II (BVI) Ltd. | 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 interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 25, 2022.

As of the date of these interim condensed 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 interim condensed 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 three months ended June 30, 2022, the Company had a net loss of \$343,818, and, as at June 30, 2022, current liabilities exceed current assets by \$3,114,717, and the Company had cumulative losses of \$34,252,012. 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.

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

1. Nature of operations and going concern (continued)

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.

2. Statement of compliance and basis of presentation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2022, which have been prepared in accordance with IFRS issued by the IASB.

3. Significant accounting policies

Accounting pronouncements with future effective dates are either not applicable or are not expected to have a material impact on the Company's interim condensed consolidated financial statements.

4. Unproven mineral right interests

As at June 30, 2022 and March 31, 2022, the Company's capitalized unproven mineral right interests costs are as follows:

| | Balance at March 31, 2022 | Acquisition costs and additions | Balance at June 30, 2022 |
|----------------------------|------------------------------|------------------------------------|-----------------------------|
| Canadian Properties | | | |
| Victoria project | \$ 51,084 | \$ - | \$ 51,084 |
| Mexican Properties | | | |
| El Oro - Hardrock | 1 | - | 1 |
| Peruvian Properties | | | |
| Value-added tax | 36,411 | (1,018) | 35,393 |
| Closing balance | \$ 87,497 | \$ (1,018) | \$ 86,479 |

| | Balance at March 31, 2021 | Acquisition costs and additions | Impairment | Balance at March 31, 2022 |
|----------------------------|------------------------------|------------------------------------|---------------------|------------------------------|
| Canadian Properties | | | | |
| Victoria project | \$ - | \$ 51,084 | \$ - | \$ 51,084 |
| Mexican Properties | | | | |
| El Oro - Hardrock | 1 | - | - | 1 |
| Cocula Project | 32,400 | 85,165 | (117,565) | - |
| Peruvian Properties | | | | |
| Value-added tax | 13,581 | 22,830 | - | 36,411 |
| Closing balance | \$ 45,983 | \$ 159,079 | \$ (117,565) | \$ 87,497 |

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

4. Unproven mineral right interests (continued)

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 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. On August 3, 2021, the Company issued the remaining 1,000,000 shares

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 June 30, 2022, \$1,744,007 (March 31, 2022 - \$1,638,961) 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.

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

4. Unproven mineral right interests (continued)

El Oro Mine Tailings (continued)

The LOI was superseded by a definitive agreement signed in November 2018. In order to exercise the option, SRG was 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 of which \$5,325 was applied directly against certain general and administrative fees from SRG 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.

On March 31, 2022, the Company renewed both the Tailings Agreement and the Tourism Agreement with Municipality. The terms of the Agreements have no substantial changes but do include the obligation to employ persons from El Oro on a preferential basis.

Renewing the Tailings Agreement is the final item required for SRG, who have the option to acquire 100% of the Tailings Project from CCM El Oro Jales, to receive permits to operate the Tailings Reprocessing Facility at El Oro, Mexico.

On January 4th, 2022, the Company amended the earn-in option agreement with SGR as follows:

1. An initial extension of the option expiry date from October 31, 2021 to April 31, 2022 under the following terms for monthly payments of \$2,000 starting November 2021 and a one time payment of \$5,400. As at March 31, 2022, \$12,000 was received with the remaining received subsequent to year end.
2. If commercial production is not achieved by May 1, 2022, the Company will grant a second extension of the option expiry date to December 31, 2022 for monthly payments of \$15,000 starting May 1, 2022. Once commercial production has been achieved SRG must make monthly payments of \$50,000 for the first year, and 5% of NPI thereafter. In addition, SRG will make the first \$1,500,000 of the municipality NPI payment during the first three years of operations. This agreement has been extended to August 31, 2022 such that payments of \$15,000 should start after that unless otherwise agreed to.

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) \$10,000 upon signing of the Letter of Intent (paid);
- ii) \$20,000 upon signing of a Definitive Agreement ("DA") and completion of due diligence within 60 days (paid);
- iii) A payment of \$20,000 on the execution date (paid);
- iv) A payment of \$20,000 six months following the execution date (paid subsequent to year end);
- v) A payment of \$25,000 twelve months following the execution date;

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

4. Unproven mineral right interests (continued)

Cocula property (continued)

- vi) A payment of \$30,000 eighteen months following the execution date;
- vii) A payment of \$35,000 twenty-four months following the execution date;
- viii) A payment of \$45,000 thirty months following the execution date; and
- ix) A payment of \$55,000 thirty-six months following the execution date.
- x) Upon commencement of production, the owner of the Property will receive a minimum consideration of \$25,000 per quarter deductible from mining profits for each quarter.

It will be the Company's responsibility to put the property into production and the concession holders will retain 25% of the profits derived from mining, processing, and product sales.

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.

Subsequent to period end on July 19, 2022 the agreement was formally terminated.

Victoria property

On July 12, 2021, the Company entered into an option agreement (the "Victoria 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 3,500,000 shares over 3 years;
- Making payments of a total of CDN \$100,000 over 3 years; and
- Funding exploration activities of CDN \$650,000 over 3 years.

In addition, the Company will issue 175,000 shares (5% finders fees) over 3 years.

During the year ended March 31, 2022, the Company paid CDN\$25,000 and issued 500,000 common shares on closing of the Victoria Agreement to the optionors. In addition, 25,000 finders' shares were issued.

Certain payments and share issuance due on the first anniversary of the closing date were not made subsequent to year end. Therefore, the Company agreed to issue 150,000 shares for an extension until August 6, 2022 to potentially renegotiate the terms of the agreement.

El Dorado property

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. The EPA gives the Company the right to explore and produce gold, silver, and other metals for the life of the mine.

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

4. Unproven mineral right interests (continued)

El Dorado property (continued)

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

- \$30,000 per year until the start 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; and
- 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.

Peruvian properties:

As at June 30, 2022, 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. During the year ended March 31, 2021, the Company 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. 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);
- 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 quarter end);
- iv) Common shares with a value of \$150,000 on or before September 23, 2021 to earn a 30% interest (issued);
- v) Common shares with a value of \$275,000 on or before March 23, 2022 to earn a 50% interest (extended to August 31, 2022);
- 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.

The total number of shares to be issued for the 100% interest will not exceed 33,500,000 common shares. As of June 30, 2022, the Company has acquired 10% interest by complying with (i) and (ii) noted above.

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

5. Equipment (continued)

Mill (continued)

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, 2021 | \$ | 5,745 | \$ 198,675 | \$ 204,420 |
| Additions | | - | 267,283 | 267,283 |
| As at March 31, 2022 | | 5,745 | 465,958 | 471,703 |
| Additions | | - | - | - |
| As at June 30, 2022 | \$ | 5,745 | \$ 465,958 | \$ 471,703 |
| Accumulated depreciation | | | | |
| As at March 31, 2021 | \$ | (4,967) | \$ - | \$ (4,967) |
| Additions | | (274) | - | (274) |
| As at March 31, 2022 | | (5,241) | - | (5,241) |
| Additions | | - | - | - |
| As at June 30, 2022 | \$ | (5,241) | \$ - | \$ (5,241) |
| Net book value | | | | |
| As at March 31, 2022 | \$ | 504 | \$ 465,958 | \$ 466,462 |
| As at June 30, 2022 | \$ | 504 | \$ 465,958 | \$ 466,462 |

The SDA Plant requires certain restorations to be commissioned, accordingly, no depreciation was recorded as of June 30, 2022 since it is not yet available for use.

6. Accounts payable and accrued liabilities

| | | June 30, 2022 | March 31, 2022 |
|---|----|------------------|----------------|
| Trade payables | \$ | 327,951 | \$ 328,338 |
| Due to directors and officers (Note 8) | | 447,511 | 435,404 |
| Due to Candente Copper (Note 8) | | 615,149 | 622,213 |
| Accrued liabilities - mining fees - El Oro (Note 4) | | 1,744,007 | 1,638,961 |
| Accrued liabilities - other | | 22,910 | 4,886 |
| | \$ | 3,157,528 | \$ 3,029,802 |

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 June 30, 2022, the Company had 133,691,620 common shares issued and outstanding.

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

7. Capital and equity reserve (continued)

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 period ended June 30, 2022 were as follows:

| | Number of Options | Weighted Average Exercise Price (CAD\$) |
|--|----------------------|---|
| Options outstanding March 31, 2022 | 9,725,000 | 0.05 |
| Options granted | 250,000 | 0.10 |
| Options outstanding June 30, 2022 | 9,975,000 | 0.05 |

During the period ended June 30, 2022, the Company granted 250,000 stock options to a consultant at an exercise price of \$0.10, of which 25% will vest immediately, 25% will vest each quarter and the last 25% will vest on March 1, 2023. The expiration date of the Stock Options is September 1, 2026.

As at June 30, 2022, the following options were exercisable and outstanding:

| Grant date | Outstanding | | Exercisable | | Expiry date |
|------------|---------------------------|----------------------|---------------------------|----------------------|-------------|
| | Exercise price (CDN\$) | Number of options | Exercise price (CDN\$) | Number of options | |
| 20-May-16 | 0.05 | 4,400,000 | 0.05 | 4,400,000 | 20-May-26 |
| 28-Feb-17 | 0.05 | 250,000 | 0.05 | 250,000 | 28-Feb-27 |
| 07-May-18 | 0.05 | 1,250,000 | 0.05 | 1,250,000 | 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 | 250,000 | 29-Jul-24 |
| 18-Jan-21 | 0.05 | 3,125,000 | 0.05 | 2,325,000 | 18-Jan-26 |
| 01-Apr-21 | 0.05 | 200,000 | 0.05 | 200,000 | 01-Apr-26 |
| 21-Jun-22 | 0.10 | 250,000 | 0.10 | 62,500 | 01-Sep-26 |
| | 0.05 | 9,975,000 | 0.05 | 8,987,500 | |

The Company used the Black-Scholes Option Pricing model under the following weighted average assumptions and recorded total share-based payments expense for the period ended June 30, 2022 of \$13,739 for the vested portion of options granted. The total fair value of options granted was \$21,902 or \$0.087 per option.

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 |
|--------------------------|-------------------------------------|-------------------------------------|
| Dividend yield | - | - |
| Risk-free interest rate | 3.12% | 0.93% |
| Expected life of options | 4.25 years | 5 years |
| Annualized volatility | 151% | 157.64% |
| Forfeiture rate | Nil | Nil |

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

7. Capital and equity reserve (continued)

c. Warrants

As of June 30, 2022, the Company has 3,524,167 outstanding warrants. Each Warrant will be exercisable for one additional share of the Company's common stock (a "Warrant Share") for two years at a conversion price of CDN\$0.12 and will expire on December 2, 2023.

d. 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.

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.

e. Obligation to issue shares

During the year ended March 31, 2022, the Company entered into an agreement for marketing services where the contractor will be issued 500,000 common shares (400,000 issued on July 19, 2022) (Note 12a). As at June 30, 2022, 376,667 shares valued at \$21,703 in relation to a second marketing agreement with Agora Internet Relations Corp. are recorded to obligation to issue shares.

8. Related party disclosures

Key management personnel are the persons responsible for the planning, directing and controlling the activities of the Company and includes directors, executive officers, and entities controlled by such persons. 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.

| | Three months ended June 30, | |
|----------------------|-----------------------------|------------|
| | 2022 | 2021 |
| Management fees | \$ 23,737 | \$ 76,692 |
| Share-based payments | 4,039 | 28,453 |
| | \$ 27,776 | \$ 105,145 |

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

9. Related party disclosures (continued)

a. Related party transactions (continued)

Share-based payments are the expensing of the fair value of options issued to directors and key management personnel during the period ended June 30, 2022 and 2021.

b. Balance owing

Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable at June 30, 2022 includes \$447,511 (March 31, 2022 - \$435,404) owing to directors and officers and \$615,149 (March 31, 2022 - \$622,213) owing to Candente Copper Corp., a shareholder of the Company who also shares common directors and officers.

During the three months ended June 30, 2022, the Company received a loan from Ridley Rocks Inc. for \$7,930 (March 31, 2022 - \$8,178).

c. Management and consulting agreements

Pursuant to the RRI Agreement made as of April 1, 2018, between the Company and Ridley Rocks Inc. ("RRI", a company in respect of which Ms. Joanne Freeze, the Company's President and CEO, is the principal), the Company has agreed to pay RRI a monthly retainer of \$4,000 for 20% of her time and a daily fee for services rendered by RRI to the Company for time that exceeds the amount of time covered by the retainer. The RRI Agreement also contains a provision for the potential payment of an annual bonus (the "Target Bonus") to be determined by the Company's Compensation Committee. The Target Bonus has initially been set at the amount of \$75,000. Both the Target Bonus and the daily fee are subject to adjustment on an annual basis. On a "change of control" of the Company, at any time to the date that is sixty (60) days following the date of the change of control, either the Company or RRI may terminate the RRI Agreement, in which case the Company or the Surviving Corporation will pay to Consultant a fee equal to \$500,000, together with all applicable taxes including GST on such amounts (collectively, the "Control Fee"). In addition, the RRI Agreement provides for a Termination payment of \$200,000 on termination of the consulting services, by the Company, without cause. Any Termination payment would be deducted from the Change in Control payment.

Pursuant to a consulting services agreement (the "Melnik Geological Services Agreement") made as of April 21, 2020, between the Company and Bullion Exploration Inc ("Bullion"), a company owned by Mr. Melnyk, the Company agreed to retain Mr. Melnyk to provide geological consulting and Technical Officer services at a fee of US\$825/day. In the event the Company enters into a definitive agreement providing for a "change of control" (as defined in the Melnyk Agreement) or a change of control of the Company occurs, Melnyk has the right under the Melnyk Agreement at any time to the date that is sixty (60) days following the date of the change of control, to terminate the Melnyk Agreement, whereupon the Company is required to pay to Melnyk a fee of Cdn\$200,000. In addition, the Melnyk Agreement provides for Termination payment of Cdn\$50,000 on termination of the consulting services, by the Company, without cause. Any Termination payment would be deducted from the Change in Control payment.

Pursuant to a consulting services agreement (the "Lotz CPA Agreement") made as of October 1, 2018, between the Company and Lotz CPA Inc. ("Lotz CPA"), a company owned by Mr. Mark Lotz, the Company agreed to retain Mr. Lotz to provide financial consulting & Chief Financial Officer services at a fee of \$28,500 per annum. In the event the Company enters into a definitive agreement providing for a "change of control" (as defined in the Lotz CPA Agreement) or a change of control of the Company occurs, Lotz CPA has the right under the Lotz CPA Agreement at any time to the date that is sixty (60) days following the date of the change of control, to terminate the Lotz CPA Agreement, whereupon the Company is required to pay to Lotz CPA a fee of \$28,500.

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

In addition, the Lotz CPA Agreement provides for Severance payment of \$28,500 on termination of the consulting services, by the Company, without cause. Any Severance payment would be deducted from the Change in Control payment. Effective January 1, 2021 the annual fee was increased to \$29,925 per annum.

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:

| | June 30, 2022 | | | |
|---|---------------|------------|-----------|------------|
| | Canada | Mexico | Peru | Total |
| Unproven mineral right interests (Note 4) | \$ 51,084 | \$ 1 | \$ 35,394 | \$ 86,479 |
| Equipment (Note 5) | - | 466,462 | - | 466,462 |
| | \$ 51,084 | \$ 466,463 | \$ 35,394 | \$ 552,941 |

| | March 31, 2022 | | | |
|---|----------------|------------|-----------|------------|
| | Canada | Mexico | Peru | Total |
| Unproven mineral right interests (Note 4) | \$ 51,084 | \$ 1 | \$ 36,412 | \$ 87,497 |
| Equipment (Note 5) | - | 466,462 | - | 466,462 |
| | \$ 51,084 | \$ 466,463 | \$ 36,412 | \$ 553,959 |

10. Expenses

| | Three months ended June 30, | |
|--|-----------------------------|-------------------|
| | 2022 | 2021 |
| GENERAL AND ADMINISTRATIVE | | |
| Audit and tax advisory fees | \$ 21,382 | \$ 22,142 |
| Bank charges and interest | 32 | 55 |
| Consulting | 11,751 | (506) |
| Legal | 13,018 | 19,307 |
| Management fees, office salaries and benefits (Note 8) | 23,559 | 30,014 |
| Office, rent and miscellaneous | 12,281 | 6,511 |
| Regulatory and filing fees | 4,560 | 3,364 |
| Share-based payments (Notes 7,8) | 13,739 | 40,556 |
| Shareholder communications | 20,929 | 6,647 |
| Interest and other income | (19,496) | 14 |
| Total general and administrative expenses | \$ 101,755 | \$ 128,104 |

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

| | Three months ended June 30, | |
|--|-----------------------------|------------------|
| | 2022 | 2021 |
| EXPLORATION | | |
| Field support including project administration | \$ 8,731 | \$ 16,385 |
| Mining fees - El Oro | 65,564 | 56,466 |
| Amortization | 2,356 | - |
| Option payments received | (2,000) | - |
| Total exploration expenses | \$ 74,651 | \$ 72,851 |

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 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 June 30, 2022 is \$1,744,007. Therefore, a 10% change in the value of the Mexican Peso versus the US dollar would change the Company's net loss by approximately \$174,400.

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:

Xali Gold Corp.

Interim condensed consolidated financial statements

For the three months ended June 30, 2022 and 2021

(Expressed in United States dollars unless otherwise noted)

- 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.

12. Subsequent events

- a) On July 19, 2022, the Company issued 400,000 common shares to a contractor with a fair market value of CND\$36,000.
- b) Subsequent to period end, as of July 27, 2022 the Company received a CDN\$25,000 loan from Ridley Rocks Inc. The loan is non-interest bearing and payable on demand.
- c) Subsequent to period end, on July 22, 2022 the Company received a \$11,400 payment from SRG.
- d) Subsequent to period end, on July 27, 2022 the Company received a \$20,000 loan from an unrelated third party. The loan is non-interest bearing and payable on demand.