

# **ROCHESTER RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED NOVEMBER 30, 2015**

This discussion and analysis of financial position and results of operation is prepared as at January 27, 2016 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and the accompanying notes for the six months ended November 30, 2015 of Rochester Resources Ltd. ("Rochester" or the "Company"). The following disclosure and associated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars.

### **Forward-Looking Statements**

This MD&A contains certain statements that may constitute "forward-looking statements". Forward-looking statements include but are not limited to, statements regarding future anticipated exploration programs and the timing thereof, and business and financing plans. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, including, but not limited to, the Company's ability to identify one or more economic deposits on its properties, to produce minerals from its properties successfully or profitably, to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

Historical results of operations and trends that may be inferred from this MD&A may not necessarily indicate future results from operations. In particular, the current state of the securities markets for junior resource companies may render it difficult or impossible for the Company to raise the funds necessary to continue operations.

All of the Company's public disclosure filings, including its most recent management information circular, material change reports, press releases and other information, may be accessed via [www.sedar.com](http://www.sedar.com) and readers are urged to review these materials.

### **Company Overview and Going Concern**

The Company is a junior natural resource company engaged in the exploration and development of the Mina Real Project located in Mexico.

The Company holds 100% undivided interests in the Mina Real and San Francisco Properties. In addition the Company has an agreement to acquire a 70% interest in the Santa Fe Property. During the six months ended November 30, 2015 the Company reported a loss of \$3,059,404 and, as at November 30, 2015, the Company had an accumulated deficit of \$54,693,932 and a working capital deficit of \$15,716,745. The Company's ability to continue as a going concern is dependent on the ability of the Company to generate positive operating cash flow, the continued financial support of its directors, shareholders and creditors and from the sale of additional common shares or other equity or debt instruments. The Company is currently considering a restructuring of its indebtedness and has had preliminary discussions with its debt holders and the regulatory authorities. See "Financial Condition/Capital Resources".

The Company is a reporting issuer in British Columbia, Alberta and Saskatchewan and trades on the TSX Venture Exchange ("TSXV") under the symbol "RCT", the Frankfurt Stock Exchange Open Market under the trading Symbol "R5I" and on the Pink OTC Markets under the symbol "RCTFF".

## Property Update

The Company holds a 100% interest in Mina Real which holds a 100% interest in the Mina Real Property, a gold and silver property located in the state of Nayarit, Mexico, east of the state capital city of Tepic. Mina Real also owns 70% of Compania Minera Santa Fe S.A. de C.V. (“Compania Minera”) which holds a 100% interest in the Santa Fe gold and silver property located immediately east of the Mina Real Property. Through Mina Real the Company has an agreement to acquire a 70% interest in one concession (the “Santa Fe Property”) located near the Mina Real Property. Under the terms of the agreement the Company agreed to implement a program of exploration to determine if the Santa Fe Property can be economically exploited. In addition, if the exploration work is successful, the Company agreed to provide the necessary capital to construct a processing plant capable of processing a minimum of 200 tonnes per day. The Company has conducted limited exploration on the property and is assessing alternatives to advance the development of the Santa Fe concessions. The Company is required to pay an ongoing monthly fee of US \$10,000 to the 30% concession owners of the Santa Fe Property. All amounts owing have been paid as at the date of this MD&A. These payments have been capitalized to the Santa Fe Property as exploration and evaluation assets.

The Mina Real Property is producing small quantities of gold and silver and has additional development and exploration potential. The Santa Fe Property is a gold and silver exploration property.

On October 23, 2015 the Company filed, on SEDAR, a National Instrument 43-101 technical report on the Mina Real, Santa Fe and San Francisco Properties. The report is available for viewing at [www.sedar.com](http://www.sedar.com).

## Operations

A mining study to establish the technical feasibility and economic viability of the Mina Real Property has not been completed nor does the project host a mineral resource. As a result there is increased uncertainty and risk of economic and technical failure.

Mill operating statistics for three months ended August 31, 2014 (“Q1”), the three months ended November 30, 2015 (“Q2”) and the accumulated six months ended November 30, 2015 are provided in the table below:

RESULTS	Q1/ (Jun 1 - Aug 31, 2015)	Q2 (Sep 1 - Nov 30, 2015)	Accumulated Six Months Ended Nov 30, 2015
Tonnes Processed	17,575 tonnes	16,560 tonnes	34,135 tonnes
Gold Grade	1.89 g/t	1.54 g/t	1.72 g/t
Silver Grade	217.82 g/t	152.22 g/t	185.94 g/t
Gold Recovery	93.20 %	92.25 %	92.72 %
Silver Recovery	51.07 %	46.54 %	48.81 %
Gold Produced	995 ounces	759 ounces	1,754 ounces
Gold Sold	980.41 ounces	747.23 ounces	1,727.64 ounces
Silver Produced	62,756 ounces	38,240 ounces	100,997 ounces
Silver Sold	60,873.79 ounces	37,092.90 ounces	97,966.69 ounces
Gold Equivalent Produced	1,839 ounces	1,267 ounces	3,106 ounces
Developed Meters	996 meters	912 meters	1,908 meters
Samples Taken	9,386 samples	7,454 samples	16,840 samples
Diamond Drilling Meters	0 meters	0 meters	0 meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers

## Q1 Compared to Q2

Production of gold during Q2 was 24% lower than production during Q1 (759 ounces compared to 995 ounces). Silver production during Q2 was 39% lower than Q1 (38,240 ounces compared to 62,756 ounces). The gold equivalent production in Q2 was 31% lower than Q1 (1,267 ounces compared to 1,839 ounces). Total tonnes processed in Q2 were only 6% less than total tonnes processed in Q1 (16,560 tonnes as compared to 17,575 tonnes).

The decrease in production during Q2 was as a result of lower grades in the mineralized material feed and to the increased volume of mineralized material coming from Florida NW where the high manganese grade contributed to very poor silver recoveries.

### *Drifting*

A total of 912 meters were developed during Q2. The allocation amongst areas during each of September, October and November 2015 and in total for Q2 is as follows:

Area	September 2015 (meters)	October 2015 (meters)	November 2015 (meters)	Total for Q2 (meters)	%
Tajos Cuates	113	41	12	<b>166</b>	18%
Florida NW	43	39	21	<b>103</b>	11%
Florida SE Project	0	20	48	<b>68</b>	8%
Macedo Project	0	0	0	<b>0</b>	0%
Florida IV	33	22	59	<b>114</b>	13%
San Francisco Project	181	145	135	<b>461</b>	50%
<b>TOTAL DRIFTING</b>	<b>370</b>	<b>267</b>	<b>275</b>	<b>912</b>	<b>100%</b>

Distribution of the development during Q2, by activity, is as follows:

Type of Drifting	September 2015 (meters)	October 2015 (meters)	November 2015 (meters)	Total for Q2 (meters)	%
Exploration	197	126	162	<b>485</b>	53%
Stope Preparation	173	141	113	<b>427</b>	47%
<b>TOTAL DRIFTING</b>	<b>370</b>	<b>267</b>	<b>275</b>	<b>912</b>	<b>100%</b>

### *Exploration and Development Activities*

The Company has ongoing exploration and development programs at Mina Real to identify additional mineralized material to provide mill feed for operations. The exploration and development works are ongoing at Tajos Cuates, Florida NW, Florida SE, San Francisco and Santa Fe. During Q2 the Company worked to advance development of working faces however its efforts were curtailed due to poor operating results which resulted in diminished working capital to fund work programs. The Company is in a precarious position as it has to identify better quality mineralized material but its ability to do so is hampered by a lack of capital.

### *Operations*

The total production during Q2 from the various working faces was 17,087 tonnes (Q1 - 16,288 tonnes) with average grades of 2.36 g/t Au (Q1 - 2.54 g/t Au) and 195 g/t Ag (Q1 - 273 g/t Ag). Of this production 24% (Q1 - 32%) came from Tajos Cuates, 47% (Q1 - 26%) from Florida NW, 1% (Q1 - 0%) from Macedo, and the remaining 29% (Q1 - 41%) from the San Francisco Project.

### *Mill Area*

The lack of available capital resulted in suspension of all capital works programs.

### *Safety and Environment*

During Q2 IMSS held several courses for mine personnel including, handling of chemicals, lifting of heavy weights and first aid courses for the mine rescue crews.

### **Qualified Person**

The technical disclosure in this MD&A has been reviewed and approved by Mr. Michael Magrum, P.Eng. and a director of the Company, who is a qualified person as defined in NI 43-101.

## Selected Financial Data

The following selected financial information is derived from the unaudited condensed consolidated interim financial statements of the Company.

Three Month Period Ending	Fiscal 2016		Fiscal 2015				Fiscal 2014	
	Nov 30/15 \$	Aug 31/15 \$	May 31/15 \$	Feb 28/15 \$	Nov 30/14 \$	Aug 31/14 \$	May 31/14 \$	Feb 28/14 \$
<b>Operations:</b>								
Revenues	1,695,215	2,562,209	2,483,289	2,886,265	2,539,215	2,803,165	4,491,045	2,779,223
Cost of sales	(2,447,929)	(2,892,432)	(2,953,053)	(3,358,665)	(3,116,767)	(3,109,710)	(3,502,421)	(2,645,858)
Depletion and amortization	(369,968)	(381,780)	(603,927)	(592,258)	(554,935)	(454,042)	(668,411)	(395,370)
Provision for site restoration	(15,645)	(15,695)	(13,695)	(13,960)	(14,062)	(13,986)	(13,032)	(12,785)
Expenses, excluding impairment	(587,798)	(605,581)	(382,202)	(628,843)	(384,415)	(212,702)	(12,444)	(758,433)
Impairment of property, plant and equipment	Nil	Nil	(4,000,000)	Nil	Nil	Nil	Nil	Nil
Comprehensive (loss) income	(1,726,125)	(1,333,279)	(5,469,588)	(1,707,461)	(1,530,964)	(987,275)	294,737	(1,033,223)
Basic and diluted (loss) income per share	(0.09)	(0.08)	(0.40)	(0.13)	(0.11)	(0.07)	0.02	(0.08)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Statement of Financial Position:</b>								
Working capital (deficit)	(15,716,745)	(14,465,008)	(13,648,697)	(12,516,417)	(11,072,938)	(9,847,983)	(8,826,626)	(6,627,834)
Total assets	16,899,255	17,594,148	18,209,731	22,348,121	22,721,924	23,310,051	23,844,624	22,925,192
Long-term debt	Nil	Nil	Nil	Nil	Nil	Nil	(100,000)	(2,746,000)
Provision for site restoration	(1,150,096)	(1,118,165)	(1,091,286)	(910,956)	(1,084,717)	(1,053,663)	(973,529)	(1,139,118)

## Results of Operations

### *Three Months Ended November 30, 2015 Compared to Three Months August 31, 2015*

During the three months ended November 30, 2015 (“Q2”) the Company reported a loss of \$1,726,125 compared to a loss of \$1,333,279 for the three months ended August 31, 2015 (“Q1”), an increase in loss of \$392,846. The increase in loss was primarily attributable to a 56% increase in costs of operations in Q2 compared to Q1 due to operational inefficiencies and reduced volumes processed, a significant decrease in silver recoveries and a decrease in both gold and silver grades in the mineralized material being processed.

### *Six Months Ended November 30, 2015 Compared to Six Months Ended November 30, 2014*

During the six months ended November 30, 2015 (the “2015 period”) the Company recorded a loss of \$3,059,404 (\$0.17 per share) compared to a loss of \$2,518,239 (\$0.18 per share) for the six months ended November 30, 2014 (the “2014 period”), an increase in loss of \$541,165. The increase in loss is mainly attributed to the recognition of a foreign exchange loss of \$278,794 in the 2015 period compared to a foreign exchange gain of \$220,416 in the 2014 period, a fluctuation of \$499,210, and poorer operating results.

### *Operations*

During the 2015 period the Company sold 3,040 equivalent ounces of gold and realized revenues of \$1,400 per equivalent ounce as compared to the sale of 4,199 equivalent ounces of gold and realized revenues of \$1,272 per equivalent ounce in the 2014 period, net of royalty and treatment charges. Decreases in gold and silver prices during the 2015 period compared to the 2014 period were offset by a corresponding increase in the US dollar to the Canadian dollar exchange rate.

The Company’s cost of operations per equivalent ounce of gold sold in the 2015 period was \$2,014 as compared to \$1,730 in the 2014 period. The increase of \$284 per ounce reflects a \$274 increase in direct operating cost of sales, a \$7 increase in depletion and amortization and a \$3 increase in the provision for site restoration. The increased cost of operations reflected the operational difficulties encountered and inefficiencies from inconsistent volumes, a decrease in silver recoveries and lower gold and silver grades of mineralized material being processed.

Direct operating cost of sales for the 2015 and 2014 periods comprise the following:

	2015 \$	2014 \$
Mine costs	2,101,916	2,543,593
Mill costs	1,494,527	1,722,946
Service department costs	1,743,918	1,959,938
	<u>5,340,361</u>	<u>6,226,477</u>

General and administrative expenses for the 2015 and 2014 periods are as follows:

	2015 \$	2014 \$
Accounting and administrative	42,000	28,750
Audit and tax services	68,036	62,395
Consulting	71,913	58,411
Legal	37,182	20,756
Management fees	66,000	66,000
Office	32,831	35,954
Regulatory fees	5,103	4,603
Salaries and benefits	115,968	116,455
Transfer agent fees	3,963	6,116
Travel	11,439	13,402
	<u>454,435</u>	<u>412,842</u>

General and administrative expenses of \$454,435 were reported for the 2015 period, an increase of \$41,593, from \$412,842 during the 2014 period. Specific expenses of note during the 2015 period are as follows:

- (i) consulting fees totalling \$71,913 (2014 - \$58,411) were recorded of which \$59,940 (2014 - \$58,264) were recorded to directors and officers. The increase in the 2015 period was due to costs incurred for preparation of a technical report;
- (ii) accounting and administration fees of \$42,000 (2014 - \$28,750) were paid reflecting an increase in the scope of accounting procedures; and
- (iii) legal fees totalling \$37,182 (2014 - \$20,756) were incurred primarily for services and ongoing retainers for the Company's Mexican operations.

#### *Exploration and Evaluation Assets*

	November 30, 2015			May 31, 2015		
	Acquisition and Other Costs \$	Deferred Exploration Costs \$	Total \$	Acquisition and Other Costs \$	Deferred Exploration Costs \$	Total \$
Santa Fe Property	<u>1,690,886</u>	<u>712,313</u>	<u>2,403,199</u>	<u>1,609,085</u>	<u>718,637</u>	<u>2,327,722</u>

During the 2015 period the Company incurred \$75,477 (2014 - \$123,624) for additions to exploration and evaluation assets on the Santa Fe property, mainly for payments of ongoing monthly fees of US \$10,000 to the 30% concession owners and annual mineral concession payments.

## Property, Plant and Equipment

<b>Cost:</b>	<b>Mineral Property \$</b>	<b>Land \$</b>	<b>Buildings \$</b>	<b>Mill and Mine Equipment \$</b>	<b>Capital Works in Progress \$</b>	<b>Total \$</b>
Balance, May 31, 2014	32,533,289	2,692,313	3,499,607	4,429,487	2,236,699	45,391,395
Additions	763,219	-	33,475	39,308	152,121	988,123
Disposal	223,601	-	146,232	1,810,218	(2,180,051)	-
Changes due to revision	62,054	-	-	-	-	62,054
Balance, May 31, 2015	33,582,163	2,692,313	3,679,314	6,279,013	208,769	46,441,572
Additions	15,924	-	-	1,460	-	17,384
Changes due to revision	(3,838)	-	-	-	-	(3,838)
Balance, November 30, 2015	<u>33,594,249</u>	<u>2,692,313</u>	<u>3,679,314</u>	<u>6,280,473</u>	<u>208,769</u>	<u>46,455,118</u>
<b>Accumulated Depletion and Amortization:</b>						
Balance, May 31, 2014	(24,369,416)	-	(699,304)	(1,933,743)	-	(27,002,463)
Depletion and amortization	(1,614,948)	-	(214,741)	(375,473)	-	(2,205,162)
Disposal	(2,953,000)	(1,047,000)	-	-	-	(4,000,000)
Balance, May 31, 2015	(28,937,364)	(1,047,000)	(914,045)	(2,309,216)	-	(33,207,625)
Depletion and amortization	(353,734)	-	(107,427)	(290,587)	-	(751,748)
Balance, November 30, 2015	<u>(29,291,098)</u>	<u>(1,047,000)</u>	<u>(1,021,472)</u>	<u>(2,599,803)</u>	<u>-</u>	<u>(33,959,373)</u>
<b>Carrying Value:</b>						
Balance, May 31, 2015	<u>4,644,799</u>	<u>1,645,313</u>	<u>2,765,269</u>	<u>3,969,797</u>	<u>208,769</u>	<u>13,233,947</u>
Balance, November 30, 2015	<u>4,303,151</u>	<u>1,645,313</u>	<u>2,657,842</u>	<u>3,680,670</u>	<u>208,769</u>	<u>12,495,745</u>

During the 2015 period the Company incurred \$17,384 (2014 - \$541,474) for additions to property, plant and equipment. The Company also recorded a credit of \$3,838 (2014 - addition of \$83,140) for changes due to revisions to the provision for site restoration. Exploration, development and production activities conducted during the 2015 period are described in "Property Update" in this MD&A.

## Cash Flows

During the 2015 period cash decreased by \$8,051. Operating activities, which includes changes in working capital items, utilized \$834,448; investing activities provided \$115,928; and financing activities, mainly from advances, generated \$710,469. During the 2015 period operating cash flow from the Mina Real project was significantly reduced due to a combination of lower gold and silver prices and a significant increase in the cost of operations due to operational inefficiencies and lower grades processed. The Company primarily relied on ongoing funding from its President and Chairman of the Company to provide working capital to fund operations.

## Financing and Advances

On September 29, 2015 the Company completed a non-brokered private placement financing of 1,700,000 units at a price of \$0.03 per unit for \$51,000. Mr. Luna and a private corporation controlled or affiliated with Mr. DeMare purchased 795,000 units and 515,000 units, respectively. Each unit comprised one common share and one warrant to purchase an additional share at a price of \$0.05 per share, on or before September 29, 2018. The Company issued a further 515,000 common shares for \$25,750 on the exercise of warrants.

On July 17, 2015 the Company completed a non-brokered private placement financing of 2,300,000 units at a price of \$0.035 per unit for \$80,500. Each unit comprised one common share of the Company and one share purchase warrant. Messrs. Luna and DeMare purchased 1,150,000 units and 650,000 units, respectively, of the private placement. The warrants were subsequently exercised and the Company issued a further 2,300,000 common shares for \$115,000.

No financings were completed in the 2014 period.

During the 2015 period the Company received advances totalling \$321,375 (2014 - \$65,000) and the Company subsequently repaid \$62,263.

## Financial Condition / Capital Resources

During the 2015 period the Company recorded a loss of \$3,059,404 and, as at November 30, 2015, the Company had an accumulated deficit of \$54,693,932 and a working capital deficit of \$15,716,745. The Company has funded its negative operating cash flow through increased levels of accounts payable and accrued liabilities and from ongoing advances from its President and the Chairman of the Company. The Mina Real operations have been affected by low precious metals prices, low grades of mineralized materials and ongoing operational challenges. In the immediate term, the Company's ability to continue as a going concern is dependent upon its ability to improve its operations to generate positive operating cash flow from the Mina Real Property, to raise additional capital to fund its ongoing business operations and exploration projects and repay indebtedness as they come due. In the short term the Company has relied on ongoing advances from officers of the Company to provide working capital. Additional capital may be sought from existing shareholders and creditors and from the sale of additional common shares or other equity or debt instruments. There is no assurance such additional capital will be available to the Company on acceptable terms or at all. Management is currently assessing its capital structure and considering if any amendments are required. In the longer term the recoverability of the carrying value of the Company's long-lived assets is dependent upon the Company's ability to preserve its interest in the underlying mineral property interests, the discovery of economically recoverable reserves, the achievement of profitable operations and the ability of the Company to obtain financing to support its ongoing exploration programs and mining operations. Whether the Company can generate positive cash flow and, ultimately, achieve profitability is uncertain. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Proposed Transactions

The Company has no proposed transactions.

## Changes in Accounting Policies

There are no changes in accounting policies.

## Related Party Disclosures

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

### (a) *Transactions with Key Management Personnel*

During the six months ended November 30, 2015 and 2014 the following amounts were incurred with respect to the President (Mr. Eduardo Luna), the Chief Financial Officer (Mr. Jose Manuel Silva) and the Chairman (Mr. Nick DeMare) of the Company:

	2015	2014
	\$	\$
Management fees - Mr. Luna	66,000	66,000
Consulting fees - Mr. DeMare	18,240	18,240
Consulting fees - Mr. Silva	11,700	10,024
	<u>95,940</u>	<u>94,264</u>

As at November 30, 2015, \$502,500 (2014 - \$402,771) remained unpaid.

(b) *Transactions with Other Related Parties*

- (i) During the six months ended November 30, 2015 and 2014 the following amounts were incurred with respect to the Company's non-executive directors (Messrs. Joseph Keane, Marc Cernovitch, Simon Tam and Michael Magrum) and the Company's Corporate Secretary (Mr. Harvey Lim):

	2015 \$	2014 \$
Consulting fees - Mr. Keane	6,000	6,000
Consulting fees - Mr. Cernovitch	6,000	6,000
Consulting fees - Mr. Tam	6,000	6,000
Consulting fees - Mr. Magrum	6,000	6,000
Consulting fees - Mr. Lim	6,000	6,000
	<u>30,000</u>	<u>30,000</u>

As at November 30, 2015, \$189,000 (2014 - \$132,000) remained unpaid.

- (ii) During the six months ended November 30, 2015 the Company incurred a total of \$42,000 (2014 - \$28,750) to Chase Management Ltd. ("Chase"), a private corporation owned by Mr. DeMare, for accounting and administration services provided by Chase personnel, excluding Mr. DeMare's services. As at November 30, 2015, \$34,726 (2014 - \$3,000) remained unpaid.
- (c) The Company has received ongoing advances which bear interest at a rate of 9% per annum and have no fixed terms of repayment. During the six months ended November 30, 2015 the Company repaid principal of \$26,225. In addition the Company recognized \$58,597 of interest expense. As at November 30, 2015 \$327,556 of interest remained unpaid.

As at November 30, 2015 \$1,299,669 was outstanding of which \$1,283,685 are due to Mr. Luna (\$910,156) and private corporations controlled or affiliated with Mr. DeMare (\$373,529).

- (d) The Company has also received ongoing advances which bear interest at a rate of 12% per annum and have no fixed terms of repayment. During the six months ended November 30, 2015 the Company received advances totalling \$321,375 and repaid principal of \$36,038. In addition the Company recognized \$142,557 of interest expense of which the Company paid \$838. As at November 30, 2015 \$556,540 of interest remained unpaid.

As at November 30, 2015 a total of \$2,348,675 was outstanding of which \$2,319,291 of these advances are due to Mr. Luna (\$2,149,496), Mr. Keane (\$26,666) and private corporations controlled or affiliated with Mr. DeMare (\$143,129).

- (e) During fiscal 2013 the Company completed a secured convertible debenture financing of \$950,000 of which a total of \$677,000 of the debentures were issued to Mr. Luna (\$577,000), Mr. Magrum (\$50,000) and Mr. Keane (\$50,000). During the six months ended November 30, 2015 the Company recorded \$95,260 of interest expense. As at November 30, 2015 \$560,352 of interest remained unpaid. On December 31, 2014 the debentures matured and are considered to be due and payable, with accrued interest. The debenture holders have not demanded repayment of principal or accrued interest.
- (f) On January 31, 2013 the Company exercised the Back-In Options to re-acquire the 20% equity interest in Mina Real for a total of \$5,500,000, to be paid over a 30 month period. The amounts due to E-Energy Ventures Inc. ("E-Energy") and United Coal Holdings Ltd. ("United Coal") are secured by the assets of the Company and interest is calculated at 9% per annum on the declining balance at the end of the month. During the six months ended November 30, 2015 the Company repaid \$15,000 of principal and recorded \$163,880 of interest. As at November 30, 2015 long-term debt totalling \$3,631,000 and interest payable of \$1,010,310 remained outstanding. Neither E-Energy nor United Coal have demanded payment of the amounts in arrears. The Company, E-Energy and United Coal are related by way of a common director, Mr. Simon Tam.

(g) See also “Financial Condition/Capital Resources”.

### **Risks and Uncertainties**

The Company advises that it did not base its production decision on a feasibility study of mineral reserves, demonstrating economic and technical viability, and, as a result, there may be an increased uncertainty of achieving any particular level of recovery of minerals or the cost of such recovery, including increased risks associated with developing a commercially mineable deposit. Historically, projects which proceed without a feasibility study have a much higher risk of economic and technical failure. During fiscal 2015 the Company recorded an impairment of \$4,000,000 to its property, plant and equipment.

The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral concessions, claims and other interests, as well as for the recruitment and retention of qualified employees.

The Company is in compliance in all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company’s activities are conducted in Mexico. Consequently, the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry.

### **Outstanding Share Data**

The Company’s authorized share capital is unlimited common shares without par value. As at January 27, 2016, there were 20,460,882 issued and outstanding common shares, 397,500 share options outstanding with an exercise price of \$1.00 per share and 1,185,000 warrants outstanding with an exercise price of \$0.05 per share.