

ROCHESTER RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED NOVEMBER 30, 2017

This discussion and analysis of financial position and results of operation is prepared as at January 29, 2018 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, 2017 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 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.

The Company's Mina Real operations continue to be affected by low grades of mineralized material and operational challenges. Commencing fiscal 2015 the Company has recorded impairment provisions totalling approximately \$12,912,500. See "Property Update - Impairment". During the six months ended November 30, 2017 the Company recorded a net loss of \$372,988 and, as at November 30, 2017, the Company had an accumulated deficit of \$68,176,926 and a working capital deficit of \$18,878,222. The Company continues to have negative cash flows from operations and has been unable to make all concession payments when due. The Company's ability to continue as a going concern is dependent on the ability of the Company to improve its operations and generate positive operating cash flow on a consistent basis, the continued financial support of its directors, shareholders and creditors and from the sale of additional common shares or other equity or debt instruments. 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 "R5IA" 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 have been paid for fiscal 2017 and for the six months ended November 30, 2017. Two monthly payments from prior years remain outstanding.

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. The following commentary on the properties is from this technical report.

The Mina Real Property consists of eight mining concessions and one mineral claim encompassing a total area of 21,367.42 hectares. The contiguous Santa Fe Property consists of one mining concession totaling 3,852.66 hectares. The San Francisco Property consists of twelve mining concessions encompassing 18,125.05 hectares.

The terrain on the properties is rugged and steep with deeply incised valleys. Elevations range from 800 to 1,600 meters above sea level. The climate is sub-tropical and characterized by a dry and a wet season.

The mining history of the area is not well documented. However, older local residents near the mine area relate that minor mining was conducted during the 1940's and 1950's. After the acquisition by Desarrollos Mineros de Occidente ("DMO") of the property in 2000, access roads were built, old mine workings were made accessible and development work was done. During the period 2001 to 2003 DMO mined approximately 4,000 tonnes of mineralized vein material with an average gold content of 10 g/t gold (Mexican Geological Service Report, July 2005).

The State of Nayarit lies within the physiographic province known as the Sierra Madre Occidental, an extensive belt of mainly volcanic rocks overlying and intruding Precambrian to Jurassic basement rocks. It lies also within the Province of the Pacific Coastal Plains and its south central area lies within the Neo-volcanic Axis Province.

The structural geology at the Mina Real Property comprises normal faults with NNW-SSE orientations with subsided blocks to the east and west, which form deep canyons and steep walls. The main regional lineaments are oriented NW-SE, secondary fracturing and post-mineral faulting have an orientation NW-SE and NE-SW and the main regional structure is the Tepic-Zacoalco Graben.

The structural geology of the San Francisco Property comprises normal faults with NNW-SSE orientations and the main regional structure is the Compostela Graben.

Since 2006 the Company has explored for the continuation and extension of the primary vein sets on the Mina Real and Santa Fe properties and since 2012 the Company has also explored for the continuation and extension of primary vein sets on the San Francisco Property.

At present there is no Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") or 43-101 compliant Resources or Reserves for the Mina Real Property, the Santa Fe Property or the San Francisco Property.

The Company has been processing mineralized material since 2007 when it commissioned a 200 tonne per day cyanidation plant.

The Company has conducted mining operations without defined mineral resources and the production decision was not based on a feasibility study of mineral reserves that has demonstrated technical or economic viability.

Impairment

The Mina Real operations have been affected by low grades of mineralized material, the difficulty in identification of sufficient working faces to provide consistent volumes of mineralized material and operational challenges resulting in low recoveries. The Company recorded impairment charges as follows:

Property, Plant and Equipment

During fiscal 2015 management assessed whether there were any indications of impairment of the Company's Mina Real operations in property, plant and equipment as required by IAS 36. In light of the continued large net loss from operations, negative cash flow from operations and the low trading value of the Company's common shares, management concluded there were indications of impairment. The Company applied a fair value-based method that took into account the Company's financial position and results of operations and operational issues among other factors in determining an estimated recoverable amount. This method indicated that an impairment provision of \$4,000,000 was appropriate in fiscal 2015. Due to further declines from operations in fiscal 2016 the Company recorded a further impairment charge of \$5,875,572. During fiscal 2017 the Company recorded an additional impairment of \$152,447 due to the increase in the estimate of the provision for site restoration.

Exploration and Evaluation Assets

During fiscal 2016 the Company assessed whether an impairment was required with respect to the Santa Fe Property as required by IFRS 6. In making the assessment management considered the Company's financial situation and its inability to implement an exploration work program. As a result, during fiscal 2016 and fiscal 2017, the Company recorded impairment charges of \$2,509,754 and \$310,243 respectively, to reduce the carrying value to \$nil. During the six months ended November 30, 2017 the Company incurred \$119,123 which was initially capitalized and then impaired in accordance with IFRS.

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 the three months ended November 30, 2017 ("Q2"), the three months ended August 31, 2017 ("Q1") the six months (accumulated) ended November 30, 2017 (the "2017 Period") and the six months (accumulated) ended November 30, 2016 (the "2016 Period") are provided in the table below:

RESULTS	Q2 (Sep 1/17 - Nov 30/17)	Q1 (Jun 1/17 - Aug 31/17)	2017 Period (Jun 1/17 - Nov 30/17)	2016 Period (Jun 1/16 - Nov 30/16)
Tonnes Processed	11,082 tonnes	12,741 tonnes	23,823 tonnes	26,298 tonnes
Gold Grade	2.74 g/t	2.47 g/t	2.59 g/t	2.16 g/t
Silver Grade	161.35 g/t	161.02 g/t	161.17 g/t	148.96 g/t
Gold Recovery	95.56 %	95.23 %	95.39 %	94.08 %
Silver Recovery	53.29 %	53.51 %	53.41 %	39.43 %
Gold Produced	931 ounces	964 ounces	1,895 ounces	1,722 ounces
Gold Sold	917.42 ounces	949.33 ounces	1,866.75 ounces	1,695.63 ounces
Silver Produced	30,634 ounces	35,293 ounces	65,927 ounces	49,663 ounces
Silver Sold	29,714.93 ounces	34,234.18 ounces	63,949.11 ounces	48,173.02 ounces
Gold Equivalent Produced	1,337 ounces	1,430 ounces	2,767 ounces	2,433 ounces
Developed Meters	566 meters	534 meters	1,100 meters	1,619 meters
Samples Taken	4,020 samples	4,376 samples	8,396 samples	9,626 samples
Diamond Drilling Meters	0 meters	0 meters	0 meters	0 meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers

Q2 Compared to Q1

Production of gold during Q2 was 3.4% lower than production during Q1 (931 ounces compared to 964 ounces). Silver production during Q2 was 13.2% lower than Q1 (30,634 ounces compared to 35,293 ounces). The gold equivalent production in Q2 was 6.5% lower than Q1 (1,337 ounces compared to 1,430 ounces). Total tonnes processed in Q2 were 13% less than the total tonnes processed in Q1 (11,082 tonnes as compared to 12,741 tonnes). In Q2 gold recoveries were slightly higher than Q1 (95.56% compared to 95.23%) and silver recoveries were slightly lower (53.28% compared to 53.51%).

The decrease in gold and silver ounces produced in Q2 compared to Q1 was primarily due to less tonnes processed.

The negative difference in tonnes processed was due to unstable ground conditions in the Florida NW area.

2017 Period Compared to 2016 Period

During the 2017 period the Company produced 1,895 ounces of gold and 65,927 ounces of silver compared to 1,695.6 ounces of gold and 49,663 ounces of silver during the 2016 period. The gold equivalent production during the 2017 period was 2,767 ounces as compared to 2,433 ounces during the 2016 period. Total tonnes processed in the 2017 period were 23,823 as compared to 26,298 in the 2016 period reflecting a wetter rainy season in the 2017 period that did not allow operations in the Macedo area during Q1 and unstable ground conditions in the Florida NW area during Q2.

Drifting

The allocation for drifting amongst areas during each of Q2, Q1, the 2017 period and the 2016 period is as follows:

Area	Q2 (meters)	%	Q1 (meters)	%	2017 Period (meters)	%	2016 Period (meters)	%
Tajos Cuates	0	0%	0	0%	0	0%	0	0%
Florida NW	0	0%	33	6%	33	3%	651	40%
Florida SE Project	376	66%	222	42%	598	54%	569	35%
Macedo Project	0	0%	0	0%	0	0%	0	0%
Florida IV	0	0%	0	0%	0	0%	0	0%
San Francisco Project	189	34%	279	52%	468	43%	399	25%
TOTAL DRIFTING	565	100%	534	100%	1,099	100%	1,619	100%

Distribution of the development during each of Q2, Q1, the 2017 period and the 2016 period, by activity, is as follows:

Type of Drifting	Q2 (meters)	%	Q1 (meters)	%	2017 Period (meters)	%	2016 Period (meters)	%
Exploration	15	3%	206	38%	221	20%	1,034	64%
Stope Preparation	550	97%	328	62%	878	80%	585	36%
TOTAL DRIFTING	565	100%	534	100%	1,099	100%	1,619	100%

Exploration and Development Activities

The Company has ongoing exploration and development programs at the Mina Real Project to identify additional mineralized material to provide mill feed for operations. Due to the inclement weather and unstable ground conditions during Q2 the exploration and development works were only ongoing at Florida SE and San Francisco. The Company continued to work to advance development of working faces however its efforts were curtailed due to a lack of available capital equipment, particularly compressors and scoop trams. Poor operating results have resulted in diminished working capital to fund work programs. The Company remains 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

Total production during Q2 from the various working faces was 12,018 wet tonnes (Q1- 13,737 wet tonnes). Of this production 2% (Q1 - 4.5%) came from Tajos Cuates, 52% (Q1 - 0%) from Florida SE, and the remaining 46% (Q1 - 41.5%) from the San Francisco Project.

Mill Area

The lack of available working capital had resulted in delays for completion of capital works programs. Some minor works were completed but work on the 10' x 10' mill remains on standby and has yet to be completed. There is no time line for the completion of the work on the 10' x 10' mill.

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 2018		Fiscal 2017				Fiscal 2016	
	Nov 30/17 \$	Aug 31/17 \$	May 31/17 \$	Feb 28/17 \$	Nov 30/16 \$	Aug 31/16 \$	May 31/16 \$	Feb 29/16 \$
Operations:								
Revenues	2,007,023	2,151,602	1,461,926	2,037,283	1,917,630	1,989,142	1,590,575	1,554,972
Cost of sales	(1,769,115)	(1,881,477)	(1,991,896)	(1,864,647)	(1,674,084)	(1,701,484)	(1,862,851)	(2,034,139)
Depletion and amortization	(150,250)	(169,491)	(177,276)	(183,237)	(188,241)	(193,842)	(318,483)	(337,163)
Provision for site restoration	(23,462)	(24,203)	(17,409)	(15,561)	(16,360)	(16,770)	(14,352)	(15,236)
Income (expenses), excluding impairment	(577,581)	183,089	(954,070)	(396,753)	(252,271)	(423,119)	57,120	(221,394)
Impairment of exploration and evaluation assets	(54,684)	(64,439)	(63,537)	(90,800)	(60,664)	(95,242)	(2,509,754)	Nil
Adjustment to impairment of property, plant and equipment	Nil	Nil	(63,287)	23,101	(126,078)	13,817	(5,875,572)	Nil
Comprehensive income (loss)	(568,069)	195,081	(1,805,549)	(490,614)	(400,068)	(427,498)	(8,933,317)	(1,052,960)
Basic and diluted income (loss) per share	(0.03)	0.01	(0.09)	(0.02)	(0.02)	(0.02)	(0.46)	(0.05)
Statement of Financial Position:								
Working capital (deficit)	(18,878,222)	(18,536,623)	(18,852,537)	(17,376,999)	(17,085,885)	(16,948,092)	(16,731,085)	(16,385,952)
Total assets	6,726,366	7,037,519	6,912,446	7,202,436	7,728,625	7,619,917	7,848,622	16,230,552
Provision for site restoration	(1,385,126)	(1,365,221)	(1,413,879)	(1,260,054)	(1,243,318)	(1,169,284)	(1,152,635)	(880,927)

Results of Operations

Three Months Ended November 30, 2017 Compared to Three Months Ended August 31, 2017

During the three months ended November 30, 2017 ("Q2") the Company reported a loss of \$568,069 compared to income of \$195,081 for the three months ended August 31, 2017 ("Q1"). The fluctuation was primarily attributable to the recognition of a foreign exchange gain of \$602,815 in Q1 compared to a foreign exchange loss of \$112,821 in Q2 due to the fluctuation of the US dollar and Mexican peso exchange rates.

Six Months Ended November 30, 2017 Compared to Six Months Ended November 30, 2016

During the six months ended November 30, 2017 (the "2017 period") the Company recorded a loss of \$372,988 compared to a loss of \$827,566 for the six months ended November 30, 2016 (the "2016 period"), a decrease in loss of \$454,578. The fluctuation was primarily attributed to:

- (i) the recognition of a foreign exchange gain of \$489,994 in the 2017 period compared to a foreign exchange gain of \$165,306 in the 2016 period due to the fluctuation of the US dollar and Mexican peso exchange rates; and
- (ii) the recognition of impairment of property, plant and equipment of \$112,261 in the 2016 period compared to \$nil in the 2017 period.

Operations

During the 2017 period the Company sold 2,713 equivalent ounces of gold and realized revenues of \$1,533 per equivalent ounce as compared to the sale of 2,385 equivalent ounces of gold and realized revenues of \$1,638 per equivalent ounce during the 2016 period.

The Company's cost of operations per equivalent ounce of gold sold during the 2017 period was \$1,481 as compared to \$1,589 during the 2016 period. The decrease of \$108 per ounce reflects a \$69 decrease in direct operating cost of sales, a \$42 decrease in depletion and amortization and a \$3 increase in the provision for site restoration.

Direct operating cost of sales for the 2017 and 2016 periods comprise the following:

	2017 \$	2016 \$
Mine costs	1,262,156	1,195,759
Mill costs	999,383	926,761
Service department costs	<u>1,389,053</u>	<u>1,253,048</u>
	<u>3,650,592</u>	<u>3,375,568</u>

General and administrative expenses for the 2017 and 2016 periods are as follows:

	2017 \$	2016 \$
Accounting and administrative	31,500	29,200
Audit and tax services	49,711	62,491
Legal	6,248	9,845
Management fees	66,000	66,000
Office	29,003	22,647
Professional fees	60,505	63,661
Regulatory fees	4,703	4,603
Salaries and benefits	119,709	111,522
Shareholder costs	-	2,198
Transfer agent fees	4,238	2,890
Travel	5,469	3,577
Reversal of amounts previously recorded	<u>-</u>	<u>(25,749)</u>
	<u>377,086</u>	<u>352,885</u>

General and administrative expenses of \$377,086 were reported for the 2017 period, compared to \$352,885 during the 2016 period. Specific expenses of note during the 2017 period are as follows:

- (i) professional fees totalling \$60,505 (2016 - \$63,661) were recorded of which \$59,677 (2016 - \$60,051) were recorded to directors and officers;
- (ii) legal fees totalling \$6,248 (2016 - \$9,845) were incurred primarily for services and ongoing retainers for the Company's Mexican operations;
- (iii) incurred audit fees and tax services of \$49,711 (2016 - \$62,491). The fluctuation between the 2017 period and the 2016 period was solely due to the timing of billings for the audit of the Company's year-end financial statements; and
- (iv) during the 2016 period the Company reversed \$25,749 of amounts previously recorded or accrued for which no requests for payments have been made.

Exploration and Evaluation Assets

During the 2017 period the Company incurred additions, net of recoveries, of \$119,123 (2016 - \$155,906) on exploration and evaluation assets for 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.

During the 2017 period the Company recorded an impairment charge of \$119,123 (fiscal 2017 - \$310,243) to reflect management's continued assessment of a \$nil carrying value of the Santa Fe property.

Property, Plant and Equipment

Cost:	Mineral Properties \$	Land \$	Buildings \$	Mill and Mine Equipment \$	Total \$
Balance, May 31, 2016	33,782,497	2,692,313	3,679,314	6,234,734	46,388,858
Additions	4,106	-	-	1,563	5,669
Changes due to revision	148,341	-	-	-	148,341
Balance, May 31, 2017 and November 30, 2017	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,679,314</u>	<u>6,236,297</u>	<u>46,542,868</u>
Accumulated depletion, amortization and impairment:					
Balance, May 31, 2016	(33,782,497)	(2,692,313)	(1,128,930)	(2,855,572)	(40,459,312)
Depletion and amortization	-	-	(214,706)	(527,890)	(742,596)
Impairment	(152,447)	-	-	-	(152,447)
Balance, May 31, 2017	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(1,343,636)</u>	<u>(3,383,462)</u>	<u>(41,354,355)</u>
Depletion and amortization	-	-	(107,350)	(212,391)	(319,741)
Balance, November 30, 2017	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(1,450,986)</u>	<u>(3,595,853)</u>	<u>(41,674,096)</u>
Carrying value:					
Balance, May 31, 2017	<u>-</u>	<u>-</u>	<u>2,335,678</u>	<u>2,852,835</u>	<u>5,188,513</u>
Balance, November 30, 2017	<u>-</u>	<u>-</u>	<u>2,228,328</u>	<u>2,640,444</u>	<u>4,868,772</u>

Exploration, development and production activities conducted during the 2017 period are described in "Property Update" in this MD&A.

Financing and Advances

During the 2017 and 2016 periods the Company did not complete any financings and is reliant on advances from its senior officers for working capital. During the 2017 period the Company received advances totalling \$475,031 (2016 - \$221,521) and repaid \$22,261 (2016 - \$nil).

Financial Condition / Capital Resources

During the 2017 period the Company recorded a net loss of \$372,988 and, as at November 30, 2017, the Company had an accumulated deficit of \$68,176,926 and a working capital deficit of \$18,878,222. The Company's Mina Real operations continue to be affected by low grades of mineralized material and operational challenges. The Company continues to have negative cash flows from operations and has been unable to make all concessions payments when due in the current and prior years for the Mina Real, San Francisco and Santa Fe properties. The Company's ongoing operations are dependent on extracting ore from the Mina Real and San Francisco properties and, therefore, on the Company's ability to preserve its interest in the underlying mineral property interests. 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 and Santa Fe properties on a consistent basis, to raise additional capital to fund its ongoing business operations and exploration projects and repay indebtedness as they come due. 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. In the longer term 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 2017 and 2016 periods 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:

	2017 \$	2016 \$
Management fees - Mr. Luna	66,000	66,000
Professional fees - Mr. DeMare	18,240	18,240
Professional fees - Mr. Silva	11,437	11,811
	<u>95,677</u>	<u>96,051</u>

As at November 30, 2017, \$895,656 (May 31, 2017 - \$801,546) remained unpaid.

(b) *Transactions with Other Related Parties*

(i) During the 2017 and 2016 periods 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):

	2017 \$	2016 \$
Professional fees - Mr. Keane	6,000	6,000
Professional fees - Mr. Cernovitch	6,000	6,000
Professional fees - Mr. Tam	6,000	6,000
Professional fees - Mr. Magrum	6,000	6,000
Professional fees - Mr. Lim	6,000	6,000
	<u>30,000</u>	<u>30,000</u>

As at November 30, 2017 \$308,250 (May 31, 2017 - \$278,250) remained unpaid.

(ii) During the 2017 period the Company incurred a total of \$31,500 (2016 - \$29,200) 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, 2017 \$18,384 (May 31, 2017 - \$3,695) 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 2017 period the Company repaid principal of \$22,261 (2016 - \$nil). The Company recognized \$56,256 (2016 - \$57,778) of interest expense. As at November 30, 2017, \$551,922 (May 31, 2017 - \$504,278) of interest remained unpaid.

As at November 30, 2017, \$1,248,968 of the principal was outstanding of which a total of \$1,238,678 are due to Mr. Luna (\$893,825) and private corporations controlled or affiliated with Mr. DeMare (\$344,853).

- (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 2017 period the Company received advances totalling \$475,031 (2016 - \$221,521). In addition the Company recognized \$192,041 (2016 - \$175,994) of interest expense. As at November 30, 2017 \$1,241,026 (May 31, 2017 - \$1,095,295) of interest remained unpaid.

As at November 30, 2017 a total of \$3,485,765 of the principal was outstanding of which a total of \$3,473,671 of these advances are due to Mr. Luna (\$3,119,506), Mr. Keane (\$25,776) and private corporations controlled or affiliated with Mr. DeMare (\$328,389).

- (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 2017 period the Company recorded \$95,260 (2016 - \$90,196) of interest expense. As at November 30, 2017 \$917,360 (May 31, 2017 - \$822,098) 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 2017 period the Company recorded \$163,843 (2016 - \$163,843) of interest. As at November 30, 2017 principal totalling \$3,631,000 (2016 - \$3,631,000) and interest payable of \$1,664,785 (May 31, 2017 - \$1,500,943) remained outstanding. Neither E-Energy nor United Coal has 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.

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.

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 29, 2018, there were 20,460,882 issued and outstanding common shares and 1,185,000 warrants outstanding with an exercise price of \$0.05 per share.