
ROCHESTER RESOURCES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
FEBRUARY 28, 2021

(Unaudited - Expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

ROCHESTER RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian Dollars)

	Notes	February 28, 2021 \$	May 31, 2020 \$
ASSETS			
Current assets			
Cash		578,848	322,876
Amounts receivable	4	1,343,385	777,664
GST/IVA tax receivables		242,917	148,123
Prepaid expenses and deposit		50,356	172,573
Inventories	5	<u>674,722</u>	<u>365,904</u>
Total current assets		<u>2,890,228</u>	<u>1,787,140</u>
Non-current assets			
Property, plant and equipment	7	<u>1,594,325</u>	<u>728,037</u>
TOTAL ASSETS		<u>4,484,553</u>	<u>2,515,177</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		7,410,083	7,437,189
Amounts payable to directors and officers	12	1,433,382	1,636,416
Interest payable	8, 9, 10	7,721,296	7,164,003
Advances	8	4,321,053	5,438,370
Debentures	9	775,000	950,000
Indebtedness	10	<u>3,631,000</u>	<u>3,631,000</u>
Total current liabilities		<u>25,291,814</u>	<u>26,256,978</u>
Non-current liabilities			
Provision for site restoration	13	<u>1,186,879</u>	<u>1,107,355</u>
TOTAL LIABILITIES		<u>26,478,693</u>	<u>27,364,333</u>
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	11	46,451,275	45,274,063
Share-based payments reserve		7,293,723	7,228,173
Contributed surplus		243,299	243,299
Deficit		<u>(75,982,437)</u>	<u>(77,594,691)</u>
TOTAL SHAREHOLDERS' (DEFICIT) EQUITY		<u>(21,994,140)</u>	<u>(24,849,156)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>4,484,553</u>	<u>2,515,177</u>

Nature of Operations and Going Concern - See Note 1

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on April 28, 2021 and are signed on its behalf by:

/s/ Eduardo Luna
Eduardo Luna
Director

/s/ Nick DeMare
Nick DeMare
Director

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

ROCHESTER RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME (LOSS) AND
COMPREHENSIVE INCOME (LOSS)
(Unaudited - Expressed in Canadian Dollars)

	Note	Three Months Ended		Nine Months Ended	
		February 28, 2021 \$	February 29, 2020 \$	February 28, 2021 \$	February 29, 2020 \$
Revenue		3,520,570	1,606,452	9,797,356	5,494,101
Cost of operations					
Cost of sales		(2,789,185)	(1,612,883)	(7,048,952)	(5,199,951)
Depletion and amortization	7	(70,103)	(36,213)	(210,309)	(108,639)
Provision for site restoration	13	(16,966)	(40,800)	(49,996)	(81,145)
Operating income (loss)		<u>644,316</u>	<u>(83,444)</u>	<u>2,488,099</u>	<u>104,366</u>
Expenses and other					
General and administration		(149,541)	(125,060)	(441,932)	(396,753)
Share-based compensation		-	-	(65,550)	-
Financing expenses	14	(233,177)	(276,591)	(790,545)	(832,020)
Foreign exchange		485,826	(135,227)	779,453	(74,516)
Impairment of exploration and evaluation assets	6	(60,989)	(64,763)	(357,271)	(196,476)
		<u>42,119</u>	<u>(601,641)</u>	<u>(875,845)</u>	<u>(1,499,765)</u>
Comprehensive income (loss) for the period		<u>686,435</u>	<u>(685,085)</u>	<u>1,612,254</u>	<u>(1,395,399)</u>
Basic and diluted income (loss) per common share		<u>\$0.02</u>	<u>\$(0.03)</u>	<u>\$0.06</u>	<u>\$(0.07)</u>
Basic and diluted weighted average number of common shares outstanding		<u>31,308,720</u>	<u>20,850,882</u>	<u>25,049,791</u>	<u>20,850,882</u>

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

ROCHESTER RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited - Expressed in Canadian Dollars)

Nine Months Ended February 28, 2021						
	Share Capital		Share-Based Payments Reserve \$	Contributed Surplus \$	Deficit \$	Total Equity (Deficit) \$
	Number of Shares	Amount \$				
Balance at May 31, 2020	20,850,882	45,274,063	7,228,173	243,299	(77,594,691)	(24,849,156)
Common shares issued for:						
- private placement	2,500,000	125,000	-	-	-	125,000
- shares for debt	14,043,243	1,053,243	-	-	-	1,053,243
Share issue costs	-	(1,031)	-	-	-	(1,031)
Share-based compensation	-	-	65,550	-	-	65,550
Net income for the period	-	-	-	-	1,612,254	1,612,254
Balance at February 28, 2021	37,394,125	46,451,275	7,293,723	243,299	(75,982,437)	(21,994,140)

Nine Months Ended February 29, 2020						
	Share Capital		Share-Based Payments Reserve \$	Contributed Surplus \$	Deficit \$	Total Equity (Deficit) \$
	Number of Shares	Amount \$				
Balance at May 31, 2019 as presented	20,850,882	45,274,063	7,228,173	243,299	(75,049,572)	(22,304,037)
Restatement due to an error - Note 2	-	-	-	-	(853,197)	(853,197)
Balance at May 31, 2019 restated	20,850,882	45,274,063	7,228,173	243,299	(75,902,769)	(23,157,234)
Net loss for the period	-	-	-	-	(1,395,399)	(1,395,399)
Balance at February 29, 2020	20,850,882	45,274,063	7,228,173	243,299	(77,298,168)	(24,552,633)

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

ROCHESTER RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian Dollars)

	Nine Months Ended	
	February 28, 2021 \$	February 29, 2020 \$
Operating activities		
Net income (loss) for the period	1,612,254	(1,395,399)
Adjustments for:		
Depletion and amortization	210,309	108,639
Provision for site restoration	49,996	81,145
Share-based compensation	65,550	-
Financing expenses	790,545	832,020
Unrealized foreign exchange	(550,298)	12,764
Impairment of exploration and evaluation assets	357,271	196,476
Changes in non-cash working capital items:		
Amounts receivable	(565,721)	(39,243)
GST / IVA tax receivables	(94,794)	(48,894)
Prepaid expenses and deposits	122,217	2,488
Inventories	(308,818)	93,084
Accounts payable and accrued liabilities	(27,106)	296,888
Accounts payable to directors and officers	(19,284)	68,382
Interest payable	-	(12,081)
Net cash provided by operating activities	<u>1,642,121</u>	<u>196,269</u>
Investing activities		
Additions to property, plant and equipment	(1,076,597)	(758)
Expenditures on exploration and evaluation assets	<u>(357,271)</u>	<u>(196,476)</u>
Net cash used in investing activities	<u>(1,433,868)</u>	<u>(197,234)</u>
Financing activities		
Issuance of common shares	125,000	-
Share issue costs	(1,031)	-
Advances received	92,554	12,000
Advances repaid	<u>(168,804)</u>	<u>-</u>
Net cash provided by financing activities	<u>47,719</u>	<u>12,000</u>
Net change in cash	255,972	11,035
Cash at beginning of period	<u>322,876</u>	<u>6,290</u>
Cash at end of period	<u>578,848</u>	<u>17,325</u>

Supplemental cash flow information - Note 18

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

ROCHESTER RESOURCES LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2021
(Unaudited - Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Rochester Resources Ltd. (the “Company”) was incorporated on September 7, 1989 under the provisions of the Company Act (British Columbia). The Company is listed and trades on the TSX Venture Exchange (“TSXV”) under the symbol “RCT”. The Company’s head office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7 Canada.

The Company is engaged in the exploration and development of its mineral property interests in Mexico. The mineral exploration and development business involves, by its nature, a high degree of risk and there can be no assurance that the current operations or exploration projects will result in sustainable profitable mining operations. All of the Company’s exploration and evaluation assets and property, plant and equipment are located in Mexico, and hence are subject to the risks normally associated with foreign investment including unanticipated changes in taxes and royalties, renegotiation of contracts, foreign currency fluctuations and political uncertainties.

During the nine months ended February 28, 2021 the Company recorded a net income of \$1,612,254. However, as at February 28, 2021, the Company had an accumulated deficit of \$75,982,437 and a working capital deficit of \$22,401,586. The Company 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. See also Note 17. The Company’s ongoing operations are dependent on extracting mineralized material 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 the market prices of silver and gold, its ability to improve its operations to maintain positive operating cash flow from the Mina Real and Santa Fe properties on a consistent basis and 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 Company’s ability to continue as a going concern will be dependent upon the discovery of economically recoverable reserves and the achievement of profitable operations. Whether the Company can generate positive cash flow on a consistent basis and, ultimately, achieve profitability is uncertain. These uncertainties cast significant doubt upon the Company’s ability to continue as a going concern.

These condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These condensed consolidated interim financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or continue operations.

In March 2020 the World Health Organization (“WHO”) declared the outbreak of a novel coronavirus, identified as “COVID-19”, as a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets. The Company has implemented safety and physical distancing procedures while it continues operations at the Mina Real and San Francisco properties and exploration activities on the Santa Fe Property. The Company will continue to monitor the impact of the COVID-19 outbreak, the duration and impact which is unknown at this time, as is the efficacy of any intervention. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2021
(Unaudited - Expressed in Canadian Dollars)

2. Basis of Preparation

Statement of Compliance

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”), and in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended May 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company’s consolidated financial statements for the year ended May 31, 2020.

Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value. The condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise stated.

Correction of Error

During the preparation of the fiscal 2020 consolidated financial statements management found errors in the calculation for carrying charges on unpaid government concession payments and other government payables resulting in an understatement in accrued liabilities of \$853,197 as at May 31, 2019, and \$358,772 as at May 31, 2018. The impact of the error is summarized below.

(i) Extract from Consolidated Statement of Financial Position

	As at May 31, 2019 as Presented \$	Restatement \$	As at May 31, 2019 Restated \$
Accounts payable and accrued liabilities	6,130,715	853,197	6,983,912
Total current liabilities	23,602,080	853,197	24,455,277
Total liabilities	24,589,429	853,197	25,442,626
Deficit	(75,049,572)	(853,197)	(75,902,769)

(ii) Extract from Consolidated Statement of Loss and Comprehensive Loss

	Year Ended May 31, 2019 as Presented \$	Restatement \$	Year Ended May 31, 2019 Restated \$
Cost of sales	7,762,941	494,425	8,257,366
Operating loss	(999,774)	(494,425)	(1,494,199)
Net loss and comprehensive loss	(3,460,801)	(494,425)	(3,955,226)
Basic and diluted loss per common share	(0.17)	(0.02)	(0.19)

(iii) Extract from Consolidated Statement of Cash Flow

	Year Ended May 31, 2019 as Presented \$	Restatement \$	Year Ended May 31, 2019 Restated \$
Net loss for the year	(3,460,801)	(494,425)	(3,955,226)
Accounts payable and accrued liabilities	466,467	494,425	960,892

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3. Subsidiaries

The subsidiaries of the Company are as follows:

<u>Company</u>	<u>Location of Incorporation</u>	<u>Ownership Interest</u>
ALB Holdings Ltd. ("ALB")	Canada	100%
Mina Real Mexico S.A. de C.V. ("Mina Real")	Mexico	100%
Compania Minera Santa Fe S.A. de C.V. ("Compania Minera")	Mexico	70%

4. Amounts Receivable

	February 28, 2021 \$	May 31, 2020 \$
Production receivable	1,300,349	758,803
Employee advances	<u>43,036</u>	<u>18,861</u>
	<u>1,343,385</u>	<u>777,664</u>

5. Inventories

	February 28, 2021 \$	May 31, 2020 \$
Mineralized material in process	273,378	63,814
Mine stores, supplies and other	<u>401,344</u>	<u>302,090</u>
	<u>674,722</u>	<u>365,904</u>

6. Exploration and Evaluation Assets

	Santa Fe Property \$
Balance at May 31, 2019	<u>-</u>
Acquisition costs:	
Mineral claims	64,005
Option payments	<u>160,872</u>
	<u>224,877</u>
Impairment	<u>(224,877)</u>
Balance at May 31, 2020	<u>-</u>
Acquisition costs:	
Mineral claims	239,263
Option payments	<u>118,008</u>
	<u>357,271</u>
Impairment	<u>(357,271)</u>
Balance at February 28, 2021	<u>-</u>

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6. Exploration and Evaluation Assets (continued)

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. To date, the Company has conducted limited exploration on the Santa Fe Property. The agreement is being disputed by the 30% concession owners. During fiscal 2018 the Company received a ruling in favour of the concession owners and the Company has filed an appeal. The outcome of the appeal is currently unknown. The Company is required to pay an ongoing monthly fee of US \$10,000 to the 30% concession owners of the Santa Fe Property. As at February 28, 2021 US \$270,000 (May 31, 2020 - US \$180,000) remained unpaid and is included in accounts payable and current liabilities.

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 the Company recorded an impairment charge to reduce the carrying value to \$nil. The Company continues to record annual impairment charges for all subsequent costs incurred and capitalized on the Santa Fe Property to maintain the carrying value at \$nil.

7. Property, Plant and Equipment

Cost:	Mineral Properties \$	Land \$	Buildings \$	Mill and Mine Equipment \$	Total \$
Balance, May 31, 2019	33,934,944	2,692,313	3,517,234	6,045,262	46,189,753
Additions	-	-	-	2,681	2,681
Balance, May 31, 2020	33,934,944	2,692,313	3,517,234	6,047,943	46,192,434
Additions	-	-	-	1,076,597	1,076,597
Balance, February 28, 2021	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,517,234</u>	<u>7,124,540</u>	<u>47,269,031</u>
Accumulated depletion, amortization and impairment:					
Balance, May 31, 2019	(33,934,944)	(2,692,313)	(3,033,460)	(5,658,023)	(45,318,740)
Depletion and amortization	-	-	(48,377)	(97,280)	(145,657)
Balance, May 31, 2020	(33,934,944)	(2,692,313)	(3,081,837)	(5,755,303)	(45,464,397)
Depletion and amortization	-	-	(36,282)	(174,027)	(210,309)
Balance, February 28, 2021	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(3,118,119)</u>	<u>(5,929,330)</u>	<u>(45,674,706)</u>
Carrying value:					
Balance, May 31, 2020	-	-	435,397	292,640	728,037
Balance, February 28, 2021	-	-	399,115	1,195,210	1,594,325

The Company holds 100% undivided interests in the Mina Real and San Francisco properties. The Mina Real Property comprises eight concessions and one mineral claim located near Tepic, Mexico. The San Francisco Property comprises twelve concessions located approximately 60 kilometres west of the Company’s mill on the Mina Real Property.

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8. Advances

	9% Advances \$	12% Advances \$	Total \$
Principal			
Balance, May 31, 2019	1,263,107	4,074,451	5,337,558
Advances received	-	18,000	18,000
Advances repaid	-	(2,109)	(2,109)
Foreign exchange adjustment	<u>9,940</u>	<u>74,981</u>	<u>84,921</u>
Balance, May 31, 2020	1,273,047	4,165,323	5,438,370
Advances received	-	92,554	92,554
Advances repaid	(76,250)	(92,554)	(168,804)
Advances settled	(125,040)	(569,453)	(694,493)
Foreign exchange adjustment	<u>(42,130)</u>	<u>(304,444)</u>	<u>(346,574)</u>
Balance, February 28, 2021	<u>1,029,627</u>	<u>3,291,426</u>	<u>4,321,053</u>
Interest			
Balance, May 31, 2019	723,558	1,972,664	2,696,222
Interest	113,577	486,920	600,497
Foreign exchange adjustment	<u>6,730</u>	<u>50,021</u>	<u>56,751</u>
Balance, May 31, 2020	843,865	2,509,605	3,353,470
Interest	79,122	329,783	408,905
Foreign exchange adjustment	<u>(26,982)</u>	<u>(206,270)</u>	<u>(233,252)</u>
Balance, February 28, 2021	<u>896,005</u>	<u>2,633,118</u>	<u>3,529,123</u>

On January 8, 2021 the Company issued 9,259,902 units of the Company in settlement of \$694,493 principal of Advances See Note 11(c).

- (a) The 9% Advances bear interest at a rate of 9% per annum and have no fixed terms of repayment. As at February 28, 2021 \$1,029,627 (May 31, 2020 - \$1,273,047) of the principal and \$896,005 (May 31, 2020 - \$843,865) of the related accrued interest are due to the CEO of the Company and private corporations controlled by or affiliated with the Chairman of the Company.
- (b) The 12% Advances bear interest at a rate of 12% per annum and have no fixed terms of repayment. As at February 28, 2021 \$3,291,426 (May 31, 2020 - \$4,152,385) of the principal and \$2,615,523 (May 31, 2020 - \$2,491,421) of the related accrued interest are due to the Chairman of the Company, directors of the Company and private corporations controlled by or affiliated with the CEO of the Company.

9. Debentures

On May 31, 2013 the Company completed a \$950,000 secured debenture financing (the "Debentures"). On December 31, 2014 the Debentures matured. The holders of the Debentures have not demanded repayment of principal or accrued interest. The principal amounts under the Debentures continue to be subject to a monthly interest charge equivalent to \$12.67 multiplied by the greater of: (a) the monthly production of mineralized material from the Company's San Francisco Property, and (b) the average monthly production of mineralized material from the San Francisco Property, provided, however, that the monthly interest has a minimum monthly payment of \$5,067 per month and a maximum payment of \$15,833 per month.

On January 8, 2021 the Company issued 2,333,340 units of the Company in settlement of \$175,000 principal of Debentures. See Note 11(c).

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9. Debentures (continued)

During the nine months ended February 28, 2021 the Company recognized \$137,219 (2020 - \$142,110) of interest expense.

As at February 28, 2021 \$1,466,439 (May 31, 2020 - \$1,329,220) of interest remained unpaid and is included in interest payable.

As at February 28, 2021 a director of the Company holds \$577,000 (May 31, 2020 - \$677,000) of the Debentures.

10. Indebtedness

The indebtedness is 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 nine months ended February 28, 2021 the Company recognized \$244,421 (2020 - \$245,316) of interest expense. As at February 28, 2021, \$2,725,734 (May 31, 2020 - \$2,481,313) of interest remained unpaid and is included in interest payable of which \$1,296,812 (May 31, 2020 - \$1,296,812) of principal and \$973,815 (May 31, 2020 - \$769,487) of accrued interest was owed to a private corporation associated with the CEO of the Company.

11. Share Capital

(a) *Authorized Share Capital*

The Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Equity Financings*

Nine Months Ended February 28, 2021

On September 14, 2020 the Company completed a non-brokered private placement for 2,500,000 common shares at \$0.05 per share for proceeds of \$125,000. Directors and officers of the Company and private corporations affiliated with the CEO of the Company purchased a total of 1,850,000 common shares in the private placement.

The Company incurred a total of \$1,031 for costs associated with this private placement financing.

(c) *Debt Settlements*

On January 8, 2021 the Company completed the settlement of certain of its indebtedness owing, as follows:

- (i) issued 9,259,903 units of the Company, at \$0.075 per unit, in settlement of \$694,493 of Advances;
- (ii) issued 2,333,340 units of the Company, at \$0.075 per unit, in settlement of \$175,000 of Debentures; and
- (iii) issued 2,450,000 common shares of the Company, at \$0.075 per share, in settlement of \$183,750 of amounts payable to directors and officers.

Each unit comprises one common share of the Company and one share purchase warrant entitling the holder to purchase an additional common share of the Company at \$0.075 per share on or before January 8, 2024.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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11. Share Capital (continued)

(d) **Warrants**

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at February 28, 2021 and February 29, 2020 and the changes for the nine months ended on those dates, is as follows:

	2021		2020	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of period	-	-	-	-
Warrants issued	<u>11,593,243</u>	0.075	<u>-</u>	-
Balance, end of period	<u>11,593,243</u>	0.075	<u>-</u>	-

As at February 28, 2021 there were warrants issued and outstanding to purchase 11,593,243 common shares of the Company at an exercise price of \$0.075 per share expiring January 8, 2024.

(e) **Share Option Plan**

The Company has established a rolling share option plan (the "Plan") in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years.

During the nine months ended February 28, 2021 the Company granted share options to purchase 2,185,000 common shares and recorded compensation expense of \$65,550. The fair value of share options granted during the nine months ended February 28, 2021 is estimated using the Black-Scholes Option Pricing Model using the following assumptions: risk-free interest rate of 0.25% - 0.26%; estimated volatility of 112% - 115%; expected life of 3 years; expected dividend yield of 0%; and expected forfeiture rate of 0%.

The weighted average measurement date fair value of all share options granted during the nine months ended February 28, 2021, using the Black-Scholes Option Pricing Model, was \$0.03 per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

No share options were granted during the nine months ended February 29, 2020.

A summary of the Company's share options at February 28, 2021 and February 29, 2020 and the changes for the nine months ended on those dates, is as follows:

	2020		2019	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	-	-	-	-
Granted	<u>2,185,000</u>	0.05	<u>-</u>	-
Balance, end of period	<u>2,185,000</u>	0.05	<u>-</u>	-

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11. Share Capital (continued)

The following table summarizes information about the share options outstanding and exercisable at February 28, 2021:

Number	Exercise Price \$	Expiry Date
2,085,000	0.05	July 20, 2023
<u>100,000</u>	0.05	September 23, 2023
<u>2,185,000</u>		

12. 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*

The Company considers its key management to consist of the Company's Chairman, the Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"). During the nine months ended February 28, 2021 and February 29, 2020 the following amounts were incurred with respect to the CEO and CFO of the Company:

	2021 \$	2020 \$
Professional fees	35,864	36,226
Share-based compensation	<u>2,400</u>	<u>-</u>
	<u>38,264</u>	<u>36,226</u>

No fees were incurred with respect of the Chairman in either the nine months ended February 28, 2021 or February 29, 2020.

As at February 28, 2021, \$1,020,869 (May 31, 2020 - \$1,159,119) remained unpaid and is included in amounts payable to directors and officers.

On January 8, 2021 the Company issued 650,000 common shares of the Company in settlement of \$48,750 of amounts payable to the CFO. See also Note 11(c).

(b) *Transactions with Other Related Parties*

(i) During the nine months ended February 28, 2021 and February 29, 2020 the following amounts were incurred with respect to the non-executive directors and an officer of the Company:

	2021 \$	2020 \$
Consulting fees	9,000	9,000
Share-based compensation	<u>12,000</u>	<u>-</u>
	<u>21,000</u>	<u>9,000</u>

As at February 28, 2021 \$257,250 (May 31, 2020 - \$386,250) remained unpaid and is included in amounts payable to directors and officers.

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12. Related Party Disclosures (continued)

On January 8, 2021 the Company issued 1,800,000 common shares of the Company in settlement of \$135,000 of amounts payable to certain directors and an officer of the Company. See also Note 11(c).

(ii) During the nine months ended February 28, 2021 the Company incurred a total of \$43,700 (February 29, 2020 - \$40,400) to Chase Management Ltd. ("Chase"), a private corporation owned by the CEO of the Company, for accounting and administration services provided by Chase personnel, excluding the CEO. As at February 28, 2021 \$74,263 (May 31, 2020 - \$91,044) remained unpaid and is included in amounts payable to directors and officers.

(c) See also Notes 8, 9, 10 and 11(c).

13. Provision for Site Restoration

	<u>Nine Months Ended</u>	
	<u>February 28, 2021</u>	<u>February 29, 2020</u>
	\$	\$
Balance, beginning of period	1,107,355	987,349
Accretion	49,996	81,145
Foreign exchange	<u>29,528</u>	<u>55,390</u>
Balance, end of period	<u>1,186,879</u>	<u>1,123,884</u>

The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligation is US \$1,103,000 which, as at February 28, 2021, has been discounted using a credit adjusted pre-tax risk free rate of 5.6% (February 29, 2020 - 6.5%) and an inflation rate of 3.8% (February 29, 2020 - 3.7%). The present value of the reclamation liability may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur. The settlement of the obligation is anticipated to occur primarily in fiscal 2030.

14. Financing Expenses

Financing expenses for the nine months ended February 28, 2021 and February 29, 2020 are as follows:

	<u>Note</u>	<u>2021</u>	<u>2020</u>
		\$	\$
Interest expense:			
Advances	8	408,905	444,594
Debentures	9	137,219	142,110
Indebtedness	10	<u>244,421</u>	<u>245,316</u>
		<u>790,545</u>	<u>832,020</u>

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15. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: fair value through profit or loss (“FVTPL”); amortized cost; and fair value through other comprehensive income (“FVOCI”). The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instruments	Category	February 28, 2021 \$	May 31, 2020 \$
Cash	FVTPL	578,848	322,876
Amounts receivable	Amortized cost	1,343,385	777,664
Accounts payable and accrued liabilities	Amortized cost	(7,410,083)	(7,937,189)
Amounts payable to directors and officers	Amortized cost	(1,433,382)	(1,636,416)
Interest payable	Amortized cost	(7,721,296)	(7,164,003)
Advances	Amortized cost	(4,321,053)	(5,438,370)
Debentures	Amortized cost	(725,000)	(950,000)
Indebtedness	Amortized cost	(3,631,000)	(3,631,000)

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

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

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

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

The recorded amounts for amounts receivable, accounts payable and accrued liabilities, amounts payable to directors and officers, interest payable and advances approximate their fair value due to their short-term nature. The recorded amounts for debt and debentures (including the equity portion) approximate fair value and they have interest at market rates for similar debt. The Company’s fair value of cash under the fair value hierarchy is measured using Level 1 inputs.

The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. The Company’s credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote. Amounts receivable are due from one customer.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company’s ability to manage this risk is affected by low grades of mineralized material and operational challenges. See Note 1. All of the Company’s financial liabilities are classified as current. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

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15. Financial Instruments and Risk Management (continued)

	Contractual Maturity Analysis at February 28, 2021				
	Carrying Amount \$	Contractual Cash Flows \$	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$
Cash	578,848	578,848	578,848	-	-
Amounts receivable	1,343,385	1,343,385	1,343,385	-	-
Accounts payable and accrued liabilities	(7,410,083)	(7,410,083)	(7,410,083)	-	-
Amounts payable to directors and officers	(1,433,382)	(1,433,382)	(1,433,382)	-	-
Interest payable	(7,721,296)	(7,721,296)	(7,721,296)	-	-
Advances	(4,321,053)	(4,321,053)	(4,321,053)	-	-
Debentures	(725,000)	(725,000)	(725,000)	-	-
Indebtedness	(3,631,000)	(3,631,000)	(3,631,000)	-	-

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bears a floating rate of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

(b) Commodity Price Risk

The Company is subject to risk from fluctuations in the market prices of silver and gold. Silver and gold prices have historically fluctuated widely and are affected by numerous factors outside of the Company's control. The profitability of the Company's operations is highly correlated to the market prices of these metals, as is the ability of the Company to develop its other properties. If metal prices decline for a prolonged period below the cost of production of the Company's Mina Real mine, it may not be economically feasible to continue production.

The Company does not hedge silver and gold prices.

(c) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and the Company's operating expenses are incurred in Canadian Dollars and Mexican Pesos. The Company also has advances denominated in US Dollars. Management believes the foreign exchange risk related to currency conversions are minimal and therefore does not hedge its foreign exchange risk. At February 28, 2021, 1 Canadian Dollar was equal to 16.37 Mexican Pesos and 0.79 US Dollar.

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15. Financial Instruments and Risk Management (continued)

Balances are as follows:

	Mexican Pesos	United States Dollars	CDN \$ Equivalent
Cash	9,210,997	7,947	572,735
Amounts receivable	210,026	1,035,280	1,333,311
IVA tax receivable	3,762,132	-	229,819
Inventories	11,047,434	-	674,722
Accounts payable and accrued liabilities	(109,760,604)	(554,545)	(7,406,941)
Amounts payable to directors and officers	-	(57,650)	(72,975)
Interest payable	-	(2,270,367)	(2,873,882)
Advances	-	(2,896,171)	(3,666,039)
	<u>(85,530,015)</u>	<u>(4,735,506)</u>	<u>(11,219,250)</u>

Based on the net exposures as of February 28, 2021 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Mexican Peso and the US Dollar would result in the Company's comprehensive income being approximately \$1,150,000 higher (or lower).

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, cash and cash equivalents and short-term investments. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

16. Segmented Information

The Company operates in one reportable segment, the acquisition, exploration and development of exploration and evaluation assets. The Company's mineral operations are located in Mexico and its corporate assets, comprising mainly of cash, are located in Canada.

	February 28, 2021		
	Non-current Assets \$	Revenues \$	Net Income (Loss) \$
Mineral operations (Mexico)	1,594,325	9,797,356	2,624,299
Corporate (Canada)	-	-	(1,012,045)
	<u>1,594,325</u>	<u>9,797,356</u>	<u>1,612,254</u>
	May 31, 2020		
	Non-current Assets \$	Revenues \$	Net Loss \$
Mineral operations (Mexico)	728,037	7,909,915	(531,880)
Corporate (Canada)	-	-	(1,160,042)
	<u>728,037</u>	<u>7,909,915</u>	<u>(1,691,922)</u>

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17. Contingent Liability and Commitment

- (a) From time to time the Company becomes involved in various claims and litigation as part of the normal course of operations. While the outcome thereof cannot be predicted, based on the information currently available, management believes the resolution of current pending claims and litigation will not have a material impact on the Company's financial position and results of operations. See also Note 6.
- (b) The Company has only made partial government concession payments and accrued carrying charges on its concessions. As at February 28, 2021 \$2,255,869 (May 31, 2020 - \$3,828,720) of government concessions payments remained unpaid and are included in accounts payable and accrued liabilities.

18. Supplemental Cash Flow Information

During the nine months ended February 28, 2021 and February 29, 2020 non-cash activities were conducted by the Company as follows:

	2021 \$	2020 \$
Operating activity		
Accounts payable and accrued liabilities	<u>(183,750)</u>	<u>-</u>
Financing activities		
Issuance of share capital	1,053,243	-
Advances settled	(694,493)	-
Debentures settled	<u>(175,000)</u>	<u>-</u>
	<u>183,750</u>	<u>-</u>