# ROCHESTER RESOURCES LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## FOR THE NINE MONTHS ENDED FEBRUARY 28, 2021

This discussion and analysis of financial position and results of operation is prepared as at April 28, 2021 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and the accompanying notes for the nine months ended February 28, 2021 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.

**COVID-19**

On March 11, 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 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.

**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 nine months ended February 28, 2021 the Company recorded 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 concession payments when due and, as at February 28, 2021, has unpaid government concession payments and related carrying charges totalling $2,255,869 (included in accounts payable and accrued liabilities). The Company's ongoing operations are dependent on extracting mineralized material from the Mina Real, San Francisco and Santa Fe 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 the market prices of gold and silver, its ability to improve its operations to maintain 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.

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". The Company's head office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

**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 Santa Fe Property and is unable to advance the development until it resolves its liquidity problems and secures additional financing. The Company is required to pay an ongoing monthly fee of US $10,000 to the 30% concession owners of the Santa Fe Property. The agreement is in dispute and 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.

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.

At present there is no Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") or National Instrument ("NI") 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.**

***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 February 28, 2021 ("Q3"), the three months ended November 30, 2020 ("Q2"), the three months ended August 31, 2020 ("Q1") the nine months (accumulated) ended February 28, 2021 (the "2021 Period) and the nine months (accumulated) ended February 29, 2020 (the "2020 Period") are provided in the table below:

| RESULTS | Q3 (Dec 1/20 - Feb 28/21) | Q2 (Sep 1/20 - Nov 30/20) | Q1 (Jun 1/20 - Aug 31/20) | 2021 Period (Jun 1/20 - Feb 28/21) | 2020 Period (Jun 1/19 - Feb 29/20) |
|---|---|---|---|---|---|
| Tonnes Processed | 10,653 tonnes | 10,098 tonnes | 9,655 tonnes | 30,406 tonnes | 24,954 tonnes |
| Gold Grade | 2.84 g/t | 2.46 g/t | 2.59 g/t | 2.64 g/t | 2.16 g/t |
| Silver Grade | 195.25 g/t | 189.23 g/t | 233.20 g/t | 205.30 g/t | 235.77 g/t |
| Gold Recovery | 95.82 % | 95.28 % | 95.77 % | 95.68 % | 94.84 % |
| Silver Recovery | 63.70 % | 57.01 % | 48.52 % | 56.18 % | 57.54 % |
| Gold Produced | 934 ounces | 761 ounces | 771 ounces | 2,466 ounces | 1,642 ounces |
| Gold Sold | 920.30 ounces | 749.35 ounces | 759.78 ounces | 2,429.43 ounces | 1,618 ounces |
| Silver Produced | 42,597 ounces | 35,023 ounces | 35,123 ounces | 112,743 ounces | 108,844 ounces |
| Silver Sold | 41,319.29 ounces | 33,972.64 ounces | 34,069.31 ounces | 109,361.24 ounces | 105,578 ounces |
| Gold Equivalent Produced | 1,537 ounces | 1,218 ounces | 1,183 ounces | 3,938 ounces | 2,896 ounces |
| Developed Meters | 814 meters | 492 meters | 544 meters | 1,850 meters | 1,597 meters |
| Samples Taken | 6,252 samples | 6,033 samples | 5,503 samples | 17,788 samples | 12,798 samples |
| Diamond Drilling Meters | 0 meters | 0 meters | 0 meters | 0 meters | 0 meters |
| Access Road Kilometers | 0 kilometers | 0 kilometers | 0 kilometers | 0 kilometers | 0 kilometers |

*Q3 Compared to Q2*

Production of gold during Q3 was 22.7% higher than production during Q2 (934 ounces compared to 761 ounces). Silver production during Q3 was 21.6% higher than Q2 (42,597 ounces compared to 35,023 ounces). Total tonnes processed in Q3 were 5.5% higher than the total tonnes processed in Q2 (10,653 tonnes as compared to 10,098 tonnes). In Q3 gold recoveries were slightly higher than Q2 (95.82% compared to 95.28%) and silver recoveries were 11.73% higher (63.70% compared to 57.01%).

The increases in gold and silver production were a result of the materials processed coming almost exclusively from areas of the San Francisco Project that has very low manganese content in addition to higher grade materials. The upgrading of equipment has continued to increase tonnage transported.

*2021 Period Compared to 2020 Period*

During the 2021 period the Company produced 2,466 ounces of gold and 112,743 ounces of silver compared to 1,642 ounces of gold and 108,843 ounces of silver during the 2020 period. Total tonnes processed in the 2021 period were 30,406 compared to 24,954 in the 2020 period reflecting the use of the new truck and scoop-tram purchased in the 2021 period.

The increases in gold production for the 2021 period compared to the 2020 period were as a result of more tonnes processed in the 2021 period coupled with 22.2% higher gold grades (2.64 g/t compared to 2.16 g/t) and slightly higher gold recovery (95.68% compared to 94.84%). The 3.58% increase in silver production in the 2021 period is a direct result of the increase in materials processed as the silver grade and silver recovery were slightly lower than in the 2020 period.

***Drifting***

The allocation for drifting amongst areas during each of Q3, Q2, Q1, the 2021 period and the 2020 period is as follows:

| | Q3 | | Q2 | | Q1 | | 2021 Period | | 2020 Period | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Area** | Meters | % | Meters | % | Meters | % | Meters | % | Meters | % |
| Tajos Cuates | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 306 | 19% |
| Florida NW | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 31 | 2% |
| Florida SE Project | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| San Francisco Project | 814 | 100% | 492 | 100% | 544 | 0% | 1,850 | 100% | 1,259 | 79% |
| **TOTAL DRIFTING** | **814** | **100%** | **592** | **100%** | **544** | **100%** | **1,850** | **100%** | **1,596** | **100%** |

Distribution of the development during each of Q3, Q2, Q1, the 2021 period and the 2020 period, by activity, is as follows:

| | Q3 | | Q2 | | Q1 | | 2021 Period | | 2020 Period | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Type of Drifting** | Meters | % | Meters | % | Meters | % | Meters | % | Meters | % |
| Exploration | 277 | 34% | 162 | 33% | 337 | 62% | 776 | 42% | 993 | 62% |
| Stope Preparation | 537 | 66% | 330 | 67% | 207 | 38% | 1,074 | 58% | 604 | 38% |
| **TOTAL DRIFTING** | **814** | **100%** | **492** | **100%** | **544** | **100%** | **1,850** | **100%** | **1,597** | **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.

***Operations***

Total production volume during Q3 from the various working faces was 11,792 wet tonnes compared to 10,403 wet tonnes during Q2. Production during both quarters was obtained solely from the San Francisco Project area.

***Mill Area***

The lack of available working capital continues to impede the Company's ability to complete its capital works programs. Work on the 10´ x 10´ mill remains on standby and there is no timeline for completion. Elevators are suffering from wear which decreases efficiency. Regular maintenance service was carried out on the 3" crusher and liners were changed in the primary crusher.

**Selected Financial Data**

***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 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.

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) |

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) |

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 |

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

| | Fiscal 2021 | | | Fiscal 2020 | | | | Fiscal 2019 (Restated) |
|---|---|---|---|---|---|---|---|---|
| **Three Month Period Ending** | **Feb 28/21 $** | **Nov 30/20 $** | **Aug 31/20 $** | **May 31/20 $** | **Feb 29/20 $** | **Nov 30/19 $** | **Aug 31/19 $** | **May 31/19[1] $** |
| **Operations:** | | | | | | | | |
| Revenues | 3,520,570 | 3,028,611 | 3,248,175 | 2,415,814 | 1,606,452 | 1,999,775 | 1,887,874 | 1,499,229 |
| Cost of sales | (2,789,185) | (2,103,983) | (2,155,784) | (2,598,880) | (1,612,883) | (1,589,391) | (1,997,677) | (2,265,023) |
| Depletion and amortization | (70,103) | (70,103) | (70,103) | (37,018) | (36,213) | (36,213) | (36,213) | (70,007) |
| Provision for site restoration | (16,966) | (16,905) | (16,125) | 2,670 | (40,800) | (20,114) | (20,231) | (20,452) |
| Income (expenses), excluding impairment | 103,108 | (860,753) | 239,071 | (50,780) | (536,878) | (746,939) | (19,472) | (545,292) |
| Impairment of exploration and evaluation assets | (60,989) | (152,387) | (143,895) | (28,401) | (64,763) | (64,016) | (67,697) | (92,546) |
| Comprehensive income (loss) | 686,435 | (175,520) | 1,101,339 | (296,523) | (685,085) | (456,898) | (253,416) | (1,494,091) |
| Basic and diluted income (loss) per share | 0.02 | (0.01) | 0.05 | (0.02) | (0.03) | (0.02) | (0.01) | (0.07) |
| **Statement of Financial Position:** | | | | | | | | |
| Working capital (deficit) | (22,401,586) | (23,881,675) | (23,745,969) | (24,469,838) | (23,338,683) | (22,857,550) | (22,406,268) | (23,040,898) |
| Total assets | 4,484,553 | 3,418,042 | 3,807,812 | 2,515,177 | 2,181,111 | 2,379,854 | 2,254,988 | 2,285,392 |
| Provision for site restoration | (1,186,879) | (1,114,430) | (1,226,009) | (1,107,355) | (1,123,884) | (956,146) | (985,985) | (987,349) |

(1) Restatement of correction of error for fiscal 2019 reflected in Q4.

## Results of Operations

*Three Months Ended February 28, 2021 ("Q3") Compared to Three Months Ended November 30, 2020 ("Q2")*

During Q3 the Company reported comprehensive income of $686,435 compared to comprehensive loss of $175,520 for Q2, an increase in income of $861,955. The increase in income was primarily due to a foreign exchange gain of $485,826 recorded in Q3 compared to a foreign exchange loss of $396,519 recorded in Q2.

*Nine Months Ended February 28, 2021 Compared to Nine Months Ended February 29, 2020*

During the nine months ended February 28, 2021 (the "2021 period") the Company recorded comprehensive income of $1,612,254 compared to comprehensive loss of $1,395,399 for the nine months ended February 29, 2020 (the "2020 period"), an increase in income of $3,007,653. The fluctuation was primarily attributed to improved operations at Mina Real due to higher tonnages processed, impact of increased grades and recoveries of gold, and significantly higher prices received for gold and silver sales in the 2021 period.

*Production*

During the 2021 period the Company sold 3,857 gold equivalent ounces and realized revenues of $2,540 per gold equivalent ounce as compared to the sale of 2,881 gold equivalent ounces and realized revenues of $1,907 per gold equivalent ounce during the 2020 period.

The Company's cost of operations per gold equivalent ounce sold during the 2021 period was $1,895 as compared to $1,871 during the 2020 period.

Direct operating cost of sales for the 2021 and 2020 periods comprise the following:

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Mine costs | 2,866,155 | 1,726,063 |
| Mill costs | 1,495,800 | 1,455,351 |
| Service department costs | 2,686,997 | 2,018,537 |
| | 7,048,952 | 5,199,951 |

General and administrative expenses of $441,932 were reported for the 2021 period compared to $396,753 during the 2020 period, an increase of $45,179. A summary of expenses are as follows:

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Accounting and administrative | 43,700 | 40,400 |
| Audit | 43,474 | 35,750 |
| Directors and officers compensation | 44,864 | 45,226 |
| Legal | 23,002 | 1,573 |
| Office | 61,090 | 67,786 |
| Professional fees | 6,780 | 23,982 |
| Regulatory fees | 14,254 | 6,505 |
| Salaries and benefits | 191,589 | 161,812 |
| Shareholder costs | 88 | 1,892 |
| Transfer agent fees | 6,894 | 4,466 |
| Travel | 6,197 | 7,361 |
| | 441,932 | 396,753 |

*Exploration and Evaluation Assets*

During the 2021 period the Company incurred $357,271 (2020 - $196,476) additions 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. The Company also recorded an offsetting impairment charge of $357,271 (2020 - $196,476) to reflect management's determination to fully impair the Santa Fe property.

*Property, Plant and Equipment*

| | Mineral Properties<br>$ | Land<br>$ | Buildings<br>$ | Mill and Mine Equipment<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **Cost**: | | | | | |
| 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 | 33,934,944 | 2,692,313 | 3,517,234 | 7,124,540 | 47,269,031 |
| **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 | (33,934,944) | (2,692,313) | (3,188,119) | (5,929,330) | (45,674,706) |
| **Carrying value**: | | | | | |
| Balance, May 31, 2020 | - | - | 435,397 | 292,640 | 728,037 |
| Balance, February 28, 2021 | - | - | 399,115 | 1,195,210 | 1,594,325 |

Exploration, development and production activities conducted during the 2021 period are described in "Property Update" in this MD&A.

*Financings*

During the 2021 period the Company completed a non-brokered private placement for 2,500,000 common shares at $0.05 per share for proceeds of $125,000. The proceeds raised from the financing are being used for general working capital purposes.

On January 8, 2021 the Company completed the settlement of $1,053,243 of its indebtedness owing to directors and officers of the Company, as follows:

(i) issued 9,259,903 units of the Company in settlement of $694,493 principal of advances;
(ii) issued 2,333,340 units of the Company in settlement of $175,000 principal of debentures; and
(iii) issued 2,450,000 common shares of the Company 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. See also "Related Party Disclosures".

**Financial Condition / Capital Resources**

During the 2021 period 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. 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 maintain 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 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.

In addition, the COVID-19 pandemic has resulted in implementation of safety and distancing procedures and it is not possible to determine the continued impact of the COVID-19 outbreak. See also page 1 - "COVID-19".

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Proposed Transactions**

The Company has no proposed transactions.

**Changes in Accounting Policies**

IFRS 16 - *Leases* ("IFRS 16")

The Company adopted all of the requirements of IFRS 16, effective June 1, 2019.

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Company has leases which are considered to be short-term leases and, as allowed by IFRS 16, has determined not to recognize these leases as assets and liabilities. There was no significant impact on the Company's consolidated financial statements upon the adoption of this new standard.

A detailed summary of the Company's other significant accounting policies and accounting standards and interpretations issued but not yet effective, is included in Note 3 to the May 31, 2020 audited annual consolidated financial statements.

**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 (Mr. Eduardo Luna) the Chief Executive Officer ("CEO") (Mr. Nick DeMare) and the Chief Financial Officer ("CFO") (Mr. Jose Manuel Silva). During the 2021 and 2020 periods the following amounts were incurred:

| | **2021**<br>**$** | **2020**<br>**$** |
|---|---|---|
| Professional fees - Mr. DeMare | 18,360 | 18,360 |
| Professional fees - Mr. Silva | 17,504 | 17,866 |
| Share-based compensation - Mr. Silva | 2,400 | - |
| | 38,264 | 36,226 |

No fees were incurred with respect of Mr. Luna, in either the 2021 or 2020 periods.

On January 8, 2021 the Company issued 650,000 common shares of the Company in settlement of $48,750 of amounts payable to Mr. Silva.

As at February 28, 2021 $1,020,869 (May 31, 2020 - $1,159,119) remained unpaid to key management personnel.

(b) *Transactions with Other Related Parties*

(i) During the 2021 and 2020 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):

| | **2021**<br>**$** | **2020**<br>**$** |
|---|---|---|
| Professional fees - Mr. Lim | 9,000 | 9,000 |
| Share-based compensation - Mr. Keane | 2,400 | - |
| Share-based compensation - Mr. Cernovitch | 2,400 | - |
| Share-based compensation - Mr. Tam | 2,400 | - |
| Share-based compensation - Mr. Magrum | 2,400 | - |
| Share-based compensation - Mr. Lim | 2,400 | - |
| | 21,000 | 9,000 |

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 as follows:

| | Number of Shares | $ |
|---|---|---|
| Mr. Cernovitch | 650,000 | 48,750 |
| Mr. Tam | 650,000 | 48,750 |
| Mr. Lim | 500,000 | 37,500 |
| | 1,800,000 | 135,000 |

As at February 28, 2020 $257,250 (May 31, 2020 - $386,250) remained unpaid.

(ii) During the 2021 period the Company incurred a total of $43,700 (2020 - $40,400) 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 February 28, 2021 $74,263 (May 31, 2020 - $91,044) 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 2021 period the Company recognized $79,122 (2020 - $84,606) of interest expense. As at February 28, 2021 $896,005 (May 31, 2020 - $843,865) of interest remained unpaid.

On January 8, 2021 the Company issued 1,667,200 units of the Company in settlement of $125,040 of principal due to amounts payable to a private corporation controlled or affiliated with Mr. DeMare.

As at February 28, 2021, $1,029,627 of the principal was outstanding of which $845,915 is due to Mr. Luna and $183,712 is due to a private corporation controlled or affiliated with Mr. DeMare.

(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. On January 8, 2021 the Company issued 7,592,702 units of the Company in settlement of $569,453 of advances to certain directors and officers as follows:

| | Number of Units | $ |
|---|---|---|
| Mr. Luna | 5,000,000 | 375,000 |
| Mr. Keane | 346,730 | 26,005 |
| Mr. Bottomer (former director) | 163,173 | 12,238 |
| Private corporations controlled or affiliated with Mr. DeMare | 2,082,799 | 156,210 |
| | 7,592,702 | 569,453 |

As at February 28, 2021 a total of $3,291,426 (May 31, 2020 - $4,165,323) of principal was outstanding of which $3,101,311 is due to Mr. Luna and $190,115 is due to private corporations controlled or affiliated with Mr. DeMare.

During the 2021 period the Company recognized $329,783 (2020 - $359,988) of interest expense. As at February 28, 2021 $2,633,118 (May 31, 2020 - $2,509,605) of interest remained unpaid.

(e) During fiscal 2013 the Company completed a secured 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). On December 31, 2014 the debentures matured and are considered to be due and payable, with interest accruing until repayment. The debenture holders have not demanded repayment of principal or accrued interest. During the 2021 period the Company repaid $nil (2020 - $12,081) and recorded $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.

On January 8, 2021 the Company issued 1,333,340 units of the Company in settlement of $100,000 principal to certain directors as follows:

| | Number of Units | $ |
|---|---|---|
| Mr. Keane | 666,670 | 50,000 |
| Mr. Magrum | 666,670 | 50,000 |
| | 1,333,340 | 100,000 |

As at February 28, 2021 Mr. Luna holds $577,000 of the debentures.

(f) The $3,631,000 (May 31, 2020 - $3,631,000) 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 2021 period the Company recognized $244,421 (2019 - $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.

As at February 28, 2021 $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 Mr. DeMare.

**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 April 28, 2021, there were 37,394,125 issued and outstanding common shares, share options to purchase 2,185,000 common shares at an exercise price of $0.05 per share and warrants to purchase 11,593,243 common shares at an exercise price of $0.075 per share.