

ROCHESTER RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MAY 31, 2017

This discussion and analysis of financial position and results of operation is prepared as at September 27, 2017 and should be read in conjunction with the audited consolidated annual financial statements and the accompanying notes for the years ended May 31, 2017 and 2016 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 \$12,848,000. See "Property Update - Impairment". During fiscal 2017 the Company reported a loss of \$3,123,729 and, as at May 31, 2017, the Company had an accumulated deficit of \$67,803,938 and a working capital deficit of \$18,852,537. 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, 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 "R5I" and on the Pink OTC Markets under the symbol "RCTFF".

Property Update

The Company holds a 100% interest in Mina Real which holds a 100% interest in the Mina Real Property, a gold and silver property located in the state of Nayarit, Mexico, east of the state capital city of Tepic. Mina Real also owns 70% of Compania Minera Santa Fe S.A. de C.V. (“Compania Minera”) which holds a 100% interest in the Santa Fe gold and silver property located immediately east of the Mina Real Property. Through Mina Real the Company has an agreement to acquire a 70% interest in one concession (the “Santa Fe Property”) located near the Mina Real Property. Under the terms of the agreement the Company agreed to implement a program of exploration to determine if the Santa Fe Property can be economically exploited. In addition, if the exploration work is successful, the Company agreed to provide the necessary capital to construct a processing plant capable of processing a minimum of 200 tonnes per day. The Company has conducted limited exploration on the property and is assessing alternatives to advance the development of the Santa Fe concessions. The Company is required to pay an ongoing monthly fee of US \$10,000 to the 30% concession owners of the Santa Fe Property. All amounts have been paid for fiscal 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, the Company recorded an impairment charge of \$2,509,754 to reduce the carrying value to \$nil. During fiscal 2017 the Company incurred \$310,243 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 fiscal 2017 by quarter and accumulated fiscal 2017 and fiscal 2016 are provided in the table below:

RESULTS	Q4 (Mar 1/17 - May 31/17)	Q3 (Dec 1/16 - Feb 28/17)	Q2 (Sep 1/16 - Nov 30/16)	Q1 (Jun 1/16 - Aug 31/16)	Accumulated Fiscal 2017	Accumulated Fiscal 2016
Tonnes Processed	14,083 tonnes	13,866 tonnes	13,160 tonnes	13,138 tonnes	54,247 tonnes	62,481 tonnes
Gold Grade	1.82 g/t	2.32 g/t	2.10 g/t	2.23 g/t	2.11 g/t	1.77 g/t
Silver Grade	148.09 g/t	170.97 g/t	158.00 g/t	139.90 g/t	154.36 g/t	160.56 g/t
Gold Recovery	85.65 %	94.88 %	94.24 %	93.93 %	94.18 %	92.67 %
Silver Recovery	32.93 %	38.26 %	39.77 %	39.05 %	38.00 %	45.95 %
Gold Produced	704 ounces	979 ounces	836 ounces	886 ounces	3,405 ounces	3,299 ounces
Gold Sold	693.61 ounces	964.59 ounces	822.99 ounces	872.64 ounces	3,353.83 ounces	3,250.00 ounces
Silver Produced	22,081 ounces	29,163 ounces	26,588 ounces	23,075 ounces	100,907 ounces	148,221 ounces
Silver Sold	21,418.59 ounces	28,288.29 ounces	25,790.45 ounces	22,382.56 ounces	97,879.89 ounces	143,774.02 ounces
Gold Equivalent Produced	1,013 ounces	1,395 ounces	1,213 ounces	1,220 ounces	4,841 ounces	5,261 ounces
Developed Meters	896 meters	730 meters	800 meters	819 meters	3,245 meters	3,412 meters
Samples Taken	4,839 samples	4,568 samples	4,984 samples	5,072 samples	19,463 samples	26,107 samples
Diamond Drilling Meters	0 meters	0 meters	0 meters	0 meters	0 meters	0 meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers

Q4 Compared to Q3

Production of gold during Q4 was 28.09% lower than production during Q3 (704 ounces compared to 979 ounces). Silver production during Q4 was 24.28% lower than Q3 (22,081 ounces compared to 29,163 ounces). The gold equivalent production in Q4 was 27.38% lower than Q3 (1,013 ounces compared to 1,395 ounces). Total tonnes processed in Q4 were 1.56% higher than the total tonnes processed in Q3 (14,083 tonnes as compared to 13,866

tonnes). In Q4 gold recoveries were 9.73% lower than Q3 (85.65% compared to 94.88%) and silver recoveries were 13.93% lower Q3 (32.93% compared to 38.26%).

The decrease in gold and silver ounces produced in Q4 compared to Q3 was primarily the result of the decrease in both gold and silver grades in Q4. In Q4 the gold grade was 1.82 g/t compared to 2.32 g/t in Q3 and the silver grade decreased from 170.97 g/t in Q3 to 148.09 g/t in Q4.

Fiscal 2017 Compared to Fiscal 2016

During fiscal 2017 the Company produced 3,405 ounces of gold and 100,907 ounces of silver compared to 3,299 ounces of gold and 148,221 ounces of silver during fiscal 2016. The gold equivalent production during fiscal 2017 was 4,841 ounces as compared to 5,261 ounces during fiscal 2016. Total tonnes processed in fiscal 2017 were 54,247 as compared to 62,481 in fiscal 2016 reflecting the ongoing difficulty in having sufficient production areas developed and consistent silver grades.

Although tonnes processed were lower, the grade of mineralized material was higher for gold at 2.11 g/t gold as compared to 1.77 g/t gold during fiscal 2017 however the silver grade was lower at 154.36 g/t silver during fiscal 2017 compared to 160.56 g/t silver in fiscal 2016. In addition, gold recoveries were slightly higher at 94.18% for fiscal 2017 compared to 92.67% for fiscal 2016 and silver recoveries were lower at 38.00% for fiscal 2017 compared to 45.95% during fiscal 2016.

The production statistics continue to demonstrate the difficulties in establishing a mine plan to deliver consistent volumes and grades.

Drifting

The allocation for drifting amongst areas during each quarter of fiscal 2017 and accumulated for fiscal 2017 and 2016 is as follows:

Area	Q4 (meters)	%	Q3 (meters)	%	Q2 (meters)	%	Q1 (meters)	%	Fiscal 2017 (meters)	%	Fiscal 2016 (meters)	%
Tajos Cuates	0	0%	0	0%	0	0%	0	0%	0	0%	617	18%
Florida NW	142	16%	161	22%	285	36%	366	45%	954	29%	864	25%
Florida SE Project	413	46%	405	56%	315	39%	254	31%	1,387	43%	187	5%
Macedo Project	0	0%	0	0%	0	0%	0	0%	0	0%	158	5%
Florida IV	0	0%	0	0%	0	0%	0	0%	0	0%	120	4%
San Francisco Project	341	38%	164	22%	200	25%	199	24%	904	28%	1,465	43%
TOTAL DRIFTING	896	100%	730	100%	800	100%	819	100%	3,245	100%	3,411	100%

Distribution of the development during each quarter of fiscal 2017 and accumulated for fiscal 2017 and fiscal 2016, by activity, is as follows:

Type of Drifting	Q4 (meters)	%	Q3 (meters)	%	Q2 (meters)	%	Q1 (meters)	%	Fiscal 2017 (meters)	%	Fiscal 2016 (meters)	%
Exploration	386	43%	274	37%	509	64%	525	64%	1,694	52%	1,820	53%
Stope Preparation	510	57%	456	63%	291	36%	294	36%	1,551	48%	1,591	47%
TOTAL DRIFTING	896	100%	730	100%	800	100%	819	100%	3,245	100%	3,411	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. During fiscal 2017 the exploration and development works were ongoing at Florida NW, 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 Q4 from the various working faces was 14,083 tonnes (Q3 - 13,866 tonnes). Of this production 3% (Q3 - 4%) came from Tajos Cuates, 64% (Q3 - 66%) from Florida NW, and the remaining 33% (Q3 - 30%) 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.

Selected Financial Data

The following selected financial information is derived from the audited annual consolidated financial statements of the Company.

	Fiscal Years Ended May 31		
	2017 \$	2016 \$	2015 \$
Operations:			
Revenues	7,405,981	7,402,971	10,711,934
Cost of sales	(7,232,111)	(9,237,351)	(12,538,195)
Depletion and amortization	(742,596)	(1,407,394)	(2,205,162)
Provision for site restoration	(66,100)	(60,928)	(55,703)
Expenses, excluding impairment	(2,026,213)	(1,357,653)	(1,608,162)
Impairment of exploration and evaluation assets	(310,243)	(2,509,754)	-
Impairment of property, plant and equipment	(152,447)	(5,875,572)	(4,000,000)
Comprehensive loss	(3,123,729)	(13,045,681)	(9,695,288)
Basic and diluted loss per share	(0.15)	(0.68)	(0.71)
Dividends per share	Nil	Nil	Nil
Statement of Financial Position:			
Working capital (deficit)	(18,852,537)	(16,731,085)	(13,648,697)
Total assets	6,912,446	7,848,622	18,209,731
Long-term debt	Nil	Nil	Nil
Provision for site restoration	(1,413,879)	(1,152,635)	(1,091,286)

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

Three Month Period Ending	Fiscal 2017				Fiscal 2016			
	May 31/17 \$	Feb 28/17 \$	Nov 30/16 \$	Aug 31/16 \$	May 31/16 \$	Feb 29/16 \$	Nov 30/15 \$	Aug 31/15 \$
Operations:								
Revenues	1,461,926	2,037,283	1,917,630	1,989,142	1,590,575	1,554,972	1,695,215	2,562,209
Cost of sales	(1,991,896)	(1,864,647)	(1,674,084)	(1,701,484)	(1,862,851)	(2,034,139)	(2,447,929)	(2,892,432)
Depletion and amortization	(177,276)	(183,237)	(188,241)	(193,842)	(318,483)	(337,163)	(369,968)	(381,780)
Provision for site restoration	(17,409)	(15,561)	(16,360)	(16,770)	(14,352)	(15,236)	(15,645)	(15,695)
Expenses, excluding impairment	(954,070)	(396,753)	(252,271)	(423,119)	57,120	(221,394)	(587,798)	(605,581)
Impairment of exploration and evaluation assets	(63,537)	(90,800)	(60,664)	(95,242)	(2,509,754)	Nil	Nil	Nil
Adjustment to impairment of property, plant and equipment	(63,287)	23,101	(126,078)	13,817	(5,875,572)	Nil	Nil	Nil
Comprehensive loss	(1,805,549)	(490,614)	(400,068)	(427,498)	(8,933,317)	(1,052,960)	(1,726,125)	(1,333,279)
Basic and diluted loss per share	(0.09)	(0.02)	(0.02)	(0.02)	(0.46)	(0.05)	(0.09)	(0.08)
Statement of Financial Position:								
Working capital (deficit)	(18,852,537)	(17,376,999)	(17,085,885)	(16,948,092)	(16,731,085)	(16,385,952)	(15,716,745)	(14,465,008)
Total assets	6,912,446	7,202,436	7,728,625	7,619,917	7,848,622	16,230,552	16,899,255	17,594,148
Long-term debt	Nil							
Provision for site restoration	(1,413,879)	(1,260,054)	(1,243,318)	(1,169,284)	(1,152,635)	(880,927)	(1,150,096)	(1,118,165)

Results of Operations

Three Months Ended May 31, 2017 Compared to Three Months Ended May 31, 2016

During the three months ended May 31, 2017 (“Q4/2017”) the Company reported a loss of \$1,805,549 compared to a loss of \$8,933,317 for the three months ended May 31, 2016 (“Q4/2016”). The decrease in comprehensive loss was primarily attributable to:

- (i) the recognition of a \$2,509,754 impairment of exploration and evaluation assets in Q4/2016 compared to \$63,547 in Q4/2017; and
- (ii) the recognition of a \$5,875,572 impairment of property, plant and equipment in Q4/2016 compared to \$63,287 in Q4/2017.

Year Ended May 31, 2017 Compared to Year Ended May 31, 2016

During the year ended May 31, 2017 (“fiscal 2017”) the Company recorded a comprehensive loss of \$3,123,729 (\$0.14 per share) compared to a comprehensive loss of \$13,045,681 (\$0.68 per share) for the year ended May 31, 2016 (“fiscal 2016”). The decrease in comprehensive loss was attributed to the following factors:

- (i) recognition of a \$5,875,572 impairment of property, plant and equipment in fiscal 2016 compared to \$152,447 in fiscal 2017;
- (ii) recognition of a \$2,509,754 impairment of exploration and evaluation assets in fiscal 2016 compared to \$310,243 in fiscal 2017; and
- (iii) a 22% decrease in operating costs from \$9,237,351 in fiscal 2016 to \$7,232,111 in fiscal 2017.

Operations

During fiscal 2017 the Company sold 4,546 equivalent ounces of gold and realized revenues of \$1,629 per equivalent ounce as compared to the sale 5,152 equivalent ounces of gold and realized revenues of \$1,437 per equivalent ounce in fiscal 2016.

The Company’s cost of operations per equivalent ounce of gold sold in fiscal 2017 was \$1,769 as compared to \$2,078 in fiscal 2016. The decrease of \$309 per ounce reflects a \$202 decrease in direct operating cost of sales, a \$110 decrease in depletion and amortization and a \$3 increase in the provision for site restoration.

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

	2017 \$	2016 \$
Mine costs	2,642,908	3,480,128
Mill costs	1,996,610	2,682,177
Service department costs	<u>2,592,593</u>	<u>3,075,046</u>
	<u>7,232,111</u>	<u>9,237,351</u>

General and administrative expenses for fiscal 2017 and 2016 are as follows:

	2017 \$	2016 \$
Accounting and administrative	47,900	57,000
Audit and tax services	50,329	74,490
Legal	15,990	55,235
Management fees	132,000	132,000
Office	53,988	55,887
Professional fees	124,191	132,857
Regulatory fees	7,703	7,703
Salaries and benefits	219,600	226,025

	2017 \$	2016 \$
Shareholder costs	2,281	3,144
Transfer agent fees	4,729	6,237
Travel	8,791	15,829
Reversal of amounts previously recorded	<u>(25,687)</u>	<u>-</u>
	<u>641,815</u>	<u>766,407</u>

General and administrative expenses of \$641,815 were reported for fiscal 2017, compared to \$766,407 during fiscal 2016. Specific expenses of note during fiscal 2017 are as follows:

- (i) professional fees totalling \$124,191 (2016 - \$132,857) were recorded of which \$120,302 (2016 - \$120,287) were recorded to directors and officers;
- (ii) accounting and administration fees of \$47,900 (2016 - \$57,000) were paid, reflecting a decrease in the scope of accounting and administrative services performed during fiscal 2017;
- (iii) legal fees totalling \$15,990 (2016 - \$55,235) were incurred primarily for services and ongoing retainers for the Company's Mexican operations; and
- (iv) during fiscal 2017, the Company reversed \$25,687 of amounts recorded or accrued a number of years ago for which no requests for payments have been made.

Exploration and Evaluation Assets

During fiscal 2017 the Company incurred additions, net of recoveries, of \$310,243 (2016 - \$182,032) 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 fiscal 2017 the Company recorded an impairment charge of \$310,243 (2016 - \$2,509,754) 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, 2015	33,790,932	2,692,313	3,679,314	6,279,013	46,441,572
Additions	6,100	-	-	2,627	8,727
Disposal	-	-	-	(46,906)	(46,906)
Changes due to revision	<u>(14,535)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,535)</u>
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	<u>148,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,341</u>
Balance, May 31, 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, 2015	(28,937,364)	(1,047,000)	(914,045)	(2,309,216)	(33,207,625)
Depletion and amortization	(614,874)	-	(214,885)	(577,635)	(1,407,394)
Impairment	(4,230,259)	(1,645,313)	-	-	(5,875,572)
Disposal	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,279</u>	<u>31,279</u>
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	<u>(152,447)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(152,447)</u>
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>
Carrying value:					
Balance, May 31, 2016	<u>-</u>	<u>-</u>	<u>2,550,384</u>	<u>3,379,162</u>	<u>5,929,546</u>
Balance, May 31, 2017	<u>-</u>	<u>-</u>	<u>2,335,678</u>	<u>2,852,835</u>	<u>5,188,513</u>

During fiscal 2017 the Company incurred \$5,669 (2016 - \$8,727) for additions to property, plant and equipment. The Company also recorded a debit of \$148,341 (2016 - credit of \$14,535) for changes due to revisions to the provision for site restoration. During fiscal 2017 the Company recorded an impairment charge of \$152,447 (2016 - \$5,875,372). Exploration, development and production activities conducted during fiscal 2017 are described in “Property Update” in this MD&A.

Financing and Advances

During fiscal 2017 period the Company did not complete any financings.

During fiscal 2016 period the Company completed:

- (i) a non-brokered private placement financing of 1,700,000 units at a price of \$0.03 per unit for gross proceeds of \$51,000. Each unit comprised one common share and one warrant to purchase an additional share at a price of \$0.05 per share. The Company then issued a further 515,000 common shares for \$25,750 on the subsequent partial exercise of warrants; and
- (ii) a non-brokered private placement financing of 2,300,000 units at a price of \$0.035 per unit for gross proceeds of \$80,500. Each unit comprised one common share and one warrant to purchase an additional share at a price of \$0.05 per share. The warrants were subsequently exercised and the Company received \$115,000 and issued a further 2,300,000 common shares.

During fiscal 2017 the Company received advances totalling \$267,997 (2016 - \$897,375) and repaid \$nil (2016 - \$144,285).

Financial Condition / Capital Resources

During fiscal 2017 the Company recorded a loss of \$3,123,729 and, as at May 31, 2017, the Company had an accumulated deficit of \$67,803,938 and a working capital deficit of \$18,852,537. 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. See Notes 6 and 7. 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, 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 fiscal 2017 and 2016 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	132,000	132,000
Professional fees - Mr. DeMare	36,480	36,480
Professional fees - Mr. Silva	23,822	23,807
	<u>192,302</u>	<u>192,287</u>

As at May 31, 2017, \$801,546 (2016 - \$609,876) remained unpaid.

(b) *Transactions with Other Related Parties*

(i) During fiscal 2017 and 2016 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	12,000	12,000
Professional fees - Mr. Cernovitch	12,000	12,000
Professional fees - Mr. Tam	12,000	12,000
Professional fees - Mr. Magrum	12,000	12,000
Professional fees - Mr. Lim	12,000	12,000
	<u>60,000</u>	<u>60,000</u>

As at May 31, 2017, \$278,250 (2016 - \$219,000) remained unpaid.

(ii) During fiscal 2017 the Company incurred a total of \$47,900 (2016 - \$57,000) 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 May 31, 2017, \$3,695 (May 31, 2016 - \$19,706) 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 fiscal 2017 the Company repaid principal of \$nil (2016 - \$40,407). In addition the Company recognized \$115,650 (2016 - \$117,090) of interest expense. As at May 31, 2017, \$504,278 (2016 - \$383,287) of interest remained unpaid.

As at May 31, 2017, \$1,295,805 of the principal was outstanding of which \$1,285,026 are due to Mr. Luna (\$913,905) and private corporations controlled or affiliated with Mr. DeMare (\$371,121).

(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 fiscal 2017 the Company received advances totalling \$267,997 (2016 - \$897,375) and repaid principal of \$nil (2016 - \$103,878). In addition the Company recognized \$306,891 (2016 - \$305,834) of interest expense of which the Company paid \$nil (2016 - \$838). As at May 31, 2017 \$1,095,295 (2016 - \$706,084) of interest remained unpaid.

As at May 31, 2017 a total of \$3,146,820 of the principal was outstanding of which \$3,134,152 of these advances are due to Mr. Luna (\$2,822,139), Mr. Keane (\$27,000) and private corporations controlled or affiliated with Mr. DeMare (\$285,013).

- (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 fiscal 2017 the Company recorded \$184,935 (2016 - \$172,073) of interest expense of which the Company paid \$nil (2016 - \$25,000). As at May 31, 2017, \$822,098 (2016 - \$637,164) 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 fiscal 2017 the Company repaid \$nil (2016 - \$15,000) of principal and recorded \$326,790 (2016 - \$327,722) of interest. As at May 31, 2017 long-term debt totalling \$3,631,000 (2016 - \$3,631,000) and interest payable of \$1,500,943 (2016 - \$1,174,153) 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.
- (g) During fiscal 2016 Mr. Luna purchased 795,000 units of a non-brokered private placement at \$0.03 per unit and 1,150,000 units of a non-brokered private placement at \$0.035 per unit. A private corporation controlled or affiliated with Mr. DeMare purchased 795,000 units of a non-brokered private placement at \$0.03 per unit and Mr. DeMare purchased 650,000 units of a non-brokered private placement at \$0.035 per unit.

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 September 27, 2017, 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.