
ROCHESTER RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2017 AND 2016

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Rochester Resources Ltd.

We have audited the accompanying consolidated financial statements of Rochester Resources Ltd., which comprise the consolidated statements of financial position as at May 31, 2017 and May 31, 2016, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended May 31, 2017 and May 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rochester Resources Ltd. as at May 31, 2017 and May 31, 2016, and its financial performance and its cash flows for the years ended May 31, 2017 and May 31, 2016 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Rochester Resources Ltd.'s ability to continue as a going concern.

Vancouver, B.C.
September 27, 2017

"D&H Group LLP"

Chartered Professional Accountants

ROCHESTER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Notes	May 31, 2017 \$	May 31, 2016 \$
ASSETS			
Current assets			
Cash		23,692	24,854
Amounts receivable	4	617,159	731,482
GST/IVA tax receivables		592,778	636,003
Prepaid expenses		44,782	76,575
Inventories	5	<u>445,522</u>	<u>450,162</u>
Total current assets		<u>1,723,933</u>	<u>1,919,076</u>
Non-current assets			
Property, plant and equipment	7	<u>5,188,513</u>	<u>5,929,546</u>
Total non-current assets		<u>5,188,513</u>	<u>5,929,546</u>
TOTAL ASSETS		<u>6,912,446</u>	<u>7,848,622</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		6,546,740	6,252,567
Amounts payable to directors and officers	12	1,083,491	848,582
Interest payable	8, 9, 10	3,922,614	2,900,688
Advances	8	4,442,625	4,067,324
Indebtedness	10	3,631,000	3,631,000
Debentures	9	<u>950,000</u>	<u>950,000</u>
Total current liabilities		<u>20,576,470</u>	<u>18,650,161</u>
Non-current liabilities			
Provision for site restoration	14	<u>1,413,879</u>	<u>1,152,635</u>
Total non-current liabilities		<u>1,413,879</u>	<u>1,152,635</u>
TOTAL LIABILITIES		<u>21,990,349</u>	<u>19,802,796</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	11	45,254,563	45,254,563
Share-based payments reserve		7,228,173	7,228,173
Contributed surplus		243,299	243,299
Deficit		<u>(67,803,938)</u>	<u>(64,680,209)</u>
TOTAL SHAREHOLDERS' (DEFICIENCY) EQUITY		<u>(15,077,903)</u>	<u>(11,954,174)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY		<u>6,912,446</u>	<u>7,848,622</u>

Nature of Operations and Going Concern - See Note 1

Event after the Reporting Period - See Note 20

These consolidated financial statements were approved for issue by the Board of Directors on September 27, 2017 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 consolidated financial statements.

ROCHESTER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Note	Year Ended	
		May 31, 2017 \$	May 31, 2016 \$
Revenue		7,405,981	7,402,971
Cost of operations			
Cost of sales		(7,232,111)	(9,237,351)
Depletion and amortization	7	(742,596)	(1,407,394)
Provision for site restoration	14	<u>(66,100)</u>	<u>(60,928)</u>
Operating loss		<u>(634,826)</u>	<u>(3,302,702)</u>
Expenses and other			
General and administration	12	(641,815)	(766,407)
Interest and other income		-	3,664
Financing expenses	15	(988,266)	(922,719)
Gain on sale of equipment		-	27,967
Foreign exchange		(396,132)	299,842
Impairment of exploration and evaluation assets	6	(310,243)	(2,509,754)
Impairment of property, plant and equipment	7	<u>(152,447)</u>	<u>(5,875,572)</u>
		<u>(2,488,903)</u>	<u>(9,742,979)</u>
Comprehensive loss for the year		<u>(3,123,729)</u>	<u>(13,045,681)</u>
Basic and diluted loss per common share		<u>\$(0.15)</u>	<u>\$(0.68)</u>
Basic and diluted weighted average number of common shares outstanding		<u>20,460,882</u>	<u>19,096,553</u>

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

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

Year Ended May 31, 2017						
Note	Share Capital		Share-Based Payments Reserve \$	Contributed Surplus \$	Deficit \$	Total Equity (Deficiency) \$
	Number of Shares	Amount \$				
Balance at May 31, 2016	20,460,882	45,254,563	7,228,173	243,299	(64,680,209)	(11,954,174)
Comprehensive loss for the year	-	-	-	-	(3,123,729)	(3,123,729)
Balance at May 31, 2017	<u>20,460,882</u>	<u>45,254,563</u>	<u>7,228,173</u>	<u>243,299</u>	<u>(67,803,938)</u>	<u>(15,077,903)</u>

Year Ended May 31, 2016						
Note	Share Capital		Share-Based Payments Reserve \$	Contributed Surplus \$	Deficit \$	Total Equity (Deficiency) \$
	Number of Shares	Amount \$				
Balance at May 31, 2015	13,645,882	44,984,472	7,228,173	243,299	(51,634,528)	821,416
Common shares issued for cash:						
- private placement	11(b) 4,000,000	131,500	-	-	-	131,500
- exercise of warrants	11(d) 2,815,000	140,750	-	-	-	140,750
Share issue costs	-	(2,159)	-	-	-	(2,159)
Comprehensive loss for the year	-	-	-	-	(13,045,681)	(13,045,681)
Balance at May 31, 2016	<u>20,460,882</u>	<u>45,254,563</u>	<u>7,228,173</u>	<u>243,299</u>	<u>(64,680,209)</u>	<u>(11,954,174)</u>

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

ROCHESTER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Note	Year Ended	
		May 31, 2017 \$	May 31, 2016 \$
Operating activities			
Net loss for the year		(2,885,686)	(13,045,681)
Adjustments for:			
Depletion and amortization	7	742,596	1,407,394
Provision for site restoration	14	66,100	60,928
Financing expenses	15	988,266	922,719
Gain on sale of equipment		-	(27,967)
Impairment of exploration and evaluation assets	6	310,243	2,509,754
Impairment of property, plant and equipment	7	152,447	5,875,572
Foreign exchange		187,767	130,833
Changes in non-cash working capital items:			
Amounts receivable		(123,720)	184,930
GST/IVA tax receivables		43,225	(90,753)
Prepaid expenses and deposits		31,793	119,789
Inventories		4,640	519,338
Accounts payable and accrued liabilities		294,173	975,740
Amounts payable to directors and officers		234,909	(192,195)
Accrued interest payable		-	(27,017)
Net cash provided by (used in) operating activities		<u>46,753</u>	<u>(676,616)</u>
Investing activities			
Additions to property, plant and equipment		(5,669)	(188,809)
Expenditures on exploration and evaluation assets		(310,243)	(182,032)
Proceeds on sale of equipment		-	43,594
Net cash used in investing activities		<u>(315,912)</u>	<u>(327,247)</u>
Financing activities			
Issuance of common shares		-	272,250
Share issue costs		-	(2,159)
Advances received		267,997	897,375
Repayment of advances		-	(144,285)
Repayment of indebtedness		-	(15,000)
Net cash provided by financing activities		<u>267,997</u>	<u>1,008,181</u>
Net change in cash		(1,162)	4,318
Cash at beginning of year		<u>24,854</u>	<u>20,536</u>
Cash at end of year		<u>23,692</u>	<u>24,854</u>

Supplemental cash flow information - See Note 17

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

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016
(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 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.

These consolidated 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 consolidated 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.

See also Note 20.

2. Basis of Preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

Basis of Measurement

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

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016
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2. Basis of Preparation (continued)

Details of the Group

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

As at May 31, 2017 and 2016 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%

3. Summary of Significant Accounting Policies

Critical Judgments and Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- (ii) Management is required to assess the functional currency of each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiaries, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- (iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets and property, plant and equipment. The triggering events are defined in IFRS 6 and IAS 36, respectively. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Management has determined that impairment indicators were present in IFRS 6 for exploration and evaluation assets and in IAS 36 for mineral property, land and capital works in progress and, as a result, impairment tests were performed. See also Notes 6 and 7.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016
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3. Summary of Significant Accounting Policies (continued)

- (iv) Although the Company takes steps to verify title to mineral properties included in exploration and evaluation assets and property, plant and equipment in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (i) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- (ii) Depreciation, depletion and amortization expenses are allocated based on assumed asset lives and depletion/depreciation/amortization rates. Should the asset life or depletion/depreciation rate differ from the initial estimate, an adjustment would be made in the statement of operations.
- (iii) The assessment of any impairment of exploration and evaluation assets and property, plant and equipment is dependent upon estimates of the recoverable amount that takes into account factors such as reserves, economic and market conditions and the useful lives of the assets. In fiscal 2017 management determined that impairment indicators were present in respect of its exploration and evaluation assets and property, plant and equipment and, as a result, impairment tests were performed and an impairment charge of \$310,243 (2016 - \$2,509,754) was made to exploration and evaluation assets and an impairment charge of \$152,447 (2016 - \$5,875,572) was made to property, plant and equipment.
- (iv) The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. As at May 31, 2017 and 2016 the Company did not have any cash equivalents.

Amounts Receivable

Receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivable. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Summary of Significant Accounting Policies (continued)

Inventories

Finished product and ore in process is valued at the lower of cost and net realizable value. Cost is determined as the average production cost of saleable gold and silver. Materials and supplies are valued at the lower of cost and replacement cost.

Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Exploration and Evaluation Assets

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that an exploration expenditure is not expected to be recovered, it is charged to the results of operations.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization of mineral property is charged to cost of sales on a unit-of-production basis based upon proven and probable reserves or until the properties are abandoned, sold or considered to be impaired in value. Mineral properties are tested for impairment in accordance with the policy for impairment of non-financial assets as set out below. Land is not depreciated.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Summary of Significant Accounting Policies (continued)

Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful life of the assets at a rate of 5% for the buildings, 10% - 30% for office equipment, 10% for mill and mine equipment and 25% for vehicles.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant. The recoverability of the amounts shown for mineral properties is dependent on the existence of economically recoverable reserves, the capacity to obtain financing to complete the development of such reserves, the ability to obtain the necessary licenses and permits and meet the Company's obligations under various agreements and the success of future operations or dispositions.

Impairment of Assets

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning Provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a pre-tax risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

ROCHESTER RESOURCES LTD.
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3. Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Company recognizes revenue from the sale of gold and silver concentrates based on market metal prices and mineral content when title to the concentrates transfers to the customer, which generally occurs on the date the shipment is received by the customer. Revenue from the sale of the concentrates is subject to adjustment upon final settlement based on weights and assays. Subsequent to initial recognition, final settlement adjustments for mineral content are recorded in revenue when they become known to the Company.

Financial Instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). Cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. At May 31, 2017 and 2016 the Company has not classified any financial assets as available for sale.

Transaction costs associated with FVTPL are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities, amounts payable to directors and officers, interest payable, advances, debt and debentures are classified as other financial liabilities.

Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). At May 31, 2017 and 2016 the Company has not classified any financial liabilities as FVTPL.

Convertible Debentures

The Company's convertible debentures are financial liabilities consisting of a liability with an embedded conversion feature. As such, the debentures are segregated between liabilities and equity based on the residual value method, where the liability is first measured using a discount rate without the conversion feature and the remaining amount is allocated to equity. Therefore, the debenture liabilities are presented at less than their eventual maturity values. The liability and equity components are further reduced for issuance costs initially incurred. The discount of the liability component as compared to maturity value is accreted by the "effective interest" method over the debenture term and expensed accordingly. As debentures are converted to shares, an appropriate portion of the liability and equity components are transferred to share capital.

Share Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Equity Financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

Share-Based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Current and Deferred Income Taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of comprehensive income (loss), except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the income tax is also recognized in other comprehensive income or directly in equity, respectively.

Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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3. Summary of Significant Accounting Policies (continued)

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing income available (loss attributable) to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted income (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings. The Company computes the dilutive impact of common shares assuming the proceeds received from the pro-rata exercise of in the money share options and warrants are used to purchase common shares at average prices.

Foreign Currency Translation

Functional and Presentation Currency

The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. Each subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive income (loss) presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive income (loss).

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive income (loss).

Accounting Standards and Interpretations Issued but Not Yet Effective

As at the date of these consolidated financial statements, the following standards have not been applied in these financial statements:

- (i) The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted.

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3. Summary of Significant Accounting Policies (continued)

- (ii) IFRS 15, *Revenue from Contracts with Customers*, outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.
- (iii) IFRS 16, *Leases*, 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. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019.

Management is currently assessing the impact of these new standards on the Company's accounting policies and consolidated financial statement presentation.

4. Amounts Receivable

	May 31, 2017 \$	May 31, 2016 \$
Production receivable	605,914	708,181
Employee advances	<u>11,245</u>	<u>23,301</u>
	<u>617,159</u>	<u>731,482</u>

5. Inventories

	May 31, 2017 \$	May 31, 2016 \$
Ore in process	116,215	71,767
Mine stores, supplies and other	<u>329,307</u>	<u>378,395</u>
	<u>445,522</u>	<u>450,162</u>

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6. Exploration and Evaluation Assets

	Santa Fe Property \$
Balance at May 31, 2015	<u>2,327,722</u>
Exploration costs:	
Community support	3,861
Exploration site	990
Recovery	<u>(28,406)</u>
	<u>(23,555)</u>
Acquisition costs:	
Mineral claims	84,197
Option payments	160,167
Recovery	<u>(38,777)</u>
	<u>205,587</u>
Impairment	<u>(2,509,754)</u>
Balance at May 31, 2016	<u>-</u>
Exploration costs:	
Community support	36,973
Exploration site	<u>5,301</u>
	<u>42,274</u>
Acquisition costs:	
Mineral claims	108,782
Option payments	<u>159,187</u>
	<u>267,969</u>
Impairment	<u>(310,243)</u>
Balance at May 31, 2017	<u>-</u>

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 with legal proceedings having commenced in fiscal 2017. The outcome of the legal proceedings 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. All amounts have been paid for fiscal 2017. Two monthly payments from prior years remain outstanding.

In prior years and the current year the Company has only made partial concession payments on the Santa Fe Property. As at May 31, 2017 \$74,483 (2016 - \$143,911) of concessions payments remained unpaid and is included in accounts payable and accrued 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 of \$2,509,754 to reduce the carrying value to \$nil. A further impairment charge of \$310,243 was recorded during fiscal 2017 to reflect management's continued assessment of a \$nil carrying value.

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7. 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>

(a) 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. In prior years and the current year the Company has only made partial concession payments on these concessions. As at May 31, 2017, \$1,006,649 (2016 - \$544,613) of concessions payments remained unpaid and is included in accounts payable and accrued liabilities.

(b) During fiscal 2015 management assessed whether there were any indications of impairment of the Company's 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.

When indications of impairment are determined to be present, IAS 36 requires the Company to estimate the recoverable amount of the Company's property, plant and equipment. The Company does not have sufficient verifiable information to prepare adequately detailed and meaningful calculations of fair value less costs of disposal or value in use. Therefore, the Company applied a fair value-based method that takes 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. Due to the change in the estimate of the provision for site restoration, during fiscal 2017 the Company recorded an impairment charge of \$152,447.

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8. Advances

	9% Advances \$	12% Advances \$	Total \$
Principal			
Balance, May 31, 2015	1,292,614	1,926,446	3,219,060
Advances received	-	897,375	897,375
Repayment of principal	(40,407)	(103,878)	(144,285)
Foreign exchange adjustment	27,306	67,868	95,174
Balance, May 31, 2016	1,279,513	2,787,811	4,067,324
Advances received	-	267,997	267,997
Foreign exchange adjustment	16,292	91,012	107,304
Balance, May 31, 2017	1,295,805	3,146,820	4,442,625
Interest			
Balance, May 31, 2015	263,264	384,496	647,760
Interest	117,090	305,834	422,924
Repayment of interest	(1,179)	(838)	(2,017)
Foreign exchange adjustment	4,112	16,592	20,704
Balance, May 31, 2016	383,287	706,084	1,089,371
Interest	115,650	360,891	476,541
Foreign exchange adjustment	5,341	28,320	33,661
Balance, May 31, 2017	504,278	1,095,295	1,599,573

- (a) The 9% Advances bear interest at a rate of 9% per annum and have no fixed terms of repayment. As at May 31, 2017 \$1,285,026 (2016 - \$1,271,529) of the principal and \$495,596 (2016 - \$375,804) of the related accrued interest are due to the President 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 May 31, 2017 \$3,134,152 (2016 - \$2,758,427) of the principal and \$1,082,055 (2016 - \$694,711) of the related accrued interest are due to the President of the Company, directors of the Company and private corporations controlled by or affiliated with the Chairman of the Company.

9. Debentures

On May 31, 2013 the Company completed a \$950,000 secured convertible 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. Directors of the Company hold \$677,000 of the Debentures.

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. During fiscal 2017 the Company recognized \$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 and is included in interest payable.

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10. Indebtedness

	May 31, 2017 \$	May 31, 2016 \$
Amount due to E-Energy Ventures Inc. ("E-Energy")	1,815,500	1,815,500
Amount due to United Coal Holdings Limited ("United Coal")	<u>1,815,500</u>	<u>1,815,500</u>
	<u>3,631,000</u>	<u>3,631,000</u>

The amounts due to E-Energy and 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 recognized \$326,790 (2016 - \$327,722) of interest expense. As at May 31, 2017, \$1,500,943 (2016 - \$1,174,153) of interest remained unpaid and is included in interest payable. Neither E-Energy nor United Coal have demanded payment of the amounts in arrears.

The Company, E-Energy and United Coal are related by way of a common director.

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) *Financings*

During fiscal 2017 the Company did not complete any financings.

During fiscal 2016 the Company completed private placement financings as follows:

- (i) a non-brokered private placement financing of 2,300,000 units at a price of \$0.035 per unit for \$80,500. Each unit comprised one common share of the Company and one share purchase warrant exercisable to acquire one additional common share of the Company at a price of \$0.05 per share on or before July 17, 2018. The Company paid \$1,154 for filing fees incurred on this private placement classified as share issue costs.

The President and the Chairman of the Company purchased 1,150,000 units and 650,000 units, respectively, of the private placement; and

- (ii) a non-brokered private placement financing of 1,700,000 units at a price of \$0.03 per unit for \$51,000. Each unit comprised one common share of the Company and one share purchase warrant exercisable to acquire one additional common share of the Company at a price of \$0.05 per share on or before September 29, 2018. The Company paid \$1,005 for filing fees incurred on this private placement classified as share issue costs.

The President and a private corporation controlled or affiliated with the Chairman of the Company purchased 795,000 units and 515,000 units, respectively, of the private placement.

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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 May 31, 2017 and 2016 and the changes for the years ended on those dates is as follows:

	2017		2016	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	1,185,000	0.05	-	-
Issued	-	-	4,000,000	0.05
Exercised	-	-	(2,815,000)	0.05
Balance, end of year	<u>1,185,000</u>	0.05	<u>1,185,000</u>	0.05

As at May 31, 2017, 1,185,000 warrants remained outstanding and exercisable at an exercise price of \$0.05 expiring September 29, 2018.

(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.

No share options were granted or vested during fiscal 2017 or 2016.

A summary of the Company's share options at May 31, 2017 and 2016 and the changes for the years ended on those dates, is as follows:

	2017		2016	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	-	-	397,500	1.00
Expired	-	-	(397,500)	1.00
Balance, end of year	<u>-</u>	-	<u>-</u>	-

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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*

During fiscal 2017 and 2016 the following amounts were incurred with respect to the Chairman, President and Chief Financial Officer of the Company:

	2017 \$	2016 \$
Management fees	132,000	132,000
Professional fees	<u>60,302</u>	<u>60,287</u>
	<u>192,302</u>	<u>192,287</u>

As at May 31, 2017, \$801,546 (2016 - \$609,876) remained unpaid and is included in accounts payable and accrued liabilities.

(b) *Transactions with Other Related Parties*

(i) During fiscal 2017 and 2016 the following amounts were incurred with respect to the non-executive directors and an officer of the Company:

	2017 \$	2016 \$
Consulting fees	<u>60,000</u>	<u>60,000</u>

As at May 31, 2017, \$278,250 (2016 - \$219,000) remained unpaid and is included in accounts payable and accrued liabilities.

(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 the Chairman of the Company, for accounting and administration services provided by Chase personnel, excluding the Chairman. As at May 31, 2017, \$3,695 (2016 - \$19,706) remained unpaid and is included in accounts payable and accrued liabilities.

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

13. Income Taxes

Deferred income tax assets and liabilities of the Company as at May 31, 2017 and 2016 are as follows:

	2017 \$	2016 \$
Deferred income tax assets		
Losses carried forward	6,371,800	6,234,300
Share issue costs	<u>300</u>	<u>1,100</u>
	6,372,100	6,235,400
Valuation allowance	<u>(6,372,100)</u>	<u>(6,235,400)</u>
Net deferred income tax asset	<u>-</u>	<u>-</u>

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13. Income Taxes (continued)

The recovery of income taxes shown in the consolidated statements of income (loss) and comprehensive income (loss) differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2017 \$	2016 \$
Income tax rate reconciliation		
Combined federal and provincial income tax rate	26%	26%
Expected income tax expense (recovery)	(812,200)	(3,391,900)
Foreign income tax rate differences	(49,800)	(757,700)
Other	102,300	(78,700)
Unrecognized benefit of income tax losses	759,700	4,228,300
Deferred income tax expense	-	-

As at May 31, 2017 the Company has non-capital losses and accumulated pools of approximately \$12,268,900 (2016 - \$10,918,800) for Canadian income tax purposes to offset against future income, expiring from 2027 through 2038. The Company also has accumulated non-capital losses of approximately \$10,606,100 (146,319,500 Mexican Pesos) for Mexican tax purposes, expiring from 2018 through 2028.

Deferred income tax benefits which may arise as a result of these losses have not been recognized in these consolidated financial statements as their realization is unlikely.

14. Provision for Site Restoration

	2017 \$	2016 \$
Balance, beginning of year	1,152,635	1,091,286
Accretion	66,100	60,928
Revision of estimates	148,341	33,739
Foreign exchange	46,803	(33,318)
Balance, end of year	1,413,879	1,152,635

The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligation is US \$1,100,000 which, as at May 31, 2017, has been discounted using a credit adjusted pre-tax risk free rate of 7.04% (2016 - 5.91%) and an inflation rate of 6.16% (2016 - 2.60%). 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 through to fiscal 2023.

15. Financing Expenses

Financing expenses for fiscal 2017 and 2016 are as follows:

	Note	2017 \$	2016 \$
Interest expense			
Advances	8	476,541	422,924
Debentures	9	184,935	172,073
Indebtedness	10	326,790	327,722
		988,266	922,719

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16. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following five categories: fair value through profit or loss (“FVTPL”); held-to-maturity investments; loans and receivables; available-for-sale; and other financial liabilities. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instruments	Category	May 31, 2017 \$	May 31, 2016 \$
Cash	FVTPL	23,692	24,854
Amounts receivable	Loans and receivables	855,202	731,482
Accounts payable and accrued liabilities	Other financial liabilities	(6,546,740)	(6,252,567)
Amounts payable to directors and officers	Other financial liabilities	(1,083,491)	(848,582)
Interest payable	Other financial liabilities	(3,922,614)	(2,900,688)
Advances	Other financial liabilities	(4,442,625)	(4,067,324)
Indebtedness	Other financial liabilities	(3,631,000)	(3,631,000)
Debentures	Other financial liabilities	(950,000)	(950,000)

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 are 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.

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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16. Financial Instruments and Risk Management (continued)

	Contractual Maturity Analysis at May 31, 2017				
	Carrying Amount \$	Contractual Cash Flows \$	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$
Cash	23,692	23,692	23,692	-	-
Amounts receivable	855,202	855,202	855,202	-	-
Accounts payable and accrued liabilities	(6,546,740)	(6,546,740)	(6,546,740)	-	-
Amounts payable to directors and officers	(1,083,491)	(1,083,491)	(1,083,491)	-	-
Interest payable	(3,922,614)	(3,922,614)	(3,922,614)	-	-
Advances	(4,442,625)	(4,442,625)	(4,442,625)	-	-
Indebtedness	(3,631,000)	(3,631,000)	(3,631,000)	-	-
Debentures	(950,000)	(950,000)	(950,000)	-	-

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.

During fiscal 2017 and 2016 the Company did 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 May 31, 2017, 1 Canadian Dollar was equal to 13.80 Mexican Pesos and 0.74 US Dollar.

Balances are as follows:

	Mexican Pesos	United States Dollars	CDN \$ Equivalent
Cash	48,032	12,787	20,761
Amounts receivable	103,408	565,229	771,317
IVA tax receivable	8,101,718	-	587,081
Inventories	6,097,408	-	445,522
Accounts payable and accrued liabilities	(77,181,057)	(690,507)	(6,525,948)
Interest payable	-	(945,527)	(1,277,739)
Advances	-	(2,647,648)	(3,577,902)
	<u>(62,830,491)</u>	<u>(3,705,666)</u>	<u>(9,556,908)</u>

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16. Financial Instruments and Risk Management (continued)

Based on the net exposures as of May 31, 2017 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 loss being approximately \$742,500 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.

17. Supplemental Cash Flow

During fiscal 2017 and 2016 non-cash activities were conducted by the Company as follows:

	2017 \$	2016 \$
Operating activities		
Provision for site restoration	148,341	(14,535)
Accounts payable and accrued liabilities	<u>-</u>	<u>(180,082)</u>
	<u>148,341</u>	<u>(194,617)</u>
Investing activity		
Changes in property, plant and equipment	<u>(148,341)</u>	<u>194,617</u>

18. 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.

	<u>May 31, 2017</u>		
	Non-current Assets \$	Revenues \$	Net Loss \$
Mineral operations (Mexico)	5,188,513	7,636,417	(1,534,416)
Corporate (Canada)	<u>-</u>	<u>-</u>	<u>(1,351,270)</u>
	<u>5,188,513</u>	<u>7,636,417</u>	<u>(2,885,686)</u>
	<u>May 31, 2016</u>		
	Non-current Assets \$	Revenues \$	Net Loss \$
Mineral operations (Mexico)	5,929,546	7,402,971	(11,697,028)
Corporate (Canada)	<u>-</u>	<u>-</u>	<u>(1,348,653)</u>
	<u>5,929,546</u>	<u>7,402,971</u>	<u>(13,045,681)</u>

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19. Contingent Liabilities

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.

20. Event after the Reporting Period

Subsequent to May 31, 2017 the Company received additional advances from the President of the Company and a private corporation controlled or affiliated with the Chairman of the Company totalling \$200,326 of which the Company has repaid principal of \$22,271. The advances bear interest at a rate of 12% per annum and have no fixed terms of repayments.