

# **ROCHESTER RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED AUGUST 31, 2018**

This discussion and analysis of financial position and results of operation is prepared as at October 26, 2018 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and the accompanying notes for the three months ended August 31, 2018 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](http://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. During the three months ended August 31, 2018 the Company recorded a net loss of \$884,213 and, as at August 31, 2018, the Company had an accumulated deficit of \$72,472,984 and a working capital deficit of \$19,601,021. The Company has been unable to make all concession payments when due and, as at August 31, 2018, has unpaid concession payments of \$1,726,007 (included in accounts payable and accrued liabilities). The Company's ability to continue as a going concern is dependent on the ability of the Company to improve its operations and generate positive operating cash flow on a consistent basis, the continued financial support of its directors, shareholders and creditors and from the sale of additional common shares or other equity or debt instruments. See "Financial Condition/Capital Resources".

The Company is a reporting issuer in British Columbia, Alberta and Saskatchewan and trades on the TSX Venture Exchange ("TSXV") under the symbol "RCT", the Frankfurt Stock Exchange Open Market under the trading Symbol "R5IA" and on the Pink OTC Markets under the symbol "RCTFF". The Company's head office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

## Property Update

The Company holds a 100% interest in Mina Real which holds a 100% interest in the Mina Real Property, a gold and silver property located in the state of Nayarit, Mexico, east of the state capital city of Tepic. Mina Real also owns 70% of Compania Minera Santa Fe S.A. de C.V. (“Compania Minera”) which holds a 100% interest in the Santa Fe gold and silver property located immediately east of the Mina Real Property. Through Mina Real the Company has an agreement to acquire a 70% interest in one concession (the “Santa Fe Property”) located near the Mina Real Property. Under the terms of the agreement the Company agreed to implement a program of exploration to determine if the Santa Fe Property can be economically exploited. In addition, if the exploration work is successful, the Company agreed to provide the necessary capital to construct a processing plant capable of processing a minimum of 200 tonnes per day. The Company has conducted limited exploration on the property and is unable to advance the development of the Santa Fe concessions until it resolves its liquidity problems and secures additional financing. The Company is required to pay an ongoing monthly fee of US \$10,000 to the 30% concession owners of the Santa Fe Property. All amounts for fiscal 2018 have been paid. 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](http://www.sedar.com). The following commentary on the properties is from this technical report.

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

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

At present there is no Canadian Institute of Mining, Metallurgy and Petroleum (“CIM”) or 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 continue to be 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 value in use 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 the Company recorded a further impairment charge of \$5,875,572 in fiscal 2016 and \$152,447 in fiscal 2017. In fiscal 2018 the Company recorded an impairment charge of \$3,170,551 to reduce the carrying value, after consideration of the offsetting provision for site restoration, to \$nil.

## Exploration and Evaluation Assets

During fiscal 2016 the Company accessed 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 of exploration and evaluation assets to \$nil. All subsequent costs incurred were initially capitalized and then impaired to \$nil, resulting in impairment charges of \$310,243 in fiscal 2017, \$236,198 in fiscal 2018 and \$67,001 during the three months ended August 31, 2018.

## 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 three months ended August 31, 2018 ("Q1/2019"), the three months ended May 31, 2018 (Q4/2018) and three months ended August 31, 2017 ("Q1/2018") are provided in the table below:

RESULTS	Q1/2019 (Jun 1, 2018 - Aug 31, 2018)	Q4/2018 (Mar 1, 2018 - May 31, 2018)	Q1/2018 (Jun 1, 2017 - Aug 31, 2017)
Tonnes Processed	13,607 tonnes	13,624 tonnes	12,741 tonnes
Gold Grade	2.48 g/t	2.51 g/t	2.47 g/t
Silver Grade	142.36 g/t	144.67 g/t	161.02 g/t
Gold Recovery	95.20 %	95.32 %	95.23 %
Silver Recovery	47.74 %	51.19 %	53.51 %
Gold Produced	1,035 ounces	1,047 ounces	964 ounces
Gold Sold	1,019.41 ounces	1,030.81 ounces	949.33 ounces
Silver Produced	29,730 ounces	32,440 ounces	35,293 ounces
Silver Sold	28,838.20 ounces	31,467.15 ounces	34,234.17 ounces
Gold Equivalent Produced	1,413 ounces	1,452 ounces	1,430 ounces
Developed Meters	632 meters	796 meters	534 meters
Samples Taken	2,979 samples	4,542 samples	4,376 samples
Diamond Drilling Meters	0 meters	0 meters	0 meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers

### Q1/2019 Compared to Q4/2018

Production of gold during Q1/2019 was 1.1% lower than production during Q4/2018 (1,035 ounces compared to 1,047 ounces). Silver production during Q1/2019 was 8.35% lower than Q4/2018 (29,730 ounces compared to 32,440 ounces). The gold equivalent production in Q1/2019 was 2.68% lower than Q4/2018 (1,413 ounces compared to 1,452 ounces). Total tonnes processed in Q1/2019 were slightly lower than the total tonnes processed in Q4/2018 (13,607 tonnes as compared to 13,624 tonnes). In Q1/2019 gold recoveries were slightly lower than Q4/2018 (95.20% compared to 95.32%) and silver recoveries were 3.45% lower (47.74% compared to 51.19%).

The decreases in production for Q1/2019 were due to the combination of less tonnes processed, lower grades and lower recoveries. These decreases were due to the rainy season that did not allow operations to proceed in some areas of the San Francisco project and generated instability areas in the Florida NW project.

### Q1/2019 compared to Q1/2018

During Q1/2019 the Company produced 1,035 ounces of gold and 29,730 ounces of silver compared to 964 ounces of gold and 35,293 ounces of silver during Q1/2018. The gold equivalent produced in Q1/2019 was 1,413 ounces as compared to 1,430 ounces in Q1/2018. Total tonnes processed in Q1/2019 were 13,607 as compared to 12,741 in Q1/2018 reflecting a wetter rainy season in Q1/2018 that did not allow operations in the Macedo area.

Although tonnes processed were higher during Q1/2019, the silver grades were significantly lower at 142.36 g/t for Q1/2019 compared to 161.02 g/t for Q1/2018. Gold grades remained relatively the same at 2.48 g/t for Q1/2019 compared to 2.37 g/t for Q1/2018. In addition silver recoveries were lower at 47.74% for Q1/2019 compared to

53.51% during Q1/2018 and gold recoveries were slightly lower at 95.20% for Q1/2019 compared to 95.23% for Q1/2018.

### ***Drifting***

The allocation for drifting amongst areas during each of Q1/2019, Q4/2018 and Q1/2018 is as follows:

Area	Q1/2019 (meters)	%	Q4/2018 (meters)	%	Q1/2018 (meters)	%
Tajos Cuates	7	0%	0	0%	0	0%
Florida NW	152	24%	97	12%	33	6%
Florida SE Project	141	23%	314	40%	222	42%
San Francisco Project	332	53%	385	48%	279	52%
<b>TOTAL DRIFTING</b>	<b>632</b>	<b>100%</b>	<b>796</b>	<b>100%</b>	<b>534</b>	<b>100%</b>

Distribution of the development during each of Q1/2019, Q4/2018 and Q1/2018, by activity, is as follows:

Type of Drifting	Q1/2019 (meters)	%	Q4/2018 (meters)	%	Q1/2018 (meters)	%
Exploration	113	18%	317	40%	206	38%
Stope Preparation	519	82%	479	60%	328	62%
<b>TOTAL DRIFTING</b>	<b>632</b>	<b>100%</b>	<b>796</b>	<b>100%</b>	<b>534</b>	<b>100%</b>

The primary reason for the decrease in drifting during Q1/2019 compared to Q3/2018 was due to the continuing unstable ground conditions in the Florida NW area.

### ***Exploration and Development Activities***

The Company has ongoing exploration and development programs at the Mina Real Project to identify additional mineralized material to provide mill feed for operations. Due to the inclement weather and unstable ground conditions during Q1/2019 the exploration and development work is slow. The Company continues to work to advance development of working faces however its efforts are 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 volume during Q1/2019 from the various working faces was 12,335 wet tonnes (Q4/2018 - 13,692 wet tonnes). Of this production 67% (Q4/2018 - 1%) came from Florida NW, 4% (Q4/2018 - 5%) from Tajos Cuates and the remaining 29% (Q4/2018 - 37%) from the San Francisco Project.

### ***Mill Area***

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

## Selected Financial Data

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

Three Month Period Ending	Fiscal 2019	Fiscal 2018				Fiscal 2017			
	Aug 31/18 \$	May 31/18 \$	Feb 28/18 \$	Nov 30/17 \$	Aug 31/17 \$	May 31/17 \$	Feb 28/17 \$	Nov 30/16 \$	
<b>Operations:</b>									
Revenues	2,168,312	2,312,690	2,172,788	2,007,023	2,151,602	1,461,926	2,037,283	1,917,630	
Cost of sales	(2,141,215)	(1,960,415)	(1,659,910)	(1,769,115)	(1,881,477)	(1,991,896)	(1,864,647)	(1,674,084)	
Depletion and amortization	(74,846)	(163,400)	(165,840)	(150,250)	(169,491)	(177,276)	(183,237)	(188,241)	
Provision for site restoration	(20,008)	(28,252)	(17,833)	(23,462)	(24,203)	(17,409)	(15,561)	(16,360)	
Income (expenses), excluding impairment	(749,455)	(406,365)	(207,682)	(577,581)	183,089	(954,070)	(396,753)	(252,271)	
Impairment of exploration and evaluation assets	(67,001)	(27,161)	(89,914)	(54,684)	(64,439)	(63,537)	(90,800)	(60,664)	
Adjustment to impairment of property, plant and equipment	Nil	(3,170,551)	Nil	Nil	Nil	(63,287)	23,101	(126,078)	
Comprehensive income (loss)	(884,213)	(3,443,454)	31,609	(568,069)	195,081	(1,805,549)	(490,614)	(400,068)	
Basic and diluted income (loss) per share	(0.04)	(0.16)	0.00	(0.03)	0.01	(0.09)	(0.02)	(0.02)	
<b>Statement of Financial Position:</b>									
Working capital (deficit)	(19,601,021)	(18,843,236)	(18,864,278)	(18,878,222)	(18,536,623)	(18,852,537)	(17,376,999)	(17,085,885)	
Total assets	3,234,361	3,421,720	6,984,802	6,726,366	7,037,519	6,912,446	7,202,436	7,728,625	
Provision for site restoration	(1,066,710)	(1,014,530)	(1,259,487)	(1,385,126)	(1,365,221)	(1,413,879)	(1,260,054)	(1,243,318)	

## Results of Operations

### *Three Months Ended August 31, 2018 Compared to Three Months Ended May 31, 2018*

During the three months ended August 31, 2018 (“Q1/2019”) the Company reported a loss of \$884,213 compared to a loss of \$3,443,454 for the three months ended May 31, 2018 (“Q4/2018”), a decrease in loss of \$2,559,241. The fluctuation was primarily attributable to recognition of an impairment of property, plant and equipment of \$3,170,551 in Q4/2018 compared to \$nil in Q1/2019.

The increase in impairment was partially offset by the recognition of a foreign exchange loss of \$320,964 in Q1/2019 compared to a foreign exchange gain of \$27,047 in Q4/2018 due to the fluctuation of the Canadian dollar and Mexican peso exchange rates.

### *Three Months Ended August 31, 2018 Compared to Three Months Ended August 31, 2017*

During the three months ended August 31, 2018 (the “2018 period”) the Company recorded comprehensive loss of \$884,213 compared to comprehensive income of \$195,081 for the three months ended August 31, 2017 (the “2017 period”). The fluctuation was primarily attributed to the recognition of a foreign exchange gain of \$602,815 in 2017 period compared to a foreign exchange loss of \$320,964 in 2017 period due to the fluctuation of the US dollar and Mexican peso exchange rates.

### *Production*

During the 2018 period the Company sold 1,394 equivalent ounces of gold and realized revenues of \$1,555 per equivalent ounce as compared to the sale of 1,401 equivalent ounces of gold and realized revenues of \$1,536 per equivalent ounce during the 2017 period.

The Company’s cost of operations per equivalent ounce of gold sold during the 2018 period was \$1,604 as compared to \$1,481 during the 2017 period. The increase of \$123 per ounce reflects a \$193 increase in direct operating cost of sales, a \$67 decrease in depletion and amortization and a \$3 decrease in the provision for site restoration.

Direct operating cost of sales for the 2018 period and 2017 period comprise the following:

	2018 \$	2017 \$
Mine costs	691,176	647,370
Mill costs	667,716	513,441
Service department costs	782,323	720,666
	<u>2,141,215</u>	<u>1,881,477</u>

General and administrative expenses for the 2018 period and 2017 period are as follows:

	2018 \$	2017 \$
Accounting and administrative	10,500	10,500
Audit and tax services	-	9,000
Legal	3,776	3,173
Management fees	33,000	33,000
Office	19,239	13,047
Professional fees	30,015	29,909
Regulatory fees	1,300	1,300
Salaries and benefits	62,669	62,005
Shareholder costs	-	-
Transfer agent fees	579	568
Travel	3,546	3,289
	<u>164,624</u>	<u>165,791</u>

General and administrative expenses of \$164,624 were reported for the 2018 period, compared to \$165,791 during the 2017 period. No significant variances occurred other than the \$9,000 recorded for interim audit services in the 2017 period solely due to the timing of billings for the audit of the Company's year-end financial statements.

#### *Exploration and Evaluation Assets*

During the 2018 period the Company incurred additions, net of recoveries, of \$67,001 (2017 - \$64,439) on exploration and evaluation assets for the Santa Fe property, mainly for payments of ongoing monthly fees of US \$10,000 to the 30% concession owners and annual mineral concession payments. The Company recorded an offsetting impairment charge of \$67,001 (fiscal 2018 - \$236,198) to reflect management's determination to fully impair the Santa Fe property in fiscal 2016.

#### *Property, Plant and Equipment*

<b>Cost:</b>	<b>Mineral Properties \$</b>	<b>Land \$</b>	<b>Buildings \$</b>	<b>Mill and Mine Equipment \$</b>	<b>Total \$</b>
Balance, May 31, 2017	33,934,944	2,692,313	3,679,314	6,236,297	46,542,868
Additions	-	-	-	5,726	5,726
Changes due to revision	-	-	(162,080)	(198,097)	(360,177)
	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,517,234</u>	<u>6,043,926</u>	<u>46,188,417</u>
Balance, May 31, 2018	33,934,944	2,692,313	3,517,234	6,043,926	46,188,417
Additions	-	-	-	598	598
	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,517,234</u>	<u>6,044,524</u>	<u>46,189,015</u>
<b>Accumulated depletion, amortization and impairment:</b>					
Balance, May 31, 2017	(33,934,944)	(2,692,313)	(1,343,636)	(3,383,462)	(41,354,355)
Depletion and amortization	-	-	(214,699)	(434,282)	(648,981)
Impairment	-	-	(1,426,748)	(1,743,803)	(3,170,551)
	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(2,985,083)</u>	<u>(5,561,547)</u>	<u>(45,173,887)</u>
Balance, May 31, 2018	(33,934,944)	(2,692,313)	(2,985,083)	(5,561,547)	(45,173,887)
Depletion and amortization	-	-	(26,608)	(47,678)	(74,286)
	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(3,011,691)</u>	<u>(5,609,225)</u>	<u>(45,248,173)</u>

	Mineral Properties \$	Land \$	Buildings \$	Mill and Mine Equipment \$	Total \$
<b>Carrying value:</b>					
Balance, May 31, 2017	-	-	532,151	482,379	1,014,530
Balance, May 31, 2018	-	-	505,543	434,739	940,282

Exploration, development and production activities conducted during the 2018 period are described in “Property Update” in this MD&A.

### **Financing / Advances**

During the 2018 and 2017 periods the Company did not conduct any financings and is reliant on advances from its senior officers for working capital. During the 2017 period the Company received advances totalling \$200,326 and repaid \$22,261. The Company did not receive any advances during the 2018 period.

### **Financial Condition / Capital Resources**

During the 2018 the Company recorded a net loss of \$884,213 and, as at August 31, 2018, the Company had an accumulated deficit of \$72,472,984 and a working capital deficit of \$19,601,021. The Company’s Mina Real operations continue to be affected by low grades of mineralized material and operational challenges. Although the Company improved its results in fiscal 2018 it continues to have negative cash flows from operations and has been unable to make all concessions payments when due in the current and prior years for the Mina Real, San Francisco and Santa Fe properties. The Company’s ongoing operations are dependent on extracting ore from the Mina Real and San Francisco properties and, therefore, on the Company’s ability to preserve its interest in the underlying mineral property interests. In the immediate term, the Company’s ability to continue as a going concern is dependent upon its ability to improve its operations to generate positive operating cash flow from the Mina Real and Santa Fe properties on a consistent basis, to raise additional capital to fund its ongoing business operations and exploration projects and repay indebtedness as they come due. Additional capital may be sought from existing shareholders and creditors and from the sale of additional common shares or other equity or debt instruments. There is no assurance such additional capital will be available to the Company on acceptable terms or at all. In the longer term the discovery of economically recoverable reserves, the achievement of profitable operations and the ability of the Company to obtain financing to support its ongoing exploration programs and mining operations. Whether the Company can generate positive cash flow on a consistent basis and, ultimately, achieve profitability is uncertain. These uncertainties cast significant doubt upon the Company’s ability to continue as a going concern.

### **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 other than the adoption of IFRS 9 - *Financial Instruments* (“IFRS 9”).

Effective June 1, 2018, the Company adopted IFRS 9 using the modified retrospective approach. IFRS 9 did not impact the Company’s classification and measurement of financial assets and liabilities. The standard did not have an impact on the carrying amounts of the Company’s financial instruments at the transition date. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company’s business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

A detailed summary of the Company's other significant accounting policies and accounting standards and interpretations issued but not yet effective, is included in Note 3 to the May 31, 2018 audited annual consolidated financial statements.

### Related Party Disclosures

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

(a) *Transactions with Key Management Personnel*

On March 14, 2018, Mr. Nick DeMare was appointed as the CEO of the Company replacing Mr. Eduardo Luna. Mr. Luna assumed Mr. DeMare's previous role as Chairman. During the 2018 and 2017 periods the following amounts were incurred with respect to Messrs. Luna and DeMare and the Company's Chief Financial Officer, Mr. Jose Manuel Silva:

	2018 \$	2017 \$
Management fees - Mr. Luna	33,000	33,000
Professional fees - Mr. DeMare	9,120	9,120
Professional fees - Mr. Silva	5,895	5,789
	<u>48,015</u>	<u>47,909</u>

As at August 31, 2018 \$1,037,300 (May 31, 2018 - \$989,402) remained unpaid.

(b) *Transactions with Other Related Parties*

(i) During the 2018 and 2017 periods the following amounts were incurred with respect to the Company's non-executive directors (Messrs. Joseph Keane, Marc Cernovitch, Simon Tam and Michael Magrum) and the Company's Corporate Secretary (Mr. Harvey Lim):

	2018 \$	2017 \$
Professional fees - Mr. Keane	3,000	3,000
Professional fees - Mr. Cernovitch	3,000	3,000
Professional fees - Mr. Tam	3,000	3,000
Professional fees - Mr. Magrum	3,000	3,000
Professional fees - Mr. Lim	3,000	3,000
	<u>15,000</u>	<u>15,000</u>

As at August 31, 2018, \$353,250 (May 31, 2018 - \$338,250) remained unpaid.

(ii) During the 2018 period the Company incurred a total of \$10,500 (2017 - \$10,500) 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 August 31, 2018 \$20,780 (May 31, 2018 - \$37,092) remained unpaid.

(c) The Company has received ongoing advances which bear interest at a rate of 9% per annum and have no fixed terms of repayment. During the 2018 period the Company recognized \$28,283 (2017 - \$28,526) of interest expense. As at August 31, 2018 \$ 629,908 (May 31, 2018 - \$599,803) of interest remained unpaid.

As at August 31, 2018, \$1,245,062 of the principal was outstanding of which \$899,304 is due to Mr. Luna and \$345,758 is due to private corporations controlled or affiliated with Mr. DeMare.

- (d) The Company has also received ongoing advances which bear interest at a rate of 12% per annum and have no fixed terms of repayment. During the 2018 period the Company recognized \$107,751 (2017 - \$95,150) of interest expense. As at August 31, 2018 \$ 1,577,364 (May 31, 2018 - \$1,458,207) of interest remained unpaid.

As at August 31, 2018 a total of \$3,550,786 of principal was outstanding of which a total of \$3,538,535 are due to Mr. Luna (\$3,182,023), Mr. Keane (\$26,110) and private corporations controlled or affiliated with Mr. DeMare (\$330,402).

- (e) During fiscal 2013 the Company completed a secured debenture financing of \$950,000 of which a total of \$677,000 of the debentures were issued to Mr. Luna (\$577,000), Mr. Magrum (\$50,000) and Mr. Keane (\$50,000). On December 31, 2014 the debentures matured and are considered to be due and payable, with interest accruing until repayment. The debenture holders have not demanded repayment of principal or accrued interest. During the 2018 period the Company repaid \$13,899 (2017 - \$nil) and recorded \$45,465 (2017 - \$47,890) of interest expense. As at August 31, 2018 \$1,022,186 (May 31, 2018 - \$990,619) of interest remained unpaid.
- (f) A total of \$3,631,000 principal amounts are due to E-Energy Ventures Inc. (“E-Energy”) and United Coal Holdings Ltd. (“United Coal”) which are secured by the assets of the Company and interest is calculated at 9% per annum on the declining balance at the end of the month. During the 2018 period the Company recorded \$82,368 (2017 - \$82,369) of interest. As at August 31, 2018 principal totalling \$3,631,000 (May 31, 2018 - \$3,631,000) and interest payable of \$ 1,910,101 (May 31, 2018 - \$1,827,733) remained outstanding. Neither E-Energy nor United Coal has demanded payment of the amounts in arrears. The Company, E-Energy and United Coal are related by way of a common director, Mr. Simon Tam.

### **Risks and Uncertainties**

The Company advises that it did not base its production decision on a feasibility study of mineral reserves, demonstrating economic and technical viability, and, as a result, there may be an increased uncertainty of achieving any particular level of recovery of minerals or the cost of such recovery, including increased risks associated with developing a commercially mineable deposit. Historically, projects which proceed without a feasibility study have a much higher risk of economic and technical failure.

The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral concessions, claims and other interests, as well as for the recruitment and retention of qualified employees.

The Company is in compliance in all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company’s activities are conducted in Mexico. Consequently, the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry.

### **Outstanding Share Data**

The Company’s authorized share capital is unlimited common shares without par value. As at October 26, 2018, there were 20,850,882 issued and outstanding common shares.