

ROCHESTER RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MAY 31, 2019

This discussion and analysis of financial position and results of operation is prepared as at September 25, 2019 and should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ended May 31, 2019 and 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 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 fiscal 2019 the Company recorded a net loss of \$3,460,801 and, as at May 31, 2019, the Company had an accumulated deficit of \$75,049,572 and a working capital deficit of \$22,187,701. The Company has been unable to make all concession payments when due and, as at May 31, 2019, has unpaid government concession payments totalling \$2,146,159 (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.

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

Property Update

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

On October 23, 2015 the Company filed, on SEDAR, a National Instrument 43-101 technical report on the Mina Real, Santa Fe and San Francisco Properties. The report is available for viewing at www.sedar.com. The following commentary on the properties is from this technical report.

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

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

At present there is no Canadian Institute of Mining, Metallurgy and Petroleum (“CIM”) or National Instrument (“NI”) 43-101 compliant Resources or Reserves for the Mina Real Property, the Santa Fe Property or the San Francisco Property.

The Company has been processing mineralized material since 2007 when it commissioned a 200 tonne per day cyanidation plant.

The Company has conducted mining operations without defined mineral resources and the production decision was not based on a feasibility study of mineral reserves that has demonstrated technical or economic viability.

Operations

A mining study to establish the technical feasibility and economic viability of the Mina Real Property has not been completed nor does the project host a mineral resource. As a result there is increased uncertainty and risk of economic and technical failure.

Mill operating statistics are provided in the table below:

| RESULTS | Q4 (Mar 1/19 - May 31/19) | Q3 (Dec 1/18 - Feb 28/19) | Q2 (Sep 1/18 - Nov 30/18) | Q1 (Jun 1/18 - Aug 31/18) | Accumulated Fiscal 2019 | Accumulated Fiscal 2018 |
|--------------------------|------------------------------|------------------------------|------------------------------|------------------------------|----------------------------|----------------------------|
| Tonnes Processed | 8,745 tonnes | 9,176 tonnes | 12,056 tonnes | 13,607 tonnes | 43,583 tonnes | 47,741 tonnes |
| Gold Grade | 2.84 g/t | 1.91 g/t | 2.26 g/t | 2.48 g/t | 2.37 g/t | 2.74 g/t |
| Silver Grade | 209.85 g/t | 259.93 g/t | 214.28 g/t | 142.36 g/t | 200.55 g/t | 155.67 g/t |
| Gold Recovery | 95.77 % | 94.05 % | 94.93 % | 95.20 % | 95.07 % | 95.66 % |
| Silver Recovery | 34.36 % | 42.26 % | 34.88 % | 47.74 % | 39.64 % | 52.73 % |
| Gold Produced | 764 ounces | 531 ounces | 832 ounces | 1,035 ounces | 3,162 ounces | 4,021 ounces |
| Gold Sold | 752.37 ounces | 522.55 ounces | 819.99 ounces | 1,019.41 ounces | 3,114.33 ounces | 3,959.96 ounces |
| Silver Produced | 20,272 ounces | 32,409 ounces | 28,974 ounces | 29,730 ounces | 111,385 ounces | 125,990 ounces |
| Silver Sold | 19,663.64 ounces | 31,436.79 ounces | 28,104.45 ounces | 28,838.20 ounces | 108,043.08 ounces | 122,210.67 ounces |
| Gold Equivalent Produced | 998 ounces | 917 ounces | 1,177 ounces | 1,413 ounces | 4,506 ounces | 5,650 ounces |
| Developed Meters | 513 meters | 427 meters | 544 meters | 632 meters | 2,116 meters | 2,485 meters |
| Samples Taken | 4,017 samples | 3,640 samples | 3,408 samples | 3,513 samples | 14,578 samples | 17,093 samples |

| RESULTS | Q4 (Mar 1/19 - May 31/19) | Q3 (Dec 1/18 - Feb 28/19) | Q2 (Sep 1/18 - Nov 30/18) | Q1 (Jun 1/18 - Aug 31/18) | Accumulated Fiscal 2019 | Accumulated Fiscal 2018 |
|-------------------------|------------------------------|------------------------------|------------------------------|------------------------------|----------------------------|----------------------------|
| Diamond Drilling Meters | 0 meters | 0 meters | 0 meters | 0 meters | 0 meters | 0 meters |
| Access Road Kilometers | 0 kilometers | 0 kilometers | 0 kilometers | 0 kilometers | 0 kilometers | 0 kilometers |

Q4 Compared to Q3

Production of gold during Q4 was 44% higher than production during Q3 (764 ounces compared to 531 ounces). Silver production during Q4 was 37.5% lower than Q3 (20,272 ounces compared to 32,409 ounces). The gold equivalent production in Q4 was 8.8% higher than Q3 (998 ounces compared to 917 ounces). Total tonnes processed in Q4 were 431 tonnes lower than the total tonnes processed in Q3 (8,745 tonnes as compared to 9,176 tonnes). In Q4 gold recoveries were slightly higher than Q3 (95.77% compared to 94.05%) and silver recoveries were lower (34.36% compared to 42.26%).

The increases in gold production for Q4 were a direct result of the higher grade gold content in the mineralized material processed and slightly higher recovery. The lower silver grades are a result of the processed material containing a higher concentration of manganese.

Fiscal 2019 Compared to Fiscal 2018

During fiscal 2019 the Company produced 3,162 ounces of gold and 111,385 ounces of silver compared to 4,021 ounces of gold and 125,990 ounces of silver during fiscal 2018. The gold equivalent produced during fiscal 2019 was 4,506 ounces as compared to 5,650 ounces during fiscal 2018, a decrease of 20%. The decrease in production was primarily as a result of lower grades of gold and, although silver grades were higher during fiscal 2019, silver recoveries were substantially lower in fiscal 2019. The lower silver recoveries are a result of higher manganese content in the mineralized material processed during fiscal 2019 compared to fiscal 2018. Total tonnes processed in fiscal 2019 decreased by 9%, from 47,741 tonnes in fiscal 2018 to 43,583 tonnes in fiscal 2019 reflecting a lack of funds to purchase additional mining equipment (scoop trams, drills etc.) needed to extract mineralized material.

Drifting

The allocation for drifting amongst areas during each quarter of fiscal 2019 and accumulated for fiscal 2019 and 2018 is as follows:

| Area | Q4 (meters) | % | Q3 (meters) | % | Q2 (meters) | % | Q1 (meters) | % | Fiscal 2019 (meters) | % | Fiscal 2018 (meters) | % |
|-----------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|-------------------------|-------------|-------------------------|-------------|
| Tajos Cuates | 0 | 0% | 17 | 4% | 23 | 4% | 7 | 0% | 47 | 2% | 0 | 0% |
| Florida NW | 163 | 32% | 162 | 38% | 0 | 0% | 152 | 24% | 477 | 22% | 139 | 6% |
| Florida SE Project | 0 | 0% | 0 | 0% | 190 | 35% | 141 | 23% | 331 | 16% | 1,228 | 49% |
| San Francisco Project | 350 | 68% | 248 | 58% | 331 | 61% | 332 | 53% | 1,261 | 60% | 1,117 | 45% |
| TOTAL DRIFTING | 513 | 100% | 427 | 100% | 544 | 100% | 632 | 100% | 2,116 | 100% | 2,484 | 100% |

Distribution of the development during each quarter of fiscal 2019 and accumulated for fiscal 2019 and 2018, by activity, is as follows:

| Type of Drifting | Q4 (meters) | % | Q3 (meters) | % | Q2 (meters) | % | Q1 (meters) | % | Fiscal 2019 (meters) | % | Fiscal 2018 (meters) | % |
|-----------------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|-------------------------|-------------|-------------------------|-------------|
| Exploration | 243 | 47% | 172 | 40% | 204 | 37% | 113 | 18% | 732 | 35% | 613 | 25% |
| Slope Preparation | 270 | 53% | 255 | 60% | 340 | 63% | 519 | 82% | 1,384 | 65% | 1,783 | 72% |
| Projects and Infrastructure | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 88 | 3% |
| TOTAL DRIFTING | 513 | 100% | 427 | 100% | 544 | 100% | 632 | 100% | 2,116 | 100% | 2,484 | 100% |

Exploration and Development Activities

The Company has ongoing exploration and development programs at the Mina Real Project to identify additional mineralized material to provide mill feed for operations. Due to the unstable ground conditions at Florida NW 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 Q4/2019 from the various working faces was 9,822 wet tonnes (Q3/19 - 10,143 wet tonnes). Of this production 51% (Q3/19 - 20%) came from Florida NW, 0% (Q3/19 - 23%) from Tajos Cuates, and the remaining 49% (Q3/19 - 57%) from the San Francisco Project.

Mill Area

The lack of available working capital continues to impede the Company's ability to complete its capital works programs. Work on the 10' x 10' mill remains on standby and there is no time line for completion.

Selected Financial Data

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

| | Fiscal Years Ended May 31 | | |
|---|---------------------------|--------------|--------------|
| | 2019 \$ | 2018 \$ | 2017 \$ |
| Operations: | | | |
| Revenues | 6,988,221 | 8,644,103 | 7,405,981 |
| Cost of sales | (7,762,941) | (7,270,917) | (7,232,111) |
| Depletion and amortization | (144,853) | (648,981) | (742,596) |
| Provision for site restoration | (80,201) | (93,750) | (66,100) |
| Expenses, excluding impairment | (2,197,520) | (1,008,539) | (2,026,213) |
| Impairment of exploration and evaluation assets | (263,507) | (236,198) | (310,243) |
| Impairment of property, plant and equipment | Nil | (3,170,551) | (152,447) |
| Comprehensive loss | (3,460,801) | (3,784,833) | (3,123,729) |
| Basic and diluted loss per share | (0.17) | (0.18) | (0.15) |
| Dividends per share | Nil | Nil | Nil |
| Statement of Financial Position: | | | |
| Working capital (deficit) | (22,187,701) | (18,843,236) | (18,852,537) |
| Total assets | 2,285,392 | 3,421,720 | 6,912,446 |
| Provision for site restoration | (987,349) | (1,014,530) | (1,413,879) |

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 | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | May 31/19 \$ | Feb 28/19 \$ | Nov 30/18 \$ | Aug 31/18 \$ | May 31/18 \$ | Feb 28/18 \$ | Nov 30/17 \$ | Aug 31/17 \$ |
| Operations: | | | | | | | | |
| Revenues | 1,499,229 | 1,468,279 | 1,852,401 | 2,168,312 | 2,312,690 | 2,172,788 | 2,007,023 | 2,151,602 |
| Cost of sales | (1,770,598) | (1,646,299) | (2,204,829) | (2,141,215) | (1,960,415) | (1,659,910) | (1,769,115) | (1,881,477) |
| Depletion and amortization | (70,007) | Nil | Nil | (74,846) | (163,400) | (165,840) | (150,250) | (169,491) |
| Provision for site restoration | (20,452) | (20,212) | (19,529) | (20,008) | (28,252) | (17,833) | (23,462) | (24,203) |
| (Expenses) income, excluding impairment | (545,292) | (593,231) | (309,542) | (749,455) | (406,365) | (207,682) | (577,581) | 183,089 |
| Impairment of exploration and evaluation assets | (92,546) | (38,306) | (65,654) | (67,001) | (27,161) | (89,914) | (54,684) | (64,439) |
| Adjustment to impairment of property, plant and equipment | Nil | Nil | Nil | Nil | (3,170,551) | Nil | Nil | Nil |
| Comprehensive income (loss) | (999,666) | (829,769) | (747,153) | (884,213) | (3,443,454) | 31,609 | (568,069) | 195,081 |
| Basic and diluted income (loss) per share | (0.05) | (0.04) | (0.04) | (0.04) | (0.16) | 0.00 | (0.03) | 0.01 |
| Statement of Financial Position: | | | | | | | | |
| Working capital deficit | (22,187,701) | (21,343,407) | (20,506,658) | (19,601,021) | (18,843,236) | (18,864,278) | (18,878,222) | (18,536,623) |
| Total assets | 2,285,392 | 2,344,698 | 2,740,460 | 3,234,361 | 3,421,720 | 6,984,802 | 6,726,366 | 7,037,519 |
| Provision for site restoration | (987,349) | (901,984) | (908,964) | (1,066,710) | (1,014,530) | (1,259,487) | (1,385,126) | (1,365,221) |

Results of Operations

Three Months Ended May 31, 2019 Compared to Three Months Ended February 28, 2019

During the three months ended May 31, 2019 (“Q4”) the Company reported a loss of \$999,666 compared to a loss of \$829,769 for the three months ended February 28, 2019 (“Q3”), an increase in loss of \$169,897. The fluctuation was primarily attributable to an increase in operating loss from \$198,232 in Q3 to \$361,828 in Q4 due to ongoing operational issues.

Three Months Ended May 31, 2019 Compared to Three Months Ended May 31, 2018

During the three months ended May 31, 2019 (“Q4/2019”) the Company reported a loss of \$999,666 compared to a loss of \$3,443,454 for the three months ended May 31, 2018 (“Q4/2018”), a decrease in loss of \$2,443,788. The fluctuation was primarily attributable to recognition of an impairment of property, plant and equipment of \$3,170,551 in Q4/2018, and partially offset by an operating loss of \$361,828 in Q4/2019 compared to an operating income of \$160,623 in Q4/2018. During Q4/2019 cost of sales increased due to ongoing operational issues and revenues decreased due to poor silver recoveries.

Year Ended May 31, 2019 Compared to Year Ended May 31, 2018

During the year ended May 31, 2019 (“fiscal 2019”) the Company recorded a loss of \$3,460,801 compared to a loss of \$3,784,833 for the year ended May 31, 2018 (“fiscal 2018”), a decrease in loss of \$324,032. The fluctuation was primarily attributed to:

- (i) recognition of an impairment of property, plant and equipment of \$3,170,551 in fiscal 2018;
- (ii) the recognition of a foreign exchange loss of \$512,839 in fiscal 2019 compared to a foreign exchange gain of \$734,172 in fiscal 2018 due to the fluctuation of the US dollar and Mexican peso exchange rates;
- (iii) the increase in costs of sales from \$7,270,917 in fiscal 2018 to \$7,762,941 in fiscal 2019 and a decrease in revenue from \$8,644,103 during fiscal 2018 to \$6,988,221 during fiscal 2019 due to poor silver recoveries and unexpected costs during fiscal 2019; and
- (iv) decrease in depletion and amortization from \$648,981 during fiscal 2018 to \$144,853 during fiscal 2019 period. The decrease is due to the recognition of impairment of property, plant and equipment during fiscal 2018.

Production

During fiscal 2019 the Company sold 4,425 equivalent ounces of gold and realized revenues of \$1,579 per equivalent ounce as compared to the sale of 5,541 equivalent ounces of gold and realized revenues of \$1,560 per equivalent ounce during fiscal 2018.

The Company’s cost of operations per equivalent ounce of gold sold during fiscal 2019 was \$1,805 as compared to \$1,446 during the 2018 period. The increase is due to ongoing operational challenges and issues.

Direct operating cost of sales for fiscal 2019 and 2018 comprise the following:

| | 2019 \$ | 2018 \$ |
|--------------------------|------------------|------------------|
| Mine costs | 2,501,064 | 2,511,319 |
| Mill costs | 2,347,518 | 2,056,991 |
| Service department costs | <u>2,914,359</u> | <u>2,701,887</u> |
| | <u>7,762,941</u> | <u>7,270,197</u> |

General and administrative expenses for fiscal 2019 and 2018 are as follows:

| | 2019 | 2018 |
|-------------------------------------|----------------|----------------|
| | \$ | \$ |
| Accounting and administrative | 51,350 | 52,500 |
| Audit | 48,960 | 49,711 |
| Directors and officers compensation | 156,282 | 251,365 |
| Legal | 18,141 | 14,771 |
| Office | 82,484 | 74,910 |
| Professional fees | 2,196 | 814 |
| Regulatory fees | 7,302 | 7,803 |
| Salaries and benefits | 227,679 | 244,191 |
| Shareholder costs | 2,343 | 2,214 |
| Transfer agent fees | 5,349 | 4,676 |
| Travel | 14,287 | 11,219 |
| | <u>616,373</u> | <u>714,174</u> |

General and administrative expenses of \$714,174 were reported for fiscal 2019, compared to \$616,373 during fiscal 2018 a decrease of \$97,801. The primary reason for the decrease was the decrease in directors and officer compensation during fiscal 2019. Effective December 1, 2018 certain officers and directors agreed to terminate accruing their compensation.

Exploration and Evaluation Assets

During fiscal 2019 the Company incurred additions, net of recoveries, of \$263,507 (2018 - \$236,198) 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 \$263,507 (2018 - \$236,198) to reflect management's determination to fully impair the Santa Fe property.

Property, Plant and Equipment

| | Mineral Properties \$ | Land \$ | Buildings \$ | Mill and Mine Equipment \$ | Total \$ |
|--|-----------------------------|--------------------|--------------------|-------------------------------------|---------------------|
| Cost: | | | | | |
| 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) |
| Balance, May 31, 2018 | <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> |
| Additions | - | - | - | 1,336 | 1,336 |
| Balance, May 31, 2019 | <u>33,934,944</u> | <u>2,692,313</u> | <u>3,517,234</u> | <u>6,045,262</u> | <u>46,189,753</u> |
| Accumulated depletion, amortization and impairment: | | | | | |
| 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) |
| Balance, May 31, 2018 | <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> |
| Depletion and amortization | - | - | (48,377) | (96,476) | (144,853) |
| Balance, May 31, 2019 | <u>(33,934,944)</u> | <u>(2,692,313)</u> | <u>(3,033,460)</u> | <u>(5,658,023)</u> | <u>(45,318,740)</u> |
| Carrying value: | | | | | |
| Balance, May 31, 2018 | <u>-</u> | <u>-</u> | <u>532,151</u> | <u>482,379</u> | <u>1,014,530</u> |
| Balance, May 31, 2019 | <u>-</u> | <u>-</u> | <u>483,774</u> | <u>387,239</u> | <u>871,013</u> |

Exploration, development and production activities conducted during fiscal 2019 are described in "Property Update" in this MD&A.

Financing / Advances

During fiscal 2019 and 2018 the Company did not conduct any financings and is reliant on advances from its senior officers for working capital. During fiscal 2019 the Company received advances totalling \$396,655 (2018 - \$496,365) and repaid \$nil (2018 - \$32,204).

Financial Condition / Capital Resources

During fiscal 2019 the Company recorded a net loss of \$3,460,801 and, as at May 31, 2019, the Company had an accumulated deficit of \$75,049,572 and a working capital deficit of \$22,187,701. The Company's Mina Real operations continue to be affected by low grades of mineralized material and operational challenges. The Company has been unable to make all concessions payments when due in the current and prior years for the Mina Real, San Francisco and Santa Fe properties. The Company's ongoing operations are dependent on extracting ore from the Mina Real and San Francisco properties and, therefore, on the Company's ability to preserve its interest in the underlying mineral property interests. In the immediate term, the Company's ability to continue as a going concern is dependent upon its ability to improve its operations to 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 Company's ability to continue as a going concern will be dependent upon the discovery of economically recoverable reserves and the achievement of profitable operations. Whether the Company can generate positive cash flow on a consistent basis and, ultimately, achieve profitability is uncertain. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Proposed Transactions

The Company has no proposed transactions.

Changes in Accounting Policies

(i) IFRS 9 - *Financial instruments* ("IFRS 9")

The Company adopted all of the requirements of IFRS 9 as of June 1, 2018. IFRS 9 replaces IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9 management has changed its accounting policy for financial assets retrospectively for assets that continued to be recognized at the date of initial application.

| | <u>Classification Original Under IAS 39</u> | <u>Classification New Under IFRS 9</u> |
|---|---|--|
| Cash | FVTPL | FVTPL |
| Amounts receivable | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Amounts payable to directors and officers | Other financial liabilities | Amortized cost |
| Interest payable | Other financial liabilities | Amortized cost |
| Advances | Other financial liabilities | Amortized cost |
| Indebtedness | Other financial liabilities | Amortized cost |
| Debentures | Other financial liabilities | Amortized cost |

As the standard permits on transition to IFRS 9, the Company has not restated prior periods with respect to the new amortized cost measurement for financial assets and impairment requirements.

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit or to the opening deficit on June 1, 2018.

(ii) *IFRS 15 - Revenue from Contracts with Customers* (“IFRS 15”)

In May 2014, the IASB issued a new IFRS 15 Revenue from Contracts with Customers (“IFRS 15”), which is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount or timing of revenue recognized.

The Company adopted IFRS 15 on June 1, 2018, and applied this standard using the cumulative effect method. Under this method, the cumulative effect of applying IFRS 15 was recognized as of June 1, 2018 in opening retained earnings. The comparative information was not restated and continues to be reported under the old standard, IAS 18. The Company determined that the cumulative effect of applying IFRS 15 as of June 1, 2018 was \$nil, as the point in time for the initial recognition of revenue of the Company’s then-effective contracts with customers remained the same upon adoption of IFRS 15. Therefore, the Company did not change the recognition of revenue for any incomplete contracts with customers outstanding as at June 1, 2018.

The Company enters into contracts with a customer for the sale of metal concentrates.

As a result of the adoption of IFRS 15, the Company has changed its accounting policy for revenue recognition to the following:

“The Company recognizes revenue from contracts with a customer for the sale of metal concentrates at the point in time when it transfers control of the concentrates over to the customer, which occurs upon delivery. Revenue is measured based on the market metal prices expected at time of settlement and estimates of the mineral content (by way of weights and assays), both of which are subject to adjustment until the final settlement date. At the end of each reporting period, the amounts receivable are marked to market using the most up-to-date market prices for the settlement. These variations between the sales price recorded at the initial recognition date and the actual final sales price recorded at the settlement date are caused by changes in market prices. The settlement receivable is recorded at fair value each period until final settlement occurs, with changes in fair value recorded as a component of revenue.

An adjustment is also made when the final mineral content is known, which is recognized in revenue.”

In the comparative period prior to the adoption of IFRS 15, the Company recognized revenue from sale of concentrates when it was probable that the economic benefits associated with the transaction would flow to the Company, the risks and rewards of ownership were transferred to the customer, and the amount of revenue could be reliably measured.

The adoption of IFRS 15 did not have a material effect on the consolidated financial statements at the date of adoption.

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, 2019 and 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 fiscal 2019 and 2018 the following amounts were incurred with respect to Messrs. Luna and DeMare and the Company's Chief Financial Officer, Mr. Jose Manuel Silva:

| | 2019 \$ | 2018 \$ |
|--------------------------------|----------------|----------------|
| Management fees - Mr. Luna | 66,000 | 132,000 |
| Professional fees - Mr. DeMare | 30,480 | 36,480 |
| Professional fees - Mr. Silva | 23,802 | 22,885 |
| | <u>120,282</u> | <u>191,365</u> |

As at May 31, 2019, \$1,113,561 (2018 - \$989,402) remained unpaid .

(b) *Transactions with Other Related Parties*

(i) During fiscal 2019 and 2018 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):

| | 2019 \$ | 2018 \$ |
|------------------------------------|---------------|---------------|
| Professional fees - Mr. Keane | 6,000 | 12,000 |
| Professional fees - Mr. Cernovitch | 6,000 | 12,000 |
| Professional fees - Mr. Tam | 6,000 | 12,000 |
| Professional fees - Mr. Magrum | 6,000 | 12,000 |
| Professional fees - Mr. Lim | 12,000 | 12,000 |
| | <u>36,000</u> | <u>60,000</u> |

As at May 31, 2019, \$374,250 (2018 - \$338,250) remained unpaid.

(ii) During fiscal 2019 the Company incurred a total of \$51,350 (2018 - \$52,500) 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 May 31, 2019 \$56,987 (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 fiscal 2019 the Company recognized \$112,635 (2018 - \$111,680) of interest expense. As at May 31, 2019 \$723,558 (2018 - \$599,803) of interest remained unpaid.

As at May 31, 2019, \$1,263,107 of the principal was outstanding of which \$914,791 is due to Mr. Luna and \$348,316 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 fiscal 2019 the Company received advances totaling \$396,655 (2018 - \$496,365). In addition the Company recognized \$441,309 (2018 - \$400,067) of interest expense. As at May 31, 2019 \$1,972,664 (2018 - \$1,458,207) of interest remained unpaid.

As at May 31, 2019 a total of \$4,074,451 of principal was outstanding of which a total of \$4,061,757 are due to Mr. Luna (\$3,696,115), Mr. Keane (\$27,054) and private corporations controlled or affiliated with Mr. DeMare (\$338,558).

- (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 fiscal 2019 the Company repaid \$20,929 (2018 - \$21,479) and recorded \$187,574 (2018 - \$190,000) of interest expense. As at May 31, 2019, \$1,157,264 (2018 - \$990,619) of interest remained unpaid.
- (f) On January 31, 2013 the Company exercised its options to re-acquire its 20% equity interest in Mina Real from E Energy Ventures Inc. (“E-Energy”) and United Coal Holdings Limited (“United Coal”) and issued \$5,500,000 of indebtedness (the “Indebtedness”). The Indebtedness is secured by the assets of the Company and interest is calculated at 9% per annum on the declining balance at the end of the month. During fiscal 2019 the Indebtedness and \$2,154,523 of accrued interest was purchased by and assigned to private corporations, of which \$1,296,812 of principal and \$769,487 accrued interest was to a corporation associated with Mr. DeMare the CEO of the Company.

During fiscal 2019 the Company recognized \$326,790 (2018 - \$326,790) of interest expense. As at May 31, 2019 \$2,154,523 (2018 - \$1,827,733) of interest remained unpaid and is included in interest payable.

Mr. Simon Tam, a director of the Company is the CEO of both E-Energy and United Coal.

Risks and Uncertainties

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

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

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

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

Outstanding Share Data

The Company’s authorized share capital is unlimited common shares without par value. As at September 25, 2019, there were 20,850,882 issued and outstanding common shares.