

# **ROCHESTER RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED AUGUST 31, 2019**

This discussion and analysis of financial position and results of operation is prepared as at October 29, 2019 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, 2019 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, 2019 the Company recorded a net loss of \$253,416 and, as at August 31, 2019, the Company had an accumulated deficit of \$75,302,988 and a working capital deficit of \$22,406,268. The Company has been unable to make all concession payments when due and, as at August 31, 2019, has unpaid government concession payments totalling \$2,216,039 (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 "RSIA" 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](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 National Instrument (“NI”) 43-101 compliant Resources or Reserves for the Mina Real Property, the Santa Fe Property or the San Francisco Property.

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

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

## Operations

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

Mill operating statistics for three months ended August 31, 2019 (“Q1/2020”), the three months ended May 31, 2019 (“Q4/2019”) and three months ended August 31, 2018 (“Q1/2019”) are provided in the table below:

RESULTS	Q1/2020 (Jun 1, 2019 - Aug 31, 2019)	Q4/2019 (Mar 1, 2019 - May 31, 2019)	Q1/2019 (Jun 1, 2018 - Aug 31, 2018)
Tonnes Processed	8,797 tonnes	8,745 tonnes	13,607 tonnes
Gold Grade	2.28 g/t	2.84 g/t	2.48 g/t
Silver Grade	221.43 g/t	209.85 g/t	142.36 g/t
Gold Recovery	95.10 %	95.77 %	95.20 %
Silver Recovery	55.30 %	34.36 %	47.74 %
Gold Produced	613 ounces	764 ounces	1,035 ounces
Gold Sold	609.94 ounces	752.37 ounces	1,019.41 ounces
Silver Produced	34,635 ounces	20,272 ounces	29,730 ounces
Silver Sold	33,595.91 ounces	19,663.64 ounces	28,838.20 ounces
Gold Equivalent Produced	1,001 ounces	998 ounces	1,413 ounces
Developed Meters	566 meters	513 meters	632 meters

RESULTS	Q1/2020 (Jun 1, 2019 - Aug 31, 2019)	Q4/2019 (Mar 1, 2019 - May 31, 2019)	Q1/2019 (Jun 1, 2018 - Aug 31, 2018)
Samples Taken	4,018 samples	4,017 samples	2,979 samples
Diamond Drilling Meters	0 meters	0 meters	0 meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers

### *Q1/2020 Compared to Q4/2019*

Production of gold during Q1/2020 was 19% lower than production during Q4/2019 (613 ounces compared to 764 ounces). Silver production during Q1/2020 was 71% higher than Q4/2019 (34,635 ounces compared to 20,272 ounces). The gold equivalent production in Q1/2020 was 1% higher than Q4/2019 (1,001 ounces compared to 998 ounces). Total tonnes processed in Q1/2020 were slightly higher than the total tonnes processed in Q4/2019 (8,797 tonnes as compared to 8,745 tonnes). In Q1/2020 gold recoveries were slightly lower than Q4/2019 (95.10% compared to 95.77%) and silver recoveries were significantly higher (55.30% compared to 34.36%).

The decreases in gold production for Q1/2020 were a result of lower grade gold content in the mineralized material processed and slightly lower recovery. The decreases in gold production were offset by higher silver grades and higher silver recoveries as a result of the processed material containing lower concentrations of manganese during Q1/2020 compared to Q4/2019.

### *Q1/2020 compared to Q1/2019*

During Q1/2020 the Company produced 613 ounces of gold and 34,635 ounces of silver compared to 1,035 ounces of gold and 29,730 ounces of silver during Q1/2019. The gold equivalent produced in Q1/2020 was 1001 ounces as compared to 1,413 ounces in Q1/2019. Total tonnes processed in Q1/2020 were 8,797 as compared to 13,607 in Q1/2019 reflecting the lack of updated mine equipment coupled with the rainy season that did not allow operations in some areas of the San Francisco Project and generated instability problems in some areas of Florida NW.

Although tonnes processed were lower during Q1/2020, the silver grades were significantly higher at 221.43 g/t for Q1/2020 compared to 142.36 g/t for Q1/2019. Gold grades were slightly lower at 2.28 g/t for Q1/2020 compared to 2.48 g/t for Q1/2019. In addition silver recoveries were higher at 55.30% for Q1/2020 compared to 47.74% during Q1/2019 and gold recoveries remained relatively similar at 95.10% for Q1/2020 compared to 95.20% for Q1/2019.

### *Drifting*

The allocation for drifting amongst areas during each of Q1/2020, Q4/2019 and Q1/2019 is as follows:

Area	Q1/2020 (meters)	%	Q4/2019 (meters)	%	Q1/2019 (meters)	%
Tajos Cuates	129	23%	0	0%	7	0%
Florida NW	31	5%	163	32%	152	24%
Florida SE Project	0	0%	0	0%	141	23%
San Francisco Project	406	72%	350	68%	332	53%
<b>TOTAL DRIFTING</b>	<b>566</b>	<b>100%</b>	<b>513</b>	<b>100%</b>	<b>632</b>	<b>100%</b>

Distribution of the development during each of Q1/2020, Q4/2019 and Q1/2019, by activity, is as follows:

Type of Drifting	Q1/2020 (meters)	%	Q4/2019 (meters)	%	Q1/2019 (meters)	%
Exploration	420	74%	243	47%	113	18%
Stope Preparation	146	26%	270	53%	519	82%
<b>TOTAL DRIFTING</b>	<b>566</b>	<b>100%</b>	<b>513</b>	<b>100%</b>	<b>632</b>	<b>100%</b>

### *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 Q1/2020 from the various working faces was 8,695 wet tonnes (Q4/2019 - 9,822 wet tonnes). Of this production 13% (Q4/2019 - 51%) came from Florida NW, 13% (Q4/2019 - 0%) from Tajos Cuates, and the remaining 74% (Q4/2019 - 49%) 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 unaudited condensed consolidated interim financial statements of the Company.

Three Month Period Ending	Fiscal 2020	Fiscal 2019				Fiscal 2018		
	Aug 31/19 \$	May 31/19 \$	Feb 28/19 \$	Nov 30/18 \$	Aug 31/18 \$	May 31/18 \$	Feb 28/18 \$	Nov 30/17 \$
<b>Operations:</b>								
Revenues	1,887,874	1,499,229	1,468,279	1,852,401	2,168,312	2,312,690	2,172,788	2,007,023
Cost of sales	(1,997,677)	(1,770,598)	(1,646,299)	(2,204,829)	(2,141,215)	(1,960,415)	(1,659,910)	(1,769,115)
Depletion and amortization	(36,213)	(70,007)	Nil	Nil	(74,846)	(163,400)	(165,840)	(150,250)
Provision for site restoration	(20,231)	(20,452)	(20,212)	(19,529)	(20,008)	(28,252)	(17,833)	(23,462)
(Expenses) income, excluding impairment	(19,472)	(545,292)	(593,231)	(309,542)	(749,455)	(406,365)	(207,682)	(577,581)
Impairment of exploration and evaluation assets	(67,697)	(92,546)	(38,306)	(65,654)	(67,001)	(27,161)	(89,914)	(54,684)
Adjustment to impairment of property, plant and equipment	Nil	Nil	Nil	Nil	Nil	(3,170,551)	Nil	Nil
Comprehensive income (loss)	(253,416)	(999,666)	(829,769)	(747,153)	(884,213)	(3,443,454)	31,609	(568,069)
Basic and diluted income (loss) per share	(0.01)	(0.05)	(0.04)	(0.04)	(0.04)	(0.16)	0.00	(0.03)
<b>Statement of Financial Position:</b>								
Working capital deficit	(22,406,268)	(22,187,701)	(21,343,407)	(20,506,658)	(19,601,021)	(18,843,236)	(18,864,278)	(18,878,222)
Total assets	2,254,988	2,285,392	2,344,698	2,740,460	3,234,361	3,421,720	6,984,802	6,726,366
Provision for site restoration	(985,985)	(987,349)	(901,984)	(908,964)	(1,066,710)	(1,014,530)	(1,259,487)	(1,385,126)

### **Results of Operations**

#### *Three Months Ended August 31, 2019 Compared to Three Months Ended May 31, 2019*

During the three months ended August 31, 2019 ("Q1/2020") the Company reported a loss of \$253,416 compared to a loss of \$999,666 for the three months ended May 31, 2019 ("Q4/2019"), a decrease in loss of \$746,250. The decrease was primarily attributable to the recognition of a foreign exchange gain of \$381,621 in Q1/2020 compared to a foreign exchange loss of \$137,972 in Q4/2019 due to the fluctuation of the US dollar and Mexican peso exchange rates.

#### *Three Months Ended August 31, 2019 Compared to Three Months Ended August 31, 2018*

During the three months ended August 31, 2019 (the "2019 period") the Company recorded a loss of \$253,416 compared to a loss of \$884,213 for the three months ended August 31, 2018 (the "2018 period"), a decrease in loss of \$630,797. The decrease was primarily attributed to the recognition of a foreign exchange gain of \$381,621 in the 2019 period compared to a foreign exchange loss of \$320,964 in the 2018 period due to the fluctuation of the US dollar and Mexican peso exchange rates.

### *Production*

During the 2019 period the Company sold 1,014 equivalent ounces of gold and realized revenues of \$1,862 per equivalent ounce as compared to the sale of 1,394 equivalent ounces of gold and realized revenues of \$1,555 per equivalent ounce during the 2018 period.

The Company's cost of operations per equivalent ounce of gold sold during the 2019 period was \$2,026 as compared to \$1,604 during the 2018 period. The increase is due to ongoing operational challenges and issues.

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

	2019 \$	2018 \$
Mine costs	660,557	691,176
Mill costs	579,297	667,716
Service department costs	757,823	782,323
	<u>1,997,677</u>	<u>2,141,215</u>

General and administrative expenses for the 2019 and 2018 periods are as follows:

	2019 \$	2018 \$
Accounting and administrative	13,500	10,500
Directors and officers compensation	15,070	63,015
Legal	1,573	3,776
Office	24,718	19,239
Professional fees	5,591	-
Regulatory fees	1,800	1,300
Salaries and benefits	56,586	62,669
Transfer agent fees	548	579
Travel	2,480	3,546
	<u>121,866</u>	<u>164,624</u>

General and administrative expenses of \$121,866 were reported for the 2019 period, compared to \$164,624 during the 2018 period a decrease of \$42,758. The primary reason for the decrease was the decrease in directors and officer compensation during the 2019 period. Effective December 1, 2018 certain officers and directors voluntarily agreed to the cessation of their compensation. See "Related Party Disclosure".

### *Exploration and Evaluation Assets*

During the 2019 period the Company incurred \$67,697 (2018 - \$67,001) additions on exploration and evaluation assets for the Santa Fe property, mainly for payments of ongoing monthly fees of US \$10,000 to the 30% concession owners and annual mineral concession payments. The Company recorded an offsetting impairment charge of \$67,697 (2018 - \$67,001) 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 \$
<b>Cost:</b>					
Balance, May 31, 2018	33,934,944	2,692,313	3,517,234	6,043,926	46,188,417
Additions	-	-	-	1,336	1,336
Balance, May 31, 2019 and August 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>

	Mineral Properties \$	Land \$	Buildings \$	Mill and Mine Equipment \$	Total \$
<b>Accumulated depletion, amortization and impairment:</b>					
Balance, May 31, 2018	(33,934,944)	(2,692,313)	(2,985,083)	(5,561,547)	(45,173,887)
Depletion and amortization	-	-	(48,377)	(96,476)	(144,853)
Balance, May 31, 2019	(33,934,944)	(2,692,313)	(3,033,460)	(5,658,023)	(45,318,740)
Depletion and amortization	-	-	(12,094)	(24,119)	(36,213)
Balance, August 31, 2019	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(3,045,554)</u>	<u>(5,682,142)</u>	<u>(45,354,953)</u>
<b>Carrying value:</b>					
Balance, May 31, 2019	<u>-</u>	<u>-</u>	<u>483,774</u>	<u>387,239</u>	<u>871,013</u>
Balance, August 31, 2019	<u>-</u>	<u>-</u>	<u>471,680</u>	<u>363,120</u>	<u>834,800</u>

Exploration, development and production activities conducted during the 2019 period are described in “Property Update” in this MD&A.

### Financial Condition / Capital Resources

During the 2019 period the Company recorded a net loss of \$253,416 and, as at August 31, 2019, the Company had an accumulated deficit of \$75,302,988 and a working capital deficit of \$22,406,268. 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

#### IFRS 16 - Leases (“IFRS 16”)

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

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

There was no material impact on the Company's condensed consolidated interim financial statements upon the adoption of this new standard.

A detailed summary of the Company's other significant accounting policies and accounting standards and interpretations issued but not yet effective, is included in Note 3 to the May 31, 2019 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*

During the 2019 and 2018 periods the following amounts were incurred with respect to the Company's Chairman, Mr. Eduardo Luna, the Chief Executive Officer ("CEO"), Mr. Nick DeMare and the Company's Chief Financial Officer ("CFO"), Mr. Jose Manuel Silva:

	2019 \$	2018 \$
Management fees - Mr. Luna	-	33,000
Professional fees - Mr. DeMare	6,120	9,120
Professional fees - Mr. Silva	5,950	5,895
	<u>12,070</u>	<u>48,015</u>

As at August 31, 2019 \$1,124,319 (May 31, 2019 - \$1,113,561) remained unpaid .

(b) *Transactions with Other Related Parties*

(i) During the 2019 and 2018 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):

	2019 \$	2018 \$
Professional fees - Mr. Keane	-	3,000
Professional fees - Mr. Cernovitch	-	3,000
Professional fees - Mr. Tam	-	3,000
Professional fees - Mr. Magrum	-	3,000
Professional fees - Mr. Lim	3,000	3,000
	<u>3,000</u>	<u>15,000</u>

As at August 31, 2019 \$ 377,250 (May 31, 2019 - \$374,250) remained unpaid.

(ii) During the 2019 period the Company incurred a total of \$13,500 (2018 - \$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, 2019 \$71,026 (May 31, 2019 - \$56,987) 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 2019 period the Company recognized \$28,389 (2018 - \$28,283) of interest expense. As at August 31, 2019 \$747,174 (May 31, 2019 - \$723,558) of interest remained unpaid.

As at August 31, 2019, \$1,254,238 of the principal was outstanding of which \$907,179 is due to Mr. Luna and \$347,059 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 2019 the Company recognized \$120,580 (2018 - \$107,751) of interest expense. As at August 31, 2019 \$2,061,015 (May 31, 2019 - \$1,972,664) of interest remained unpaid.

As at August 31, 2019 a total of \$4,007,582 of principal was outstanding of which a total of \$3,995,106 are due to Mr. Luna (\$3,632,723), Mr. Keane (\$26,590) and private corporations controlled or affiliated with Mr. DeMare (\$335,793).

- (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 2019 period the Company repaid \$12,081 (2018 - \$13,899) and recorded \$47,890 (2018 - \$45,465) of interest expense. As at August 31, 2019 \$1,193,073 (May 31, 2019 - \$1,157,264) 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 the 2019 period the Company recognized \$82,368 (2018 - \$82,368) of interest expense. As at August 31, 2019 \$2,236,891 (May 31, 2019 - \$2,154,523) 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 October 29, 2019, there were 20,850,882 issued and outstanding common shares.