

# **ROCHESTER RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MAY 31, 2020**

This discussion and analysis of financial position and results of operation is prepared as at September 28, 2020 and should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ended May 31, 2020 and 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.

### **COVID-19**

On March 11, 2020 the World Health Organization ("WHO") declared the outbreak of a novel coronavirus, identified as "COVID-19", as a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets. The Company has implemented safety and physical distancing procedures while it continues operations at the at the Mina Real and San Francisco properties and exploration activities on the Santa Fe Property. The Company will continue to monitor the impact of the COVID-19 outbreak, the duration and impact which is unknown at this time, as is the efficacy of any intervention. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.

### **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 2020 the Company recorded a net loss of \$1,691,922 and, as at May 31, 2020, the Company had an accumulated deficit of \$77,594,691 and a working capital deficit of \$24,469,838. The Company has been unable to make all concession payments when due and, as at May 31, 2020, has unpaid government concession payments and related carrying charges totalling \$3,828,720 (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. The agreement is in dispute and during fiscal 2018 the Company received a ruling in favour of the concession owners and the Company has filed an appeal. The outcome of the appeal is currently unknown.

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 are provided in the table below:

RESULTS	Q4 (Mar 1/20 - May 31/20)	Q3 (Dec 1/19 - Feb 28/20)	Q2 (Sep 1/19 - Nov 30/19)	Q1 (Jun 1/19 - Aug 31/19)	Accumulated Fiscal 2020	Accumulated Fiscal 2019
Tonnes Processed	8,886 tonnes	7,614 tonnes	8,543 tonnes	8,797 tonnes	33,841 tonnes	43,583 tonnes
Gold Grade	2.26 g/t	2.04 g/t	2.14 g/t	2.28 g/t	2.18 g/t	2.37 g/t
Silver Grade	275.42 g/t	224.55 g/t	260.52 g/t	221.43 g/t	246.18 g/t	200.55 g/t
Gold Recovery	94.79 %	94.61 %	95.75 %	95.10 %	94.83 %	95.07 %
Silver Recovery	50.55 %	59.62 %	57.90 %	55.30 %	55.49 %	39.64 %

RESULTS	Q4 (Mar 1/20 - May 31/20)	Q3 (Dec 1/19 - Feb 28/20)	Q2 (Sep 1/19 - Nov 30/19)	Q1 (Jun 1/19 - Aug 31/19)	Accumulated Fiscal 2020	Accumulated Fiscal 2019
Gold Produced	612 ounces	471 ounces	558 ounces	613 ounces	2,254 ounces	3,162 ounces
Gold Sold	602.57 ounces	464.26 ounces	549.24 ounces	603.94 ounces	2,220.00 ounces	3,114.33 ounces
Silver Produced	39,773 ounces	32,774 ounces	41,435 ounces	34,635 ounces	148,616 ounces	111,385 ounces
Silver Sold	38,579.39 ounces	31,790.42 ounces	40,191.94 ounces	33,595.91 ounces	144,157.66 ounces	108,043.08 ounces
Gold Equivalent Produced	980 ounces	847 ounces	1,048 ounces	1,001 ounces	3,876 ounces	4,506 ounces
Developed Meters	563 meters	456 meters	575 meters	566 meters	2,159 meters	2,116 meters
Samples Taken	4,039 samples	4,184 samples	4,596 samples	4,018 samples	16,837 samples	14,578 samples
Diamond Drilling Meters	0 meters	0 meters	0 meters	0 meters	0 meters	0 meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers

### *Q3 Compared to Q2*

Production of gold during Q4 was 30% higher than production during Q3 (612 ounces compared to 471 ounces). Silver production during Q4 was 21.35% higher than Q3 (39,773 ounces compared to 32,774 ounces). The gold equivalent production in Q4 was 15.7% higher than Q3 (980 ounces compared to 847 ounces). Total tonnes processed in Q4 were 16.7% higher than the total tonnes processed in Q3 (8,886 tonnes as compared to 7,614 tonnes). In Q4 gold recoveries were slightly higher than Q3 (94.79 % compared to 94.61%) and silver recoveries were 17.94% lower (50.55% compared to 59.62%).

The increase in gold production for Q4 was as a result of more tonnes processed, higher-grade gold content in the mineralized material processed and slightly higher recoveries. The increases in silver production were also due to more tonnes processed and a 22.7% increase in silver grade of the material processed. This resulted in more silver production even though there was a 17.94% decrease in silver recovery compared to Q3.

### *Fiscal 2020 Compared Fiscal 2019*

During fiscal 2020 the Company produced 2,254 ounces of gold and 148,616 ounces of silver compared to 3,162 ounces of gold and 111,385 ounces of silver during fiscal 2019. The gold equivalent produced during the 2020 period was 3,876 ounces as compared to 4,506 ounces during fiscal 2019. Total tonnes processed in fiscal 2020 were 33,841 as compared to 43,583 in fiscal 2019 reflecting the continuing lack of updated mine equipment coupled with a wetter 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.

The decreases in gold production for fiscal 2020 were mainly as a result of 9,742 less tonnes processed in fiscal 2020 compared to fiscal 2019 coupled with lower gold grades (2.18 g/t compared to 2.37 g/t) resulting in a 40.28% decrease in gold produced during fiscal 2020 period compared to fiscal 2019 period (2,254 ounces compared to 3,162 ounces).

### *Drifting*

The allocation for drifting amongst areas during each quarter of fiscal 2020 and accumulated for fiscal 2020 and 2019 is as follows:

Area	Q4 (meters)	%	Q3 (meters)	%	Q2 (meters)	%	Q1 (meters)	%	Fiscal 2020 (meters)	%	Fiscal 2019 (meters)	%
Tajos Cuates	0	0%	28	6%	149	26%	129	23%	306	14%	47	2%
Florida NW	0	0%	0	0%	0	0%	31	5%	31	1%	477	22%
Florida SE Project	0	0%	0	0%	0	0%	0	0%	0	%	331	16%
San Francisco Project	563	100%	427	94%	426	74%	406	72%	1,822	85%	1,261	60%
<b>TOTAL DRIFTING</b>	<b>563</b>	<b>100%</b>	<b>455</b>	<b>100%</b>	<b>575</b>	<b>100%</b>	<b>566</b>	<b>100%</b>	<b>2,159</b>	<b>100%</b>	<b>2,116</b>	<b>100%</b>

Distribution of the development during each quarter of fiscal 2020 and accumulated for fiscal 2020 and 2019, by activity, is as follows:

Type of Drifting	Q4 (meters)	%	Q3 (meters)	%	Q2 (meters)	%	Q1 (meters)	%	Fiscal 2020 (meters)	%	Fiscal 2019 (meters)	%
Exploration	352	63%	267	59%	306	53%	420	74%	1,084	40%	613	25%
Stope Preparation	211	37%	189	41%	269	47%	146	26%	1,595	60%	1,783	72%
Projects and Infrastructure	0	0%	0	0%	0	0%	0	0%	0	0%	88	3%
<b>TOTAL DRIFTING</b>	<b>563</b>	<b>100%</b>	<b>456</b>	<b>100%</b>	<b>575</b>	<b>100%</b>	<b>566</b>	<b>100%</b>	<b>2,679</b>	<b>100%</b>	<b>2,484</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 Q4 from the various working faces was 9,226 wet tonnes (Q3 - 8,004 wet tonnes). Of this production, during Q4, 100% was from the San Francisco Project. Production during Q3 was 84% from the San Francisco Project and the remaining 16% was from Tajos Cuates.

### ***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 timeline for completion. Liners for the 6' x 12' mill are also pending. Elevators are suffering from wear which decreases efficiency.

### **Selected Financial Data**

#### ***Correction of Error***

During the preparation of the fiscal 2020 consolidated financial statements management found errors in the calculation for carrying charges on unpaid government concession payments resulting in an understatement in accrued liabilities of \$853,197 as at May 31, 2019, and \$358,772 as at May 31, 2018. The impact of the error is summarized below.

#### Extract from Consolidated Statement of Financial Position

	<b>As at May 31, 2019 as Presented \$</b>	<b>Restatement \$</b>	<b>As at May 31, 2019 Restated \$</b>
Accounts payable and accrued liabilities	6,130,715	853,197	6,983,912
Total current liabilities	23,602,080	853,197	24,455,277
Total liabilities	24,589,429	853,197	25,442,626
Deficit	(75,049,572)	(358,772)	(75,408,344)

#### Extract from Consolidated Statement of Loss and Comprehensive Loss

	<b>Year Ended May 31, 2019 as Presented \$</b>	<b>Restatement \$</b>	<b>Year Ended May 31, 2019 Restated \$</b>
Cost of sales	7,762,941	494,425	8,257,366
Operating loss	(999,774)	(494,425)	(1,494,199)
Net loss and comprehensive loss	(3,460,801)	(494,425)	(3,955,226)
Basic and diluted loss per common share	(0.17)	(0.02)	(0.19)

#### Extract from Consolidated Statement of Cash Flow

	<b>Year Ended May 31, 2019 as Presented \$</b>	<b>Restatement \$</b>	<b>Year Ended May 31, 2019 Restated \$</b>
Net loss for the year	(3,460,801)	(494,425)	(3,955,226)
Accounts payable and accrued liabilities	466,467	494,425	960,892

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

	Fiscal Years Ended May 31		
	2020 \$	2019 \$ (Restated)	2018 \$ (Restated)
<b>Operations:</b>			
Revenues	7,909,915	6,988,221	8,644,103
Cost of sales	(7,798,831)	(8,257,366)	(7,629,689)
Depletion and amortization	(145,657)	(144,853)	(648,981)
Provision for site restoration	(78,475)	(80,201)	(93,750)
Expenses, excluding impairment	(1,353,997)	(2,197,520)	(1,008,539)
Impairment of exploration and evaluation assets	(224,877)	(263,507)	(236,198)
Impairment of property, plant and equipment	Nil	Nil	(3,170,551)
Comprehensive loss	(1,691,922)	(3,955,226)	(4,143,605)
Basic and diluted loss per share	(0.08)	(0.19)	(0.20)
Dividends per share	Nil	Nil	Nil
<b>Statement of Financial Position:</b>			
Working capital (deficit)	(24,469,838)	(23,040,898)	(19,202,008)
Total assets	2,515,177	2,285,392	3,421,720
Provision for site restoration	(1,107,355)	(987,349)	(1,014,530)

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 (Restated)			
	May 31/20 \$	Feb 29/20 \$	Nov 30/19 \$	Aug 31/19 \$	May 31/19 <sup>(1)</sup> \$	Feb 28/19 \$	Nov 30/18 \$	Aug 31/18 \$
<b>Operations:</b>								
Revenues	2,415,814	1,606,452	1,999,775	1,887,874	1,499,229	1,468,279	1,852,401	2,168,312
Cost of sales	(2,598,880)	(1,612,883)	(1,589,391)	(1,997,677)	(2,265,023)	(1,646,299)	(2,204,829)	(2,141,215)
Depletion and amortization	(37,018)	(36,213)	(36,213)	(36,213)	(70,007)	Nil	Nil	(74,846)
Provision for site restoration	2,670	(40,800)	(20,114)	(20,231)	(20,452)	(20,212)	(19,529)	(20,008)
Expenses, excluding impairment	(50,780)	(536,878)	(746,939)	(19,472)	(545,292)	(593,231)	(309,542)	(749,455)
Impairment of exploration and evaluation assets	(28,401)	(64,763)	(64,016)	(67,697)	(92,546)	(38,306)	(65,654)	(67,001)
Comprehensive loss	(296,523)	(685,085)	(456,898)	(253,416)	(1,494,091)	(829,769)	(747,153)	(884,213)
Basic and diluted income (loss) per share	(0.02)	(0.03)	(0.02)	(0.01)	(0.07)	(0.04)	(0.04)	(0.04)
<b>Statement of Financial Position:</b>								
Working capital (deficit)	(24,469,838)	(23,338,683)	(22,857,550)	(22,406,268)	(23,040,898)	(21,343,407)	(20,506,658)	(19,601,021)
Total assets	2,515,177	2,181,111	2,379,854	2,254,988	2,285,392	2,344,698	2,740,460	3,234,361
Provision for site restoration	(1,107,355)	(1,123,884)	(956,146)	(985,985)	(987,349)	(901,984)	(908,964)	(1,066,710)

(1) Restatement of correction of error for fiscal 2019 reflected in Q4.

## Results of Operations

### *Three Months Ended May 31, 2020 Compared to Three Months Ended February 29, 2020*

During the three months ended May 31, 2020 (“Q4”) the Company reported comprehensive loss of \$296,523 compared to comprehensive loss of \$685,085 for the three months ended February 29, 2020 (“Q3”), a decrease in loss of \$388,562. The fluctuation was primarily attributable to an operating loss of \$217,414 in Q4 compared to an operating loss of \$83,444 in Q3 and the recognition of a foreign exchange gain of \$459,339 in Q4 compared to a foreign exchange loss of \$135,227 in Q3 due to the fluctuation of the US dollar and Mexican peso exchange rates.

### *Three Months Ended May 31, 2020 Compared to Three Months Ended May 31, 2019*

During the three months ended May 31, 2020 (“Q4/2020”) the Company reported comprehensive loss of \$296,523 compared to a comprehensive loss of \$1,494,091 for the three months ended May 31, 2019 (“Q4/2019”), a decrease in loss of \$1,197,568. The fluctuation was primarily attributable to an operating loss of \$217,414 in Q4/2020 compared to an operating loss of \$856,253 in Q4/2019 and the recognition of a foreign exchange gain of \$459,339 in Q4/2020 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.

*Year Ended May 31, 2020 Compared to Year Ended May 31, 2019*

During the year ended May 31, 2020 (“fiscal 2020”) the Company recorded a comprehensive loss of \$1,691,922 compared to a comprehensive loss of \$3,955,226 for the year ended May 31, 2019 (“fiscal 2019”), a decrease in loss of \$2,263,304. The fluctuation was primarily attributed to:

- (i) a decrease in operating loss of \$1,381,151 from an operating loss of \$1,494,199 in fiscal 2019 to an operating loss of \$113,048 in fiscal 2020; and
- (ii) the recognition of a foreign exchange gain of \$384,823 in fiscal 2020 compared to a foreign exchange loss of \$512,839 in fiscal 2019 due to the fluctuation of the US dollar and Mexican peso exchange rates

*Production*

During fiscal 2020 the Company sold 3,840 gold equivalent ounces and realized revenues of \$2,060 per gold equivalent ounce as compared to the sale of 4,425 gold equivalent ounces and realized revenues of \$1,579 per gold equivalent ounce during fiscal 2019.

The Company’s cost of operations per gold equivalent ounce sold during fiscal 2020 period was \$2,089 as compared to \$1,917 during fiscal 2019.

Direct operating cost of sales for fiscal 2020 and 2019 comprise the following:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Mine costs	2,608,558	2,660,358
Mill costs	2,126,056	2,497,032
Service department costs	<u>3,064,217</u>	<u>3,099,976</u>
	<u>7,798,831</u>	<u>8,257,366</u>

General and administrative expenses for fiscal 2020 and 2019 are as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Accounting and administrative	50,900	51,350
Audit	38,087	48,960
Directors and officers compensation	60,643	156,282
Legal	36,062	18,141
Office	79,556	82,484
Professional fees	4,921	2,196
Regulatory fees	8,307	7,302
Salaries and benefits	326,520	227,679
Shareholder costs	1,621	2,343
Transfer agent fees	5,033	5,349
Travel	<u>9,883</u>	<u>14,287</u>
	<u>621,533</u>	<u>616,373</u>

General and administrative expenses of \$621,533 were reported for fiscal 2020, compared to \$616,373 during fiscal 2019 an increase of \$5,160. Specific expense of note are as follows:

- (i) incurred directors and officers compensation of \$60,643 (2019 - \$156,282). Effective Dec 1, 2018 certain directors and officers voluntarily agreed to the cessation of their compensation. See “Related Party Disclosure”;
- (ii) recorded salaries and benefits expense of \$326,520 (2019 - \$227,679). The increase is due to the recognition of additional payroll deductions as a result of the reassessment by the Mexican Institute of Social Security; and
- (iii) incurred legal expenses of \$36,062 (2019 - \$18,141). The increase is due to increased legal representation and services with respect to the Company’s operations.

## Exploration and Evaluation Assets

During fiscal 2020 the Company incurred \$224,877 (2019 - \$263,507) 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 \$224,877 (2019 - \$263,507) 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	33,934,944	2,692,313	3,517,234	6,045,262	46,189,753
Additions	-	-	-	2,681	2,681
Balance, May 31, 2020	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,517,234</u>	<u>6,047,943</u>	<u>46,192,434</u>
<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	-	-	(48,377)	(97,280)	(145,657)
Balance, May 31, 2020	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(3,081,837)</u>	<u>(5,755,303)</u>	<u>(45,464,397)</u>
<b>Carrying value:</b>					
Balance, May 31, 2019	-	-	483,774	387,239	871,013
Balance, May 31, 2020	-	-	435,397	292,640	728,037

Exploration, development and production activities conducted during fiscal 2020 are described in "Property Update" in this MD&A.

## Financial Condition / Capital Resources

During fiscal 2020 the Company recorded a net loss of \$1,691,922 and, as at May 31, 2020, the Company had an accumulated deficit of \$77,594,691 and a working capital deficit of \$24,469,838. 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.

In addition, the COVID-19 pandemic has resulted in implementation of safety and distancing procedures and it is not possible to determine the continued impact of the COVID-19 outbreak. See also page 1 - "COVID-19".

## 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.

The Company has leases which are considered to be short-term leases and, as allowed by IFRS 16, has determined not to recognize these leases as assets and liabilities. There was no significant impact on the Company’s consolidated 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, 2020 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 fiscal 2020 and 2019 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:

	2020 \$	2019 \$
Management fees – Mr. Luna	-	66,000
Professional fees - Mr. DeMare	24,480	30,480
Professional fees - Mr. Silva	24,163	23,802
	<u>48,643</u>	<u>120,282</u>

As at May 31, 2020 \$1,159,119 (2019 - \$1,113,561) remained unpaid .

### (b) *Transactions with Other Related Parties*

(i) During fiscal 2020 and 2019 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):

	2020 \$	2019 \$
Professional fees - Mr. Keane	-	6,000
Professional fees - Mr. Cernovitch	-	6,000
Professional fees - Mr. Tam	-	6,000

	2020 \$	2019 \$
Professional fees - Mr. Magrum	-	6,000
Professional fees - Mr. Lim	12,000	12,000
	<u>12,000</u>	<u>36,000</u>

As at May 31, 2020 \$386,250 (2019 - \$374,250) remained unpaid.

- (ii) During fiscal 2020 the Company incurred a total of \$50,900 (2019 - \$51,350) 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, 2020 \$91,044 (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 fiscal 2020 the Company recognized \$113,577 (2019 - \$112,635) of interest expense. As at May 31, 2020 \$843,865 (2019 - \$723,558) of interest remained unpaid.

As at May 31, 2020, \$1,273,047 of the principal was outstanding of which \$923,322 is due to Mr. Luna and \$349,725 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 2020 the Company recognized \$486,920 (2019 - \$441,309) of interest expense. As at May 31, 2020 \$2,509,605 (2019 - \$1,972,664) of interest remained unpaid.

As at May 31, 2020 a total of \$4,165,323 of principal was outstanding of which a total of \$4,152,385 are due to Mr. Luna (\$3,767,157), Mr. Keane (\$27,574) and private corporations controlled or affiliated with Mr. DeMare (\$357,654).

- (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 2020 the Company repaid \$18,046 (2019 - \$20,929) and recorded \$190,000 (2019 - \$187,574) of interest expense. As at May 31, 2020 \$1,329,220 (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. As at May 31, 2020 \$1,296,812 of principal and \$886,201 accrued interest was to a corporation associated with Mr. DeMare the CEO of the Company.

During fiscal 2020 the Company recognized \$326,790 (2019 - \$326,790) of interest expense. As at May 31, 2020 \$2,481,313 (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 September 28, 2020, there were 23,350,882 issued and outstanding common shares and share options to purchase 2,085,000 at an exercise price of \$0.05.