

ROCHESTER RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED AUGUST 31, 2020

This discussion and analysis of financial position and results of operation is prepared as at October 29, 2020 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, 2020 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.

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.

During the three months ended August 31, 2020 the Company recorded net income of \$1,101,339. However, as at August 31, 2020, the Company had an accumulated deficit of \$76,493,352 and a working capital deficit of \$23,745,969. The Company has been unable to make all concession payments when due and, as at August 31, 2020,

has unpaid government concession payments and related carrying charges totalling \$4,033,225 (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. 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, 2020 ("Q1/2021"), the three months ended May 31, 2020 ("Q4/2020") and three months ended August 31, 2019 ("Q1/2020") are provided in the table below:

RESULTS	Q1/2021 (Jun 1, 2020 - Aug 31, 2020)	Q4/2020 (Mar 1, 2020 - May 31, 2020)	Q1/2020 (Jun 1, 2019 - Aug 31, 2019)
Tonnes Processed	9,655 tonnes	8,886 tonnes	8,797 tonnes
Gold Grade	2.59 g/t	2.26 g/t	2.28 g/t
Silver Grade	233.20 g/t	275.42 g/t	221.43 g/t
Gold Recovery	95.77 %	94.79 %	95.10 %
Silver Recovery	48.52 %	50.55 %	55.30 %
Gold Produced	771 ounces	612 ounces	613 ounces
Gold Sold	759.78 ounces	602.57 ounces	609.94 ounces
Silver Produced	35,123 ounces	39,773 ounces	34,635 ounces
Silver Sold	34,069.31 ounces	38,579.39 ounces	33,595.91 ounces
Gold Equivalent Produced	1,183 ounces	980 ounces	1,001 ounces
Developed Meters	544 meters	563 meters	566 meters
Samples Taken	5,503 samples	4,039 samples	4,018 samples
Diamond Drilling Meters	0 meters	0 meters	0 meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers

Q1/2021 Compared to Q4/2020

Production of gold during Q1/2021 was 26% higher than production during Q4/2020 (771 ounces compared to 612 ounces). Silver production during Q1/2021 was 11.7% lower than Q4/2020 (35,123 ounces compared to 39,773 ounces). The gold equivalent production in Q1/2021 was 20.7% higher than Q4/2020 (1,183 ounces compared to 980 ounces). Total tonnes processed in Q1/2021 were 8.7% higher than the total tonnes processed in Q4/2020 (9,655 tonnes as compared to 8,886 tonnes). In Q1/2021 gold recoveries were slightly higher than Q4/2020 (95.77% compared to 94.79%) and silver recoveries were 4% lower (48.52% compared to 50.55%).

The increase in gold production for Q1/2021 was as a result of additional tonnes processed, an increase in the gold grade content in the mineralized material processed (from the Agua Negra Mine area at the San Francisco Project) and slightly higher recoveries. The decrease in silver production was due to a decrease in the silver grade due to high levels of manganese in the mineralized material processed, even though more tonnes were processed.

Q1/2021 Compared Q1/2020

During Q1/2021 the Company produced 771 ounces of gold and 35,123 ounces of silver compared to 613 ounces of gold and 34,635 ounces of silver during Q1/2020. The gold equivalent produced during the Q1/2021 was 1,183 ounces as compared to 1,001 ounces during Q1/2020 reflecting the 858 tonne increase in material processed along with higher gold grade and gold recovery from the material processed. During Q1/2020 operations in some areas of the San Francisco Project were impacted by an unusually inclement rainy season.

Drifting

The allocation for drifting amongst areas during each of Q1/2021, Q4/2020 and Q1/2020 is as follows:

Area	Q1/2021 (meters)	%	Q4/2020 (meters)	%	Q1/2020 (meters)	%
Tajos Cuates	0	0%	0	0%	129	23%
Florida NW	0	0%	0	0%	31	5%
Florida SE Project	0	0%	0	0%	0	0%
San Francisco Project	544	100%	563	100%	406	72%
TOTAL DRIFTING	544	100%	563	100%	566	100%

Distribution of the development during each of Q1/2021, Q4/2020 and Q1/2020, by activity, is as follows:

Type of Drifting	Q1/2021 (meters)	%	Q4/2020 (meters)	%	Q1/2020 (meters)	%
Exploration	337	62%	352	63%	420	74%
Stope Preparation	207	38%	211	37%	146	26%
TOTAL DRIFTING	544	100%	563	100%	566	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 Q1/2021 from the various working faces was 11,509 wet tonnes compared to 9,226 wet tonnes during Q4/2020. Production during both quarters was obtained solely from the San Francisco Project area.

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

	As at May 31, 2019 as Presented \$	Restatement \$	As at May 31, 2019 Restated \$
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)	(853,197)	(75,902,769)

Extract from Consolidated Statement of Loss and Comprehensive Loss

	Year Ended May 31, 2019 as Presented \$	Restatement \$	Year Ended May 31, 2019 Restated \$
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

	Year Ended May 31, 2019 as Presented \$	Restatement \$	Year Ended May 31, 2019 Restated \$
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 unaudited condensed consolidated interim financial statements of the Company.

Three Month Period Ending	Fiscal 2021	Fiscal 2020				Fiscal 2019 (Restated)		
	Aug 31/20 \$	May 31/20 \$	Feb 29/20 \$	Nov 30/19 \$	Aug 31/19 \$	May 31/19 ⁽¹⁾ \$	Feb 28/19 \$	Nov 30/18 \$
Operations:								
Revenues	3,248,175	2,415,814	1,606,452	1,999,775	1,887,874	1,499,229	1,468,279	1,852,401
Cost of sales	(2,155,784)	(2,598,880)	(1,612,883)	(1,589,391)	(1,997,677)	(2,265,023)	(1,646,299)	(2,204,829)
Depletion and amortization	(70,103)	(37,018)	(36,213)	(36,213)	(36,213)	(70,007)	Nil	Nil
Provision for site restoration	(16,125)	2,670	(40,800)	(20,114)	(20,231)	(20,452)	(20,212)	(19,529)
Income (expenses), excluding impairment	239,071	(50,780)	(536,878)	(746,939)	(19,472)	(545,292)	(593,231)	(309,542)
Impairment of exploration and evaluation assets	(143,895)	(28,401)	(64,763)	(64,016)	(67,697)	(92,546)	(38,306)	(65,654)
Comprehensive income (loss)	1,101,339	(296,523)	(685,085)	(456,898)	(253,416)	(1,494,091)	(829,769)	(747,153)
Basic and diluted income (loss) per share	0.05	(0.02)	(0.03)	(0.02)	(0.01)	(0.07)	(0.04)	(0.04)
Statement of Financial Position:								
Working capital (deficit)	(23,745,969)	(24,469,838)	(23,338,683)	(22,857,550)	(22,406,268)	(23,040,898)	(21,343,407)	(20,506,658)
Total assets	3,807,812	2,515,177	2,181,111	2,379,854	2,254,988	2,285,392	2,344,698	2,740,460
Provision for site restoration	(1,226,009)	(1,107,355)	(1,123,884)	(956,146)	(985,985)	(987,349)	(901,984)	(908,964)

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

Results of Operations

Three Months Ended August 31, 2020 Compared to Three Months Ended May 31, 2020

During the three months ended August 31, 2020 the Company reported comprehensive income of \$1,101,339 compared to comprehensive loss of \$296,523 for the three months ended May 31, 2020, an increase in income of \$1,397,862. The improvement in operations was due to higher tonnages processed, impact of increased grades and recoveries of gold, improved efficiencies and significantly higher prices received for gold and silver sales in the three months ended August 31, 2020 compared to the three months ended May 31, 2020.

Three Months Ended August 31, 2020 Compared to Three Months Ended August 31, 2019

During the three months ended August 31, 2020 the Company recorded comprehensive income of \$1,101,339 compared to a loss of \$253,416 for the three months ended August 31, 2019, an increase in income of \$1,354,755. The increase was primarily attributed to:

- (i) improved operations at Mina Real due to higher tonnages processed, impact of increased grades and recoveries of gold, increased efficiencies and significantly higher prices received for gold and silver sales in the three months ended August 31, 2020; and
- (ii) the recognition of a foreign exchange gain of \$690,145 in the the three months ended August 31, 2020 compared to a foreign exchange gain of \$381,621 in the the three months ended August 31, 2019 due to the fluctuation of the US dollar and Mexican peso exchange rates.

Production

During the three months ended August 31, 2020 the Company sold 1,159 equivalent ounces of gold and realized revenues of \$2,803 per equivalent ounce as compared to the sale of 1,014 equivalent ounces of gold and realized revenues of \$1,862 per equivalent ounce during the three months ended August 31, 2019.

The Company's cost of operations per gold equivalent ounce sold during the three months ended August 31, 2020 was \$1,934 as compared to \$2,026 during the three months ended August 31, 2020.

Direct operating cost of sales for the three months ended August 31, 2020 and 2019 comprise the following:

	2020 \$	2019 \$
Mine costs	817,555	660,557
Mill costs	547,123	579,297
Service department costs	791,106	757,823
	<u>2,155,784</u>	<u>1,997,677</u>

General and administrative expenses \$105,741 were reported for the three months ended August 31, 2020 compared to \$121,866 during the three months ended August 31, 2019, a decrease of \$16,125, as follows:

	2020 \$	2019 \$
Accounting and administrative	11,000	13,500
Directors and officers compensation	14,989	15,070
Legal	3,310	1,573
Office	15,547	24,718
Professional fees	229	5,591
Regulatory fees	2,050	1,800
Salaries and benefits	57,646	56,586
Transfer agent fees	589	548
Travel	381	2,480
	<u>105,741</u>	<u>121,866</u>

Exploration and Evaluation Assets

During the three months ended August 31, 2020 the Company incurred \$143,895 (2019 - \$67,697) 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 also recorded an offsetting impairment charge of \$143,895 (2019 - \$67,697) 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, 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	33,934,944	2,692,313	3,517,234	6,047,943	46,192,434
Additions	-	-	-	673,777	673,777
Balance, August 31, 2020	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,517,234</u>	<u>6,721,720</u>	<u>46,866,211</u>
Accumulated depletion, amortization and impairment:					
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	(33,934,944)	(2,692,313)	(3,081,837)	(5,755,303)	(45,464,397)
Depletion and amortization	-	-	(12,094)	(58,009)	(70,103)
Balance, August 31, 2020	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(3,093,931)</u>	<u>(5,813,312)</u>	<u>(45,534,500)</u>
Carrying value:					
Balance, May 31, 2020	-	-	435,397	292,640	728,037
Balance, August 31, 2020	-	-	423,303	908,408	1,331,711

During the three months ended August 31, 2020 the Company purchased a diesel truck and a front-end loader at a total cost of \$673,777.

Exploration, development and production activities conducted during three months ended August 31, 2020 are described in “Property Update” in this MD&A.

Financial Condition / Capital Resources

During the three months ended August 31, 2020 the Company recorded a net income of \$1,101,339. However, as at August 31, 2020, the Company had an accumulated deficit of \$76,493,352 and a working capital deficit of \$23,745,969. 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*

The Company considers its key management to consist of the Company's Chairman, Mr. Eduardo Luna, the Chief Executive Officer ("CEO"), Mr. Nick DeMare and the Chief Financial Officer ("CFO"), Mr. Jose Manuel Silva. During the three months ended August 31, 2020 and 2019 the following amounts were incurred:

	2020 \$	2019 \$
Professional fees - Mr. DeMare	6,120	6,120
Professional fees - Mr. Silva	5,869	5,950
Share-based compensation - Mr. Silva	2,400	-
	<u>14,389</u>	<u>12,070</u>

No fees were incurred with respect of Mr. Luna, in either of the three months ended August 31, 2020 or 2019.

As at August 31, 2020 \$1,137,779 (May 31, 2020 - \$1,159,119) remained unpaid to key management personnel.

(b) *Transactions with Other Related Parties*

(i) During the three months ended August 31, 2020 and 2019 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):

	2020 \$	2019 \$
Professional fees - Mr. Keane	-	-
Professional fees - Mr. Cernovitch	-	-
Professional fees - Mr. Tam	-	-
Professional fees - Mr. Magrum	-	-
Professional fees - Mr. Lim	3,000	3,000
Share-based compensation - Mr. Keane	2,400	-
Share-based compensation - Mr. Cernovitch	2,400	-
Share-based compensation - Mr. Tam	2,400	-
Share-based compensation - Mr. Magrum	2,400	-
Share-based compensation - Mr. Lim	2,400	-
	<u>15,000</u>	<u>3,000</u>

As at August 31, 2020 \$389,250 (May 31, 2020 - \$386,250) remained unpaid.

(ii) During the three months ended August 31, 2020 the Company incurred a total of \$11,000 (2019 - \$13,500) 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, 2020 \$96,604 (May 31, 2020 - \$91,044) 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 three months ended August 31, 2020 the Company recognized \$28,563 (2019 - \$28,283) of interest expense. As at August 31, 2020 \$853,999 (May 31, 2020 - \$843,865) of interest remained unpaid.

As at August 31, 2020, \$1,244,565 of the principal was outstanding of which \$898,878 is due to Mr. Luna and \$345,687 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 three months ended August 31, 2020 the Company recognized \$123,963 (2019 - \$120,580) of interest expense. As at August 31, 2020 \$2,498,848 (May 31, 2020 - \$2,509,605) of interest remained unpaid.

As at August 31, 2020 a total of \$4,041,999 of principal was outstanding of which a total of \$4,029,760 are due to Mr. Luna (\$3,654,888), Mr. Keane (\$26,084) and private corporations controlled or affiliated with Mr. DeMare (\$348,788).

- (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 three months ended August 31, 2020 the Company repaid \$nil (2019 - \$12,081) and recorded \$47,890 (2019 - \$47,890) of interest expense. As at August 31, 2020 \$1,377,010 (May 31, 2020 - \$1,329,220) of interest remained unpaid.

- (f) In fiscal 2013 the Company exercised its options to re-acquire its 20% equity interest in Mina Real from E Energy Ventures Inc. and United Coal Holdings Limited (the "Vendors"), where Mr. Tam, a director of the Company was also an officer of the Vendors, and issued \$5,500,000 of indebtedness (the "Indebtedness"). The Company has subsequently repaid \$1,869,000 of the principal of the Indebtedness. During fiscal 2019 the remaining principal Indebtedness of \$3,361,000 and accrued interest of \$2,154,523 was purchased by and assigned to private corporations.

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 the three months ended August 31, 2020 the Company recognized \$82,368 (2019 - \$82,368) of interest expense. As at August 31, 2020, \$2,564,577 (May 31, 2020 - \$2,481,313) of interest remained unpaid and is included in interest payable.

As at August 31, 2020 \$1,296,812 (May 31, 2020 - \$1,296,812) of principal and \$915,938 (May 31, 2020 - \$769,487) of accrued interest was owed to a private corporation associated with Mr. DeMare, the CEO of the Company.

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, 2020, there were 23,350,882 issued and outstanding common shares and share options to purchase 2,185,000 at an exercise price of \$0.05.