

# **ROCHESTER RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED AUGUST 31, 2021**

This discussion and analysis of financial position and results of operation is prepared as at October 29, 2021 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, 2021 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 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, 2021 the Company recorded a net loss of \$856,051 and, as at August 31, 2021, the Company had an accumulated deficit of \$76,002,461 and a working capital deficit of \$22,376,308. The Company has been unable to make all concession payments when due and, as at August 31, 2021, has unpaid

government concession payments and related carrying charges totalling \$2,495,007 (included in accounts payable and accrued liabilities). The Company's ongoing operations are dependent on extracting mineralized material from the Mina Real, San Francisco and Santa Fe 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 the market prices of gold and silver, its ability to continued improving its operations to maintain 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. During the three months ended August 31, 2021 the Company paid US \$200,000 on account of past fees owing and, as at August 31, 2021 US \$130,000 remained unpaid.

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 for three months ended August 31, 2021 (“Q1/2022”), the three months ended May 31, 2021 (“Q4/2021”) and three months ended August 31, 2020 (“Q1/2021”) are provided in the table below:

RESULTS	Q1/2022 (Jun 1, 2021 - Aug 31, 2021)	Q4/2021 (Mar 1, 2021 - May 31, 2021)	Q1/2021 (Jun 1, 2020 - Aug 31, 2020)
Tonnes Processed	15,547 tonnes	11,573 tonnes	9,655 tonnes
Gold Grade	1.96 g/t	2.86 g/t	2.59 g/t
Silver Grade	160.73 g/t	177.97 g/t	233.20 g/t
Gold Recovery	93.96 %	96.04 %	95.77 %
Silver Recovery	52.83 %	67.60 %	48.52 %
Gold Produced	991 ounces	1,021 ounces	771 ounces
Gold Sold	904,870 ounces	1,005,846 ounces	759,78 ounces
Silver Produced	42,444 ounces	44,762 ounces	35,123 ounces
Silver Sold	41,179,699 ounces	43,419,471 ounces	34,069.31 ounces
Gold Equivalent Produced	1,519 ounces	1,682 ounces	1,183 ounces
Developed Meters	978 meters	861 meters	544 meters
Samples Taken	6,737 samples	7,428 samples	5,503 samples
Diamond Drilling Meters	0 meters	0 meters	0 meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers

#### *Q1/2022 Compared to Q4/2021*

Production of gold during Q1/2022 was 2.94% lower than production during Q4/2021 (991 ounces compared to 1,021 ounces). Silver production during Q1/2022 was 5.18% lower than Q4/2021 (42,444 ounces compared to 44,762 ounces). Total tonnes processed in Q1/2022 were 34.34% higher than the total tonnes processed in Q4/2021 (15,547 tonnes as compared to 11,573 tonnes). In Q1/2022 gold recoveries were 2.17% lower than Q4/2021 (93.96% compared to 96.04%) and silver recoveries were 21.85% lower (52.83% compared to 67.60%).

Decreases in both gold and silver production were primarily a result of decreased grades in the tonnage processed from the Cholita area. In addition silver recoveries decreased due to materials from the Agua Negra area having higher manganese content. The decrease in grades and recoveries were partially offset by the increased tonnages of mineralized materials processed due to the upgrading of equipment and vehicles used for transporting the mineralized materials.

#### *Q1/2022 Compared Q1/2021*

During Q1/2022 the Company produced 991 ounces of gold and 42,444 ounces of silver compared to 771 ounces of gold and 35,123 ounces of silver during Q1/2021. The gold equivalent produced during the Q1/2022 was 1,519 ounces as compared to 1,183 ounces during Q1/2021 reflecting the 5,892 tonne increase in material processed along with slightly higher silver recoveries from the material processed. The increase in tonnage processed is a direct result of the upgrading of equipment and vehicles used for transporting the mineralized materials.

#### ***Drifting***

The allocation for drifting amongst areas during each of Q1/2022, Q4/2021 and Q1/2021 is as follows:

Area	Q1/2022 (meters)	%	Q4/2021 (meters)	%	Q1/2021 (meters)	%
Tajos Cuates	0	0%	0	0%	0	0%
Florida NW	0	0%	0	0%	0	0%
Florida SE Project	0	0%	0	0%	0	0%
San Francisco Project	978	100%	861	100%	2,711	100%
<b>TOTAL DRIFTING</b>	<b>978</b>	<b>100%</b>	<b>861</b>	<b>100%</b>	<b>2,711</b>	<b>100%</b>

Distribution of the development during each of Q1/2022, Q4/2021 and Q1/2021, by activity, is as follows:

Type of Drifting	Q1/2022 (meters)	%	Q4/2021 (meters)	%	Q1/2021 (meters)	%
Exploration	432	44%	331	38%	337	62%
Stope Preparation	546	56%	520	62%	207	38%
<b>TOTAL DRIFTING</b>	<b>978</b>	<b>100%</b>	<b>861</b>	<b>100%</b>	<b>544</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.

### *Operations*

Total production volume during Q1/2022 from the various working faces was 15,703 wet tonnes compared to 15,072 wet tonnes during Q4/2021. Production during both quarters was obtained solely from the San Francisco Project area.

### *Mill Area*

Work on the 10' x 10' mill is now underway however the Company is still waiting for the delivery of spare parts for clutch, lubrication system for crown and pinion, and for PSI protections and temperatures. As the delivery date for parts has increased due to COVID-19, there is no timeline for completion of the updating of the 10' x 10' mill. In addition the 4' x 4' mill transmission reducer is awaiting change due to wear and tear.

### **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 2022	Fiscal 2021				Fiscal 2020		
	Aug 31/21 \$	May 31/21 \$	Feb 28/21 \$	Nov 30/20 \$	Aug 31/20 \$	May 31/20 \$	Feb 29/20 \$	Nov 30/19 \$
<b>Operations:</b>								
Revenues	3,309,050	3,223,202	3,520,570	3,028,611	3,248,175	2,415,814	1,606,452	1,999,775
Cost of sales	(3,060,951)	(2,491,575)	(2,789,185)	(2,103,983)	(2,155,784)	(2,598,880)	(1,612,883)	(1,589,391)
Depletion and amortization	(103,648)	(114,978)	(70,103)	(70,103)	(70,103)	(37,018)	(36,213)	(36,213)
Provision for site restoration	(21,353)	(16,493)	(16,966)	(16,905)	(16,125)	2,670	(40,800)	(20,114)
Income (expenses), excluding impairment	(877,389)	293,297	103,108	(860,753)	239,071	(50,780)	(536,878)	(746,939)
Impairment of exploration and evaluation assets	(101,760)	(57,426)	(60,989)	(152,387)	(143,895)	(28,401)	(64,763)	(64,016)
Comprehensive income (loss)	(979,149)	836,027	686,435	(175,520)	1,101,339	(296,523)	(685,085)	(456,898)
Basic and diluted income (loss) per share	(0.02)	0.03	0.02	(0.01)	0.05	(0.02)	(0.03)	(0.02)
<b>Statement of Financial Position:</b>								
Working capital (deficit)	(22,376,308)	(21,538,187)	(22,401,586)	(23,881,675)	(23,745,969)	(24,469,838)	(23,338,683)	(22,857,550)
Total assets	5,147,277	5,478,360	4,484,553	3,418,042	3,807,812	2,515,177	2,181,111	2,379,854
Provision for site restoration	(1,240,036)	(1,255,839)	(1,186,879)	(1,114,430)	(1,226,009)	(1,107,355)	(1,123,884)	(956,146)
Lease liabilities	(322,198)	(281,523)	Nil	Nil	Nil	Nil	Nil	Nil

### **Results of Operations**

*Three Months Ended Aug 31, 2021 ("Q1/2022") Compared to Three Months Ended May 31, 2021 ("Q4/2021")*

During Q1/2022 the Company reported comprehensive loss of \$979,149 compared to comprehensive income of \$836,027 for Q4/2021, an increase in loss of \$1,815,176. The increase in loss was due to the following:

- (i) recognition of a foreign exchange loss of \$468,519 in Q1/2021 compared to a foreign exchange gain of \$397,795 in Q4/2021;

- (ii) during Q4/2021 the Company recorded a gain on settlement of payroll taxes of \$233,040; and
- (iii) a \$517,550 increase in cost of operations from \$2,668,402 in Q4/2021 to \$3,185,952 in Q1/2022 due to a 34.34% increase in mineralized material processed (15,547 tonnes in Q1/2022 compared to 11,573 tonnes in Q4/2021).

*Three Months Ended August 31, 2021 Compared to Three Months Ended August 31, 2020*

During the three months ended August 31, 2021 (“Q1/2022”) the Company reported comprehensive loss of \$856,051 compared to a comprehensive income of \$1,101,339 for the three months ended August 31, 2020 (“Q1/2021”), an increase in loss of \$1,957,390. The increase was attributed to:

- (i) recognition of a foreign exchange loss of \$468,519 in Q1/2022 compared to a foreign exchange gain of \$690,146 in Q1/2021; and
- (ii) decrease in operating income from \$1,006,163 in Q1/2021 to \$123,098 in Q1/2022 due to the increase in cost of operations as a result of higher volumes of mineralized material processed, lower grades and recoveries and a decrease in the market prices received for gold and silver sales.

*Production*

During the three months ended August 31, 2021 the Company sold 1,488 gold equivalent ounces and realized revenues of \$2,224 per gold equivalent ounce as compared to the sale of 1,159 gold equivalent ounces and realized revenues of \$2,803 per gold equivalent ounce during the three months ended August 31, 2020.

The Company’s cost of operations per gold equivalent ounce sold during the three months ended August 31, 2021 was \$2,141 as compared to \$1,934 during the three months ended August 31, 2020.

Direct operating cost of sales for the three months ended August 31, 2021 and 2020 comprise the following:

	2021 \$	2020 \$
Mine costs	1,458,632	817,555
Mill costs	625,311	547,123
Service department costs	977,008	791,106
	<u>3,060,951</u>	<u>2,155,784</u>

General and administrative expenses of \$145,131 were reported for the three months ended August 2021 compared to \$105,741 during the three months ended August 31, 2020, an increase of \$39,390. A summary of expenses are as follows:

	2021 \$	2020 \$
Accounting and administrative	15,000	11,000
Director and officer compensation	14,798	14,989
Legal	3,487	3,310
Office	28,749	15,547
Professional fees	6,910	229
Regulatory fees	1,300	2,050
Salaries and benefits	72,895	57,646
Transfer agent fees	605	589
Travel	1,387	381
	<u>145,131</u>	<u>105,741</u>

*Exploration and Evaluation Assets*

During the three months ended August 31, 2021 the Company incurred \$101,760 (2020 - \$143,895) 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 \$101,760 (2020 - \$143,895) 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, 2020	33,934,944	2,692,313	3,517,234	6,047,943	46,192,434
Additions	-	-	-	1,082,149	1,082,149
Balance, May 31, 2021	33,934,944	2,692,313	3,517,234	7,130,092	47,274,583
Additions	-	-	-	16,023	16,023
Balance, August 31, 2021	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,517,234</u>	<u>7,146,115</u>	<u>47,290,606</u>
<b>Accumulated depletion, amortization and impairment:</b>					
Balance, May 31, 2020	(33,934,944)	(2,692,313)	(3,081,837)	(5,755,303)	(45,464,397)
Depletion and amortization	-	-	(48,377)	(232,035)	(280,412)
Balance, May 31, 2021	(33,934,944)	(2,692,313)	(3,130,214)	(5,987,338)	(45,744,809)
Depletion and amortization	-	-	(12,094)	(58,009)	(70,103)
Balance, August 31, 2021	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(3,142,308)</u>	<u>(6,045,347)</u>	<u>(45,814,912)</u>
<b>Carrying value:</b>					
Balance, May 31, 2021	-	-	387,020	1,142,754	1,529,774
Balance, August 31, 2021	<u>-</u>	<u>-</u>	<u>374,926</u>	<u>1,100,768</u>	<u>1,475,694</u>

Exploration, development and production activities conducted during the three months ended August 31, 2021 are described in "Property Update" in this MD&A.

*Financings*

During the three months ended August 31, 2021 and 2020 the Company did not complete any equity financings.

**Financial Condition / Capital Resources**

During three months ended August 31, 2021 the Company recorded a net loss of \$856,051. However, as at August 31, 2021, the Company had an accumulated deficit of \$76,002,461 and a working capital deficit of \$22,376,3. The Company's ongoing operations are dependent on extracting mineralized material 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 maintain 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 "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

A detailed summary of all the Company's significant accounting policies and accounting standards and interpretations issued but not yet effective, is included in Note 3 to the May 31, 2021 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, 2021 and 2020 the following amounts were incurred:

	2021 \$	2020 \$
Professional fees - Mr. DeMare	6,120	6,120
Professional fees - Mr. Silva	5,678	5,869
Share-based compensation - Mr. Silva	-	2,400
	<u>11,798</u>	<u>14,389</u>

No fees were incurred with respect of Mr. Luna, in either the three months ended August 31, 2021 or 2020.

As at August 31, 2021 \$1,113,717 (May 31, 2021 - \$1,104,455) remained unpaid to key management personnel on account of past accrued fees..

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

(i) During the three months ended August 31, 2021 and 2020 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):

	2021 \$	2020 \$
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>3,000</u>	<u>15,000</u>

As at August 31, 2021 \$257,250 (May 31, 2021 - \$257,250) remained unpaid.

(ii) During the three months ended August 31, 2021 the Company incurred a total of \$15,000 (2020 - \$11,000) 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, 2021 \$26,442 (May 31, 2021 - \$48,607) remained unpaid on account of past accrued fees.

- (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, 2021 the Company recognized \$23,153 (2020 - \$28,563) of interest expense. As at August 31, 2021 \$939,878 (May 31, 2021 - \$901,465) of interest remained unpaid.

As at August 31, 2021, \$1,027,028 of the principal was outstanding of which \$843,683 is due to Mr. Luna and \$183,345 is due to a private corporation 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. As at August 31, 2021 a total of \$3,274,332 (May 31, 2021 - \$3,137,326) of principal was outstanding of which \$3,084,686 is due to Mr. Luna and \$189,646 is due to private corporations controlled or affiliated with Mr. DeMare.

During the three months ended August 31, 2021 the Company recognized \$97,769 (2020 - \$123,963) of interest expense. As at August 31, 2021 \$2,817,513 (May 31, 2021 - \$2,604,385) of interest remained unpaid.

- (e) As at August 31, 2021 \$775,000 (May 31, 2021 - \$775,000) debentures are outstanding 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, 2021 the Company recorded \$39,068 (2020 - \$47,890) of interest expense. As at August 31, 2021 \$1,544,576 (May 31, 2021 - \$1,505,508) of interest remained unpaid.

As at August 31, 2021 Mr. Luna holds \$577,000 of the debentures.

- (f) Indebtedness of \$3,631,000 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, 2021 the Company recognized \$82,368 (2020 - \$82,368) of interest expense. As at August 31, 2021, \$2,890,471 (May 31, 2021 - \$2,808,103) of interest remained unpaid and is included in interest payable.

As at August 31, 2021 \$1,296,812 (May 31, 2021 - \$1,296,812) of principal and \$1,032,651 (May 31, 2021 - \$1,003,233) of accrued interest was owed to a private corporation associated with Mr. DeMare.

### **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, 2021, there were 37,394,125 issued and outstanding common shares, share options to purchase 2,185,000 common shares at an exercise price of \$0.05 per share and warrants to purchase 11,593,243 common shares at an exercise price of \$0.075 per share.