

# **ROCHESTER RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED MAY 31, 2022**

This discussion and analysis of financial position and results of operation is prepared as at September 28, 2022 and should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ended May 31, 2022 and 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**

In March 2020 the World Health Organization 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 restrictions, 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 and San Francisco Projects 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 fiscal 2022 the Company recorded a net loss of \$2,634,766 and, as at May 31, 2022, the Company had a working capital deficit of \$23,509,745. The Company has been unable to make all concession payments when due and, as at May 31, 2022, has unpaid government concession payments and related carrying charges totalling

\$2,987,892 (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 the Mina Real and San Francisco Properties, 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. As at May 31, 2022 US \$210,000 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 11 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 each quarter of fiscal 2022 and accumulated for fiscal 2022 and 2021 are provided in the table below:

RESULTS	Q4 (Mar 1/22 - May 31/22)	Q3 (Dec 1/21 - Feb 28/22)	Q2 (Sep 1/21 - Nov 30/21)	Q1 (Jun 1/21 - Aug 31/21)	Accumulated Fiscal 2022	Accumulated Fiscal 2021
Tonnes Processed	14,943 tonnes	16,096 tonnes	13,819 tonnes	15,547 tonnes	60,406 tonnes	41,979 tonnes
Gold Grade	2.22 g/t	1.97 g/t	2.52 g/t	1.96 g/t	2.15 g/t	2.70 g/t
Silver Grade	210.85 g/t	171.74 g/t	169.57 g/t	160.73 g/t	178.09 g/t	197.77 g/t
Gold Recovery	95.27 %	94.52 %	95.86 %	93.96 %	94.94%	95.78%
Silver Recovery	50.35 %	48.19 %	52.96 %	52.83 %	50.94%	59.01%
Gold Produced	1,015 ounces	962 ounces	1,075 ounces	919 ounces	3,971 ounces	3,488 ounces
Gold Sold	999.567 ounces	947.859 ounces	1,058.989 ounces	904.870 ounces	3,911.286 ounces	3,435.273 ounces
Silver Produced	51,007 ounces	42,830 ounces	39,898 ounces	42,444 ounces	176,178 ounces	157,506 ounces
Silver Sold	49,476.331 ounces	41,545.271 ounces	38,701.245 ounces	41,170.699 ounces	170,893.54 ounces	152,780.71 ounces
Gold Equivalent Produced	1,652 ounces	1,504 ounces	1,600 ounces	1,519 ounces	6,275 ounces	5,620 ounces
Developed Meters	811 meters	883 meters	704 meters	978 meters	3,376 meters	2,711 meters
Samples Taken	8,884 samples	6,859 samples	5,939 samples	6,737 samples	28,419 samples	25,195 samples
Diamond Drilling Meters	63 meters	253 meters	226 meters	0 meters	542 Meters	0 Meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers

#### *Q4 Compared to Q3*

Production of gold during Q4 was 5.5% higher than production during Q3 (1,015 ounces compared to 962 ounces). Silver production during Q4 was 19.1% higher than Q3 (51,007 ounces compared to 42,830 ounces). The higher production of both gold and silver resulted in a 9.84% increase in gold equivalent produced in Q4 (1,652 ounces in Q4 compared to 1,504 ounces in Q3).

The grades and recoveries of both gold and silver fluctuate dependent upon which part of the Cholita and Agua Negra project areas the majority of the mineralized material processed is transported from. The Agua Negra area has higher amounts of manganese which causes lower production of both silver and gold. The increase in gold and silver production in Q4 is a direct result of higher grades processed and higher recoveries in both gold and silver partially offset by lower fewer tonnes processed.

#### *Fiscal 2022 Compared to Fiscal 2021*

During fiscal 2022 the Company produced 3,971 ounces of gold and 176,178 ounces of silver compared to 3,488 ounces of gold and 157,506 ounces of silver during fiscal 2021. The increases are a direct result of the 18,427 tonne increase in material processed in fiscal 2022, due to the upgrading of equipment and vehicles used for transporting the mineralized materials, offsetting the lower grades of silver and gold.

#### *Drifting*

The allocation for drifting amongst areas during each quarter of fiscal 2022 and accumulated for fiscal 2022 and 2021 are as follows:

Area	Q4		Q3		Q2		Q1		Fiscal 2022		Fiscal 2021	
	Meters	%	Meters	%	Meters	%	Meters	%	Meters	%	Meters	%
Tajos Cuates	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Florida NW	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Florida SE Project	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
San Francisco Project	811	100%	883	100%	704	100%	978	100%	2,565	100%	2,711	100%
<b>TOTAL DRIFTING</b>	<b>811</b>	<b>100%</b>	<b>883</b>	<b>100%</b>	<b>704</b>	<b>100%</b>	<b>978</b>	<b>100%</b>	<b>3,376</b>	<b>100%</b>	<b>2,711</b>	<b>100%</b>

Distribution of the development during each quarter of fiscal 2022 and accumulated for fiscal 2022 and 2021 are as follows:

Type of Drifting	Q4		Q3		Q2		Q1		Fiscal 2022		Fiscal 2021	
	Meters	%	Meters	%	Meters	%	Meters	%	Meters	%	Meters	%
Exploration	247	31%	514	58%	295	42%	432	44%	1,488	44%	1,107	41%
Stope Preparation	564	69%	369	42%	409	58%	546	56%	1,888	56%	1,604	59%
<b>TOTAL DRIFTING</b>	<b>811</b>	<b>100%</b>	<b>883</b>	<b>100%</b>	<b>704</b>	<b>100%</b>	<b>978</b>	<b>100%</b>	<b>3,376</b>	<b>100%</b>	<b>2,711</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.

### Mill Area

As at the date of this MD&A work on the 10' x 10' mill is 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. There is no timeline for completion of the updating of the 10' x 10' mill.

During fiscal 2022, at the 4' x 4' mill, the Company replaced the transmission reducer and installed a new feeder box.

Repairs commenced during late March 2022 to replace elevator cylinders, heads and worn liners on the 6' x 5' mill. As of the date of this MD&A the work is still in progress.

### Selected Financial Data

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

	Fiscal Years Ended May 31		
	2022 \$	2021 \$	2020 \$
<b>Operations:</b>			
Revenues	13,819,817	13,020,558	7,909,915
Cost of sales	(13,309,956)	(9,540,527)	(7,798,831)
Depletion and amortization	(554,051)	(325,287)	(145,657)
Provision for site restoration	(84,543)	(66,489)	(78,475)
Expenses, excluding impairment	(2,245,241)	(225,277)	(1,353,997)
Impairment of exploration and evaluation assets	(260,792)	(414,697)	(224,877)
Impairment of property, plant and equipment	Nil	Nil	Nil
Comprehensive income (loss)	(2,634,766)	2,448,281	(1,691,922)
Basic and diluted income (loss) per share	(0.06)	0.09	(0.08)
Dividends per share	Nil	Nil	Nil
<b>Statement of Financial Position:</b>			
Working capital (deficit)	(23,509,745)	(21,538,187)	(24,469,838)
Total assets	6,099,482	5,478,360	2,515,177
Provision for site restoration	(1,480,790)	(1,255,839)	(1,107,355)
Total lease liabilities	(474,663)	(340,725)	Nil

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			
	May 31/22 \$	Feb 28/22 \$	Nov 30/21 \$	Aug 31/21 \$	May 31/21 \$	Feb 28/21 \$	Nov 30/20 \$	Aug 31/20 \$
<b>Operations:</b>								
Revenues	3,888,512	3,134,698	3,487,557	3,309,050	3,223,202	3,520,570	3,028,611	3,248,175
Cost of sales	(2,810,726)	(4,152,561)	(3,285,718)	(3,060,951)	(2,491,575)	(2,789,185)	(2,103,983)	(2,155,784)
Depletion and amortization	(238,847)	(107,908)	(103,648)	(103,648)	(114,978)	(70,103)	(70,103)	(70,103)
Provision for site restoration	(21,607)	(21,007)	(20,576)	(21,353)	(16,493)	(16,966)	(16,905)	(16,125)
Income (expenses), excluding impairment	(1,612,196)	142,009	(82,665)	(877,389)	293,297	103,108	(860,753)	239,071
Impairment of exploration and evaluation assets	(38,935)	(83,159)	(36,938)	(101,760)	(57,426)	(60,989)	(152,387)	(143,895)
Comprehensive income (loss)	(648,799)	(1,087,928)	(41,988)	(856,051)	836,027	686,435	(175,520)	1,101,339
Basic and diluted income (loss) per share	(0.01)	(0.03)	(0.00)	(0.02)	0.03	0.02	(0.01)	0.05

Three Month Period Ending	Fiscal 2022				Fiscal 2021			
	May 31/22 \$	Feb 28/22 \$	Nov 30/21 \$	Aug 31/21 \$	May 31/21 \$	Feb 28/21 \$	Nov 30/20 \$	Aug 31/20 \$
<b>Statement of Financial Position:</b>								
Working capital (deficit)	(23,509,745)	(23,134,637)	(22,695,735)	(22,376,308)	(21,538,187)	(22,401,586)	(23,881,675)	(23,745,969)
Total assets	6,099,482	5,640,239	5,472,903	5,147,277	5,478,360	4,484,553	3,418,042	3,807,812
Provision for site restoration	(1,480,790)	(1,356,643)	(1,394,500)	(1,240,036)	(1,255,839)	(1,186,879)	(1,114,430)	(1,226,009)
Total lease liabilities	(474,663)	(460,360)	(376,516)	(416,107)	(340,725)	Nil	Nil	Nil

## Results of Operations

### *Three Months Ended May 31, 2022 ("Q4") Compared to Three Months Ended February 28, 2022 ("Q3")*

During Q4 the Company reported comprehensive loss of \$648,799 compared to comprehensive loss of \$1,087,928 for Q3, a decrease in loss of \$439,129. The decrease in loss was primarily due to the fluctuation in foreign exchange offset against an increase in operating income reported in Q4. During Q4 the Company reported operating income of \$817,332 compared to an operating loss in Q3 of \$1,146,778 and offset by a foreign exchange loss in Q4 of \$1,036,838 compared to a foreign exchange gain in Q3 of \$555,601.

### *Three Months Ended May 31, 2022 Compared to Three Months Ended May 31, 2021*

During the three months ended May 31, 2022 ("Q4/2022") the Company reported comprehensive loss of \$648,799 compared to comprehensive income of \$836,027 for the three months ended May 31, 2021 ("Q4/2021"), an increase in loss of \$1,484,826, reflecting the fluctuation in foreign exchange from a foreign exchange gain of \$397,795 in Q4/2022 to a foreign exchange gain of \$1,036,838 in Q4/2021.

### *Year Ended May 31, 2022 Compared to Year Ended May 31, 2021*

During the year ended May 31, 2022 ("fiscal 2022") the Company recorded comprehensive loss of \$2,634,766 compared to comprehensive income of \$2,448,281 for the year ended May 31, 2021 ("fiscal 2021"), an increase in loss of \$5,083,047. The fluctuation was primarily attributed to a \$3,769,429 increase in cost of sales from \$9,540,527 during fiscal 2021 compared to \$13,309,956 during fiscal 2022. The increase in cost of sales was due to higher tonnages processed and ongoing repairs incurred during fiscal 2022.

In addition during fiscal 2022 the Company recognized a foreign exchange loss of \$649,822 compared to a gain of \$1,177,248 during fiscal 2021 due to the fluctuation of the US Dollar and Mexican Peso exchange rates.

### *Production*

During fiscal 2022 the Company sold 6,275 gold equivalent ounces and realized revenues of \$2,202 per gold equivalent ounce as compared to the sale of 5,504 gold equivalent ounces and realized revenues of \$2,366 per gold equivalent ounce during fiscal 2021.

The Company's cost of operations per gold equivalent ounce sold during fiscal 2022 was \$2,121 as compared to \$1,805 during fiscal 2021.

Direct operating cost of sales for fiscal 2022 and 2021 comprise the following:

	2022 \$	2021 \$
Mine costs	6,290,030	4,011,582
Mill costs	2,747,570	2,059,187
Service department costs	<u>4,272,356</u>	<u>3,469,758</u>
	<u>13,309,956</u>	<u>9,540,527</u>

General and administrative expenses of \$636,528 were reported during fiscal 2022 compared to \$514,913 during the fiscal 2021 an increase of \$121,615. A summary of expenses are as follows:

	2022 \$	2021 \$
Accounting and administrative	56,500	58,200
Audit	53,000	42,950
Director and officer compensation	26,995	59,416
Legal	14,807	26,333
Office	153,864	116,977
Professional fees	11,024	10,205
Regulatory fees	8,278	15,471
Salaries and benefits	295,528	169,915
Shareholder costs	2,382	88
Transfer agent fees	4,731	7,516
Travel	9,419	7,842
	<u>636,528</u>	<u>514,913</u>

Specific expense of note are as follows:

- (i) incurred director and officer compensation of \$59,245 (2021 - \$59,416) less a \$32,250 reversal for accrued amounts included in past years to a former director, for a net \$26,995. See also “Related Party Disclosures”; and
- (ii) recorded salaries and benefits expense of \$295,528 (2021 - \$169,915). Salaries and benefits in fiscal 2021 reflected a reassessment credit of \$96,365 relating to prior years from the Mexican Institute of Social Security.

#### *Exploration and Evaluation Assets*

During fiscal 2022 the Company incurred \$260,792 (2021 - \$414,697) 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 \$260,792 (2021 - \$414,697) 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 \$
<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	-	-	-	636,146	636,146
Balance, May 31, 2022	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,517,234</u>	<u>7,766,238</u>	<u>47,910,729</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	-	-	(48,377)	(359,264)	(407,641)
Balance, May 31, 2022	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(3,178,591)</u>	<u>(6,346,602)</u>	<u>(46,152,450)</u>
<b>Carrying value:</b>					
Balance, May 31, 2021	-	-	387,020	1,142,754	1,529,774
Balance, May 31, 2022	-	-	338,643	1,419,636	1,758,279

During fiscal 2022 the Company completed the purchases of a compressor and truck at a cost of approximately \$550,000 in addition to replacement of component parts in the mill area, as described in “Property Update - Mill

Area”. Development and production activities conducted during fiscal 2022 are described in “Property Update” in this MD&A.

### *Financings*

The Company did not complete any equity financings during fiscal 2022.

During fiscal 2021 the Company completed a non-brokered private placement for 2,500,000 common shares at \$0.05 per share for proceeds of \$125,000. The proceeds raised from the financing were used for general working capital purposes.

### *Debt Settlements*

#### *Fiscal 2022*

On February 1, 2022 the Company issued:

- (i) 3,750,000 common shares on the exercise of warrants in settlement of \$281,250 of Advances; and
- (ii) 6,000,000 common shares on the exercise of warrants in settlement of \$450,000 of Debentures.

#### *Fiscal 2021*

On January 8, 2021 the Company issued:

- (i) 9,259,903 units of the Company, at \$0.075 per unit, in settlement of \$694,493 of Advances;
- (ii) 2,333,340 units of the Company, at \$0.075 per unit, in settlement of \$175,000 of Debentures; and
- (iii) 2,450,000 common shares of the Company, at \$0.075 per share, in settlement of \$183,750 of amounts payable to directors and officers.

Each unit comprises one common share of the Company and one share purchase warrant entitling the holder to purchase an additional common share of the Company at \$0.075 per share on or before January 8, 2024. See also “Related Party Disclosures”.

### **Financial Condition / Capital Resources**

During fiscal 2022 the Company recorded a net loss of \$2,634,766 and, as at May 31, 2022, the Company had a working capital deficit of \$23,509,745. 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.

### **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, 2022 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 fiscal 2022 and 2021 the following amounts were incurred:

	2022 \$	2021 \$
Professional fees - Mr. DeMare	24,480	24,480
Professional fees - Mr. Silva	22,765	22,936
Share-based compensation - Mr. Silva	-	2,400
	<u>47,245</u>	<u>49,816</u>

No fees were incurred with respect of Mr. Luna, in either fiscal 2022 or 2021.

During fiscal 2021 the Company issued 650,000 common shares of the Company in settlement of \$48,750 of amounts payable to Mr. Silva.

As at May 31, 2022 \$1,130,359 (2021 - \$1,104,455) remained unpaid.

### (b) Transactions with Other Related Parties

(i) During fiscal 2022 and 2021 the following amounts were incurred with respect to the Company's non-executive current and former directors (Messrs. Joseph Keane, Marc Cernovitch, Simon Tam and Michael Magrum) and the Company's Corporate Secretary (Mr. Harvey Lim):

	2022 \$	2021 \$
Professional fees - Mr. Lim	12,000	12,000
Share-based compensation - Mr. Keane	-	2,400
Share-based compensation - Mr. Cernovitch	-	2,400
Share-based compensation - Mr. Tam <sup>(1)</sup>	-	2,400
Share-based compensation - Mr. Magrum	-	2,400
Share-based compensation - Mr. Lim	-	2,400
	<u>12,000</u>	<u>24,000</u>

(1) Mr. Tam did not stand for re-election as a director at the Company's AGM held on January 28, 2022.

During fiscal 2022 the Company recognized a \$32,250 reversal of consulting fees previously accrued to Mr. Tam.

During fiscal 2021 the Company issued 1,800,000 common shares of the Company in settlement of \$135,000 of amounts payable to certain current and former directors and an officer of the Company as follows:

	Number of Shares	\$
Mr. Cernovitch	650,000	48,750
Mr. Tam	650,000	48,750
Mr. Lim	500,000	37,500
	<u>1,800,000</u>	<u>135,000</u>

As at May 31, 2022 \$227,000 (May 31, 2021 - \$257,250) remained unpaid.

- (ii) During fiscal 2022 the Company incurred a total of \$56,500 (2021 - \$58,200) 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, 2022 \$6,546 (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 fiscal 2022 the Company issued 1,532,800 common shares of the Company on the exercise of warrants in settlement of \$114,960 of principal due to amounts payable to a private corporation controlled or affiliated with Mr. DeMare.

During fiscal 2021 the Company issued 1,667,200 units of the Company in settlement of \$125,040 of principal due to amounts payable to a private corporation controlled or affiliated with Mr. DeMare.

As at May 31, 2022, \$844,702 of principal is due to Mr. Luna and \$68,552 is due to a private corporation controlled or affiliated with Mr. DeMare.

- (d) The Company has received ongoing advances which bear interest at a rate of 12% per annum and have no fixed terms of repayment.

During fiscal 2022 the Company issued 2,217,200 common shares of the Company on exercise of warrants in settlement of \$166,290 of principal due to amounts payable to a private corporation controlled or affiliated with Mr. DeMare.

During fiscal 2021 the Company issued 7,592,702 units of the Company in settlement of \$569,453 of advances to certain directors and officers as follows:

	Number of Units	\$
Mr. Luna	5,000,000	375,000
Mr. Keane	346,730	26,005
Mr. Bottomer (former director)	163,173	12,238
Private corporations controlled or affiliated with Mr. DeMare	<u>2,082,799</u>	<u>156,210</u>
	<u>7,592,702</u>	<u>569,453</u>

As at May 31, 2022 \$3,092,265 of principal is due to Mr. Luna and \$11,771 is due to a private corporation controlled or affiliated with Mr. DeMare.

- (e) The principal amounts under a \$950,000 secured debenture financing (the “Debentures”) are subject to a monthly interest charge equivalent to \$12.67 multiplied by the greater of: (a) the monthly production of mineralized material from the Company’s San Francisco Property, and (b) the average monthly production of mineralized material from the San Francisco Property, provided, however, that the monthly interest has a minimum monthly payment of \$5,067 per month and a maximum payment of \$15,833 per month.

During fiscal 2022 the Company issued 5,000,000 common shares of the Company on exercise of warrants in settlement of \$375,000 of Debentures due to Mr. Luna. As at May 31, 2022 Mr. Luna holds \$202,000 of the Debentures.

During fiscal 2021 the Company issued 1,333,340 units of the Company in settlement of \$100,000 of Debentures to certain directors as follows:

	Number of Units	\$
Mr. Keane	666,670	50,000
Mr. Magrum	666,670	50,000
	<u>1,333,340</u>	<u>100,000</u>

- (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.

As at May 31, 2022 \$1,296,812 (2021 - \$1,296,812) of principal and \$1,119,946 (2021 - \$1,003,233) of accrued interest was owed to a private corporation associated with Mr. DeMare.

### Contingent Liability and Commitments

- (a) From time to time the Company becomes involved in various claims and litigation, including various governmental audits, as part of the normal course of operations. The Company has received communication from the Mexican state of Nayarit's Secretary of Administration and Finance in disagreement with the Company's position in settlement of certain if its payroll taxes payable and deductibility of certain expenses and has recalculated the amount to be payable as approximately \$1,745,000. The Company has engaged legal counsel to review and respond to the reassessments. While the outcome thereof cannot be predicted, based on the information currently available, the Company has made a provision of \$185,000 based on the expected value method, for the tax uncertainty which has been recorded in cost of sales. The Company believes the resolution of current pending claims and litigation will not have a material impact on the Company's financial position and results of operations.
- (b) The Company has only made partial government concession payments and accrued carrying charges on its concessions. As at May 31, 2022 \$2,987,892 (2021 \$2,364,762) of government concessions payments remained unpaid and are included in accounts payable and accrued liabilities.

### 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, 2022, there were 47,144,125 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 1,843,243 common shares at an exercise price of \$0.075 per share.