
ROCHESTER RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2022 AND 2021

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Rochester Resources Ltd.

Opinion

We have audited the consolidated financial statements of Rochester Resources Ltd. (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2022 and May 31, 2021, and the consolidated statements of net (loss) income and comprehensive (loss) income, consolidated statements of changes in shareholders' equity (deficit) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2022 and May 31, 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company recorded a net loss of \$ 2,634,766 and, as at May 31, 2022, the Company had an accumulated deficit of \$ 77,781,176, and a working capital deficit of \$ 23,509,745 and has been unable to make all concession payments when due in the current and prior years for the Mina Real, San Francisco and Santa Fe properties. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Carly Bergman.

Vancouver, B.C.
September 28, 2022

"D&H Group LLP"

Chartered Professional Accountants

ROCHESTER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Notes	May 31, 2022 \$	May 31, 2021 \$
ASSETS			
Current assets			
Cash		347,045	668,534
Amounts receivable	4	1,377,097	1,464,488
GST/IVA tax receivables		696,488	357,422
Prepaid expenses and deposit		60,723	141,997
Inventories	5	<u>1,338,977</u>	<u>928,483</u>
Total current assets		<u>3,820,330</u>	<u>3,560,924</u>
Non-current assets			
Property, plant and equipment	7	1,758,279	1,529,774
Right of use assets	8	<u>520,873</u>	<u>387,662</u>
Total non-current assets		<u>2,279,152</u>	<u>1,917,436</u>
TOTAL ASSETS		<u>6,099,482</u>	<u>5,478,360</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		9,075,526	7,259,723
Amounts payable to directors and officers	13	1,363,905	1,410,312
Current portion of lease liabilities	8	124,417	59,202
Interest payable	9, 10, 11	8,892,937	7,820,356
Advances	9	4,017,290	4,143,518
Debentures	10	225,000	775,000
Indebtedness	11	<u>3,631,000</u>	<u>3,631,000</u>
Total current liabilities		<u>27,330,075</u>	<u>25,099,111</u>
Non-current liabilities			
Provision for site restoration	15	1,480,790	1,255,839
Lease liabilities	8	<u>350,246</u>	<u>281,523</u>
		<u>1,831,036</u>	<u>1,537,362</u>
TOTAL LIABILITIES		<u>29,161,111</u>	<u>26,636,473</u>
SHAREHOLDERS' DEFICIT			
Share capital	12	47,182,525	46,451,275
Share-based payments reserve		7,293,723	7,293,723
Contributed surplus		243,299	243,299
Deficit		<u>(77,781,176)</u>	<u>(75,146,410)</u>
TOTAL SHAREHOLDERS' DEFICIT		<u>(23,061,629)</u>	<u>(21,158,113)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		<u>6,099,482</u>	<u>5,478,360</u>

Nature of Operations and Going Concern - See Note 1

Contingent Liability and Commitments - See Note 19

These consolidated financial statements were approved for issue by the Board of Directors on September 28, 2022 and are signed on its behalf by:

/s/ Eduardo Luna
Eduardo Luna
Director

/s/ Nick DeMare
Nick DeMare
Director

The accompanying notes are an integral part of these consolidated financial statements.

ROCHESTER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME
(Expressed in Canadian Dollars)

	Note	Year Ended	
		May 31, 2022 \$	May 31, 2021 \$
Revenue		13,819,817	13,020,558
Cost of operations			
Cost of sales		(13,309,956)	(9,540,527)
Depletion and amortization	7,8	(554,051)	(325,287)
Provision for site restoration	15	<u>(84,543)</u>	<u>(66,489)</u>
Operating (loss) income		<u>(128,733)</u>	<u>3,088,255</u>
Expenses and other			
General and administration		(636,528)	(514,913)
Share-based compensation	12(e)	-	(65,550)
Financing expenses	16	(875,151)	(1,031,549)
Accretion of interest on lease liabilities	8	(83,740)	(23,553)
Gain on settlement of payroll taxes		-	233,040
Foreign exchange		(649,822)	1,177,248
Impairment of exploration and evaluation assets	6	<u>(260,792)</u>	<u>(414,697)</u>
		<u>(2,506,033)</u>	<u>(639,974)</u>
Net (loss) income and comprehensive (loss) income for the year		<u>(2,634,766)</u>	<u>2,448,281</u>
Basic and diluted (loss) income per common share		<u>\$(0.06)</u>	<u>\$0.09</u>
Basic and diluted weighted average number of common shares outstanding		<u>40,599,604</u>	<u>28,172,052</u>

The accompanying notes are an integral part of these consolidated financial statements.

ROCHESTER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(Expressed in Canadian Dollars)

	Year Ended May 31, 2022					Total Shareholders' Equity (Deficit) \$
	Share Capital		Share-Based Payments Reserve \$	Contributed Surplus \$	Deficit \$	
	Number of Shares	Amount \$				
Balance at May 31, 2021	37,394,125	46,451,275	7,293,723	243,299	(75,146,410)	(21,158,113)
Common shares issued for:						
- warrants exercised	9,750,000	731,250	-	-	-	731,250
Net loss for the year	-	-	-	-	(2,634,766)	(2,634,766)
Balance at May 31, 2022	47,144,125	47,182,525	7,293,723	243,299	(77,781,176)	(23,061,629)

	Year Ended May 31, 2021					Total Shareholders' Equity (Deficit) \$
	Share Capital		Share-Based Payments Reserve \$	Contributed Surplus \$	Deficit \$	
	Number of Shares	Amount \$				
Balance at May 31, 2020	20,850,882	45,274,063	7,228,173	243,299	(77,594,691)	(24,849,156)
Common shares issued for:						
- private placement	2,500,000	125,000	-	-	-	125,000
- debt settlement	14,043,243	1,053,243	-	-	-	1,053,243
Share issue costs	-	(1,031)	-	-	-	(1,031)
Share-based compensation	-	-	65,550	-	-	65,550
Net income for the year	-	-	-	-	2,448,281	2,448,281
Balance at May 31, 2021	37,394,125	46,451,275	7,293,723	243,299	(75,146,410)	(21,158,113)

The accompanying notes are an integral part of these consolidated financial statements.

ROCHESTER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Note	Year Ended	
		May 31, 2022 \$	May 31, 2021 \$
Operating activities			
Net (loss) income for the year		(2,634,766)	2,448,281
Adjustments for:			
Depletion and amortization	7	554,051	325,287
Provision for site restoration	15	84,543	66,489
Share-based compensation		-	65,550
Financing expenses	16	875,151	1,031,549
Foreign exchange		473,236	(785,963)
Gain on settlement of payroll taxes		-	(233,040)
Accretion of interest on lease liabilities	8	83,740	23,553
Changes in non-cash working capital items:			
Amounts receivable		87,391	(686,824)
GST/IVA tax receivables		(339,066)	(209,299)
Prepaid expenses and deposits		81,274	30,576
Inventories		(410,494)	(562,579)
Accounts payable and accrued liabilities		1,755,349	55,574
Amounts payable to directors and officers		(14,157)	(42,354)
Net cash provided by operating activities		<u>596,252</u>	<u>1,526,800</u>
Investing activity			
Additions to property, plant and equipment		<u>(636,146)</u>	<u>(1,082,149)</u>
Net cash used in investing activity		<u>(636,146)</u>	<u>(1,082,149)</u>
Financing activities			
Issuance of common shares		-	125,000
Share issue costs		-	(1,031)
Payments on lease liabilities		(229,423)	(146,712)
Advances received		-	92,554
Advances repaid		(12,626)	(168,804)
Debentures repaid		<u>(39,546)</u>	<u>-</u>
Net cash used in financing activities		<u>(281,595)</u>	<u>(98,993)</u>
Net change in cash during the year		(321,489)	345,658
Cash at beginning of year		<u>668,534</u>	<u>322,876</u>
Cash at end of year		<u>347,045</u>	<u>668,534</u>

Supplemental cash flow information - Note 20

The accompanying notes are an integral part of these consolidated financial statements.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2022 AND 2021
(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Rochester Resources Ltd. (the “Company”) was incorporated on September 7, 1989 under the provisions of the Company Act (British Columbia). The Company is listed and trades on the TSX Venture Exchange (“TSXV”) under the symbol “RCT”. The Company’s head office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7 Canada.

The Company is engaged in the exploration and development of its mineral property interests in Mexico. The mineral exploration and development business involves, by its nature, a high degree of risk and there can be no assurance that the current operations or exploration projects will result in sustainable profitable mining operations. All of the Company’s exploration and evaluation assets and property, plant and equipment are located in Mexico, and hence are subject to the risks normally associated with foreign investment including unanticipated changes in taxes and royalties, renegotiation of contracts, foreign currency fluctuations and political uncertainties.

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 concessions payments when due in the current and prior years for the Mina Real, San Francisco and Santa Fe properties. See also Note 19. 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 the market prices of silver and gold, its ability to improve its operations to maintain positive operating cash flow from the Mina Real and Santa Fe properties on a consistent basis and 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.

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or continue operations.

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 enacted emergency measures including travel restrictions, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures 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 implemented safety and physical distancing procedures while it continued 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 and its variants, 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.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2022 AND 2021
(Expressed in Canadian Dollars)

2. Basis of Preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value. The consolidated financial statements are presented in Canadian dollars unless otherwise stated.

Details of the Group

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

The subsidiaries of the Company are as follows:

<u>Company</u>	<u>Location of Incorporation</u>	<u>Ownership Interest</u>
ALB Holdings Ltd. (“ALB”)	Canada	100%
Mina Real Mexico S.A. de C.V. (“Mina Real”)	Mexico	100%
Compania Minera Santa Fe S.A. de C.V. (“Compania Minera”)	Mexico	70%

3. Summary of Significant Accounting Policies

Critical Judgments and Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2022 AND 2021
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

- (ii) Management is required to assess the functional currency of each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiaries, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- (iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets and property, plant and equipment. The triggering events are defined in IFRS 6 and IAS 36, respectively. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Management has determined that impairment indicators were present in IFRS 6 for exploration and evaluation assets for fiscal 2022 and 2021 and, as a result, impairment tests were performed. See also Note 6. Management has also determined that there were no impairment indicators present in fiscal 2022 and 2021 for property, plant and equipment and, as a result, no impairment test was performed.
- (iv) Although the Company takes steps to verify title to mineral properties included in exploration and evaluation assets and property, plant and equipment in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (i) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- (ii) Depreciation, depletion and amortization expenses are allocated based on assumed asset lives and depletion/depreciation/amortization rates. Should the asset life or depletion/depreciation rate differ from the initial estimate, an adjustment would be made in the statement of operations.
- (iii) The assessment of any impairment of exploration and evaluation assets and property, plant and equipment is dependent upon estimates of the recoverable amount that takes into account factors such as reserves, economic and market conditions and the useful lives of the assets. Management determined that impairment indicators were present in respect of its exploration and evaluation assets due to the Company's inability to implement an exploration work program. As a result during fiscal 2022 and 2021 the Company recorded an impairment charge to reduce the carrying value of exploration and evaluations assets to \$nil. In fiscal 2022 and 2021 management concluded that there were no impairment indicators in respect of property, plant and equipment and no impairment charge was required.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Summary of Significant Accounting Policies (continued)

- (iv) The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. As at May 31, 2022 and 2021 the Company did not have any cash equivalents.

Amounts Receivable

Receivables are recognized initially at fair value and classified as amortized cost. Receivables are subsequently measured at amortized cost using the effective interest method, less expected credit losses. At each reporting date, the Company records credit losses at an amount equal to the lifetime expected credit losses using a present value and probability-weighted model.

Inventories

Finished product and mineralized material in process is valued at the lower of cost and net realizable value. Cost is determined as the average production cost of saleable gold and silver. Materials and supplies are valued at the lower of cost and replacement cost.

Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as amortized cost initially at fair value and are subsequently measured at amortized cost using the effective interest method.

Exploration and Evaluation Assets

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2022 AND 2021
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that an exploration expenditure is not expected to be recovered, it is charged to the results of operations.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization of mineral property is charged to cost of sales on a unit-of-production basis based upon proven and probable reserves or until the properties are abandoned, sold or considered to be impaired in value. Mineral properties are tested for impairment in accordance with the policy for impairment of non-financial assets as set out below. Land is not depreciated.

Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful life of the assets, as follows:

Buildings	11 years
Mill and mine equipment	5 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant. The recoverability of the amounts shown for mineral properties is dependent on the existence of economically recoverable reserves, the capacity to obtain financing to complete the development of such reserves, the ability to obtain the necessary licenses and permits and meet the Company's obligations under various agreements and the success of future operations or dispositions.

ROCHESTER RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Summary of Significant Accounting Policies (continued)

Leases

The Company recognizes a right-of-use asset and a lease liability for its leases. The right-of-use asset is measured at cost and depreciated over its estimated useful life. At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. If the lease terms are subsequently changed, the present value of the lease liability is re-measured using the revised lease terms and applying the appropriate discount rate to the remaining lease payments. The Company recognizes the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognizes any remaining amount of the re-measurement in profit or loss. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

Impairment of Assets

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning Provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a pre-tax risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

Revenue Recognition

The Company recognizes revenue from contracts with customers for the sale of metal concentrates at the point in time when it transfers control of the concentrates over to the customer, which occurs upon delivery. Revenue is measured based on the market metal prices expected at time of settlement and estimates of the mineral content (by way of weights and assays), both of which are subject to adjustment until the final settlement date. At the end of each reporting period, the amounts receivable are marked to market using the most up-to-date market prices for the settlement. These variations between the sales price recorded at the initial recognition date and the actual final sales price recorded at the settlement date are caused by changes in market prices. The settlement receivable is recorded at fair value each period until final settlement occurs, with changes in fair value recorded as a component of revenue. An adjustment is also made when the final mineral content is known, which is recognized in revenue.

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3. Summary of Significant Accounting Policies (continued)

Financial Instruments

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit and loss (“FVTPL”); (ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Share Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Equity Financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

Share-Based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

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3. Summary of Significant Accounting Policies (continued)

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Current and Deferred Income Taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of comprehensive income (loss), except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the income tax is also recognized in other comprehensive income or directly in equity, respectively.

Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing income available (loss attributable) to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted income (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings. The Company computes the dilutive impact of common shares assuming the proceeds received from the pro-rata exercise of in the money share options and warrants are used to purchase common shares at average prices.

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3. Summary of Significant Accounting Policies (continued)

Foreign Currency Translation

Functional and Presentation Currency

The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. Each subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive income (loss) presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive income (loss).

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive income (loss).

4. Amounts Receivable

	May 31, 2022 \$	May 31, 2021 \$
Production receivable	1,334,927	1,414,511
Other	<u>42,170</u>	<u>49,977</u>
	<u>1,377,097</u>	<u>1,464,488</u>

5. Inventories

	May 31, 2022 \$	May 31, 2021 \$
Mineralized material in process	726,462	489,636
Mine stores, supplies and other	<u>612,515</u>	<u>438,847</u>
	<u>1,338,977</u>	<u>928,483</u>

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6. Exploration and Evaluation Assets

	Santa Fe Property \$
Balance at May 31, 2020	<u>-</u>
Acquisition costs:	
Mineral claims	259,489
Option payments	<u>155,208</u>
	414,697
Impairment	<u>(414,697)</u>
Balance at May 31, 2021	<u>-</u>
Exploration costs:	
Exploration site	<u>15,078</u>
Acquisition costs:	
Mineral claims	94,418
Option payments	<u>151,296</u>
	245,714
Impairment	<u>(260,792)</u>
Balance at May 31, 2022	<u>-</u>

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. To date, the Company has conducted limited exploration on the Santa Fe Property. The agreement is being disputed by the 30% concession owners. 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. 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 (2021 - US \$300,000) remained unpaid and is included in accounts payable and current liabilities.

During fiscal 2016 the Company assessed whether an impairment was required with respect to the Santa Fe Property as required by IFRS 6. In making the assessment management considered the Company’s financial situation and its inability to implement an exploration work program. As a result the Company recorded an impairment charge to reduce the carrying value to \$nil. The Company continues to record impairment charges for all subsequent costs incurred and capitalized on the Santa Fe Property to maintain the carrying value at \$nil.

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7. Property, Plant and Equipment

Cost:	Mineral Properties \$	Land \$	Buildings \$	Mill and Mine Equipment \$	Total \$
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>
Accumulated depletion, amortization and impairment:					
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>
Carrying value:					
Balance, May 31, 2021	-	-	387,020	1,142,754	1,529,774
Balance, May 31, 2022	-	-	338,643	1,419,636	1,758,279

The Company holds 100% undivided interests in the Mina Real and San Francisco properties. The Mina Real Property comprises 11 concessions and one mineral claim located near Tepic, Mexico. The San Francisco Property comprises twelve concessions located approximately 60 kilometres west of the Company's mill on the Mina Real Property.

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8. Right of Use Assets

Cost:	Land \$	Buildings \$	Mill and Mine Equipment \$	Total \$
Balance, May 31, 2020	-	-	-	-
Additions	<u>70,706</u>	<u>118,848</u>	<u>242,983</u>	<u>432,537</u>
Balance, May 31, 2021	70,706	118,848	242,983	432,537
Additions	<u>13,666</u>	<u>-</u>	<u>265,955</u>	<u>279,621</u>
Balance, May 31, 2022	<u>84,372</u>	<u>118,848</u>	<u>508,938</u>	<u>712,158</u>
Accumulated amortization:				
Balance, May 31, 2020	-	-	-	-
Amortization	<u>(9,486)</u>	<u>(990)</u>	<u>(34,399)</u>	<u>(44,875)</u>
Balance, May 31, 2021	(9,486)	(990)	(34,399)	(44,875)
Amortization	<u>(5,848)</u>	<u>(11,884)</u>	<u>(128,678)</u>	<u>(146,410)</u>
Balance, May 31, 2022	<u>(15,334)</u>	<u>(12,874)</u>	<u>(163,077)</u>	<u>(191,285)</u>
Carrying value:				
Balance, May 31, 2021	<u>61,220</u>	<u>117,858</u>	<u>208,584</u>	<u>387,662</u>
Balance, May 31, 2022	<u>69,038</u>	<u>105,974</u>	<u>345,861</u>	<u>520,873</u>

The Company has lease contracts for various land, housing and vehicles. It does not have any subleases. As at May 31, 2022 lease liabilities have a remaining lease term of approximately ten years or less and were determined using an effective interest rate of 20%. The undiscounted cash-flows over the remaining lease term are approximately \$767,613 (2021 - \$617,009).

	2022 \$	2021 \$
Balance, beginning of year	340,725	-
Additions	279,621	487,437
Interest expense	83,740	23,553
Payments	<u>(229,423)</u>	<u>(170,265)</u>
Balance, end of year	<u>474,663</u>	<u>340,725</u>
Current portion of lease liabilities	124,417	59,202
Non-current portion of lease liabilities	<u>350,246</u>	<u>281,523</u>
Total lease liabilities	<u>474,663</u>	<u>340,725</u>

During fiscal 2022 the Company recorded accretion of interest on lease liabilities of \$83,740 (2021 - \$23,553).

As at May 31, 2022 the total of future minimum lease payments under leases are as follows:

	\$
Less than one year	209,436
Greater than one year	<u>558,177</u>
	<u>767,613</u>

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9. Advances

	9% Advances \$	12% Advances \$	Total \$
Principal			
Balance, May 31, 2020	1,273,047	4,165,323	5,438,370
Advances received	-	92,554	92,554
Advances repaid	(76,250)	(92,554)	(168,804)
Advances settled	(125,040)	(569,453)	(694,493)
Foreign exchange adjustment	<u>(65,565)</u>	<u>(458,544)</u>	<u>(524,109)</u>
Balance, May 31, 2021	1,006,192	3,137,326	4,143,518
Advances repaid	-	(12,626)	(12,626)
Advances settled	(114,960)	(166,290)	(281,250)
Foreign exchange adjustment	<u>22,022</u>	<u>145,626</u>	<u>167,648</u>
Balance, May 31, 2022	<u>913,254</u>	<u>3,104,036</u>	<u>4,017,290</u>
Interest			
Balance, May 31, 2020	843,865	2,509,605	3,353,470
Interest	102,231	426,240	528,471
Foreign exchange adjustment	<u>(44,631)</u>	<u>(331,460)</u>	<u>(376,091)</u>
Balance, May 31, 2021	901,465	2,604,385	3,505,850
Interest	88,999	385,512	474,511
Foreign exchange adjustment	<u>16,114</u>	<u>120,863</u>	<u>136,977</u>
Balance, May 31, 2022	<u>1,006,578</u>	<u>3,110,760</u>	<u>4,117,338</u>

- (a) The 9% Advances are due to the CEO of the Company and private corporations controlled by or affiliated with the Chairman of the Company and bear interest at a rate of 9% per annum and have no fixed terms of repayment.
- (b) The 12% Advances bear interest at a rate of 12% per annum and have no fixed terms of repayment. As at May 31, 2022 \$3,104,036 (2021 - \$3,137,326) of the principal and \$3,093,216 (2021 - \$2,587,640) of the related accrued interest are due to the Chairman of the Company, directors of the Company and private corporations controlled by or affiliated with the CEO of the Company.

On February 1, 2022 the Company issued 3,750,000 common shares on the exercise of warrants in settlement of \$281,250 principal of Advances. On January 8, 2021 the Company issued 9,259,902 units of the Company in settlement of \$694,493 principal of Advances. See also Note 12(c).

10. Debentures

Principal amounts under a 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.

On February 1, 2022 the Company issued 6,000,000 common shares of the Company in settlement of \$450,000 principal of Debentures. On January 8, 2021 the Company issued 2,333,340 units of the Company in settlement of \$175,000 principal of Debentures. See also Note 12(c).

During fiscal 2022 the Company also settled \$100,000 principal of Debentures and recognized \$73,850 (2021 - \$176,288) of interest expense.

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10. Debentures (continued)

As at May 31, 2022 \$225,000 (2021 - \$775,000) principal of Debentures was outstanding and \$1,639,811 (2021 - \$1,505,508) of interest remained unpaid and is included in interest payable. As at May 31, 2022 a director of the Company holds \$202,000 (2021 - \$577,000) of the Debentures.

11. Indebtedness

The indebtedness is secured by the assets of the Company and interest is calculated at 9% per annum on the declining balance at the end of the month. During fiscal 2022 the Company recognized \$326,790 (2021 - \$326,790) of interest expense. As at May 31, 2022 \$3,135,788 (2021 - \$2,808,998) of interest remained unpaid and is included in interest payable of which \$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 the CEO of the Company.

12. Share Capital

(a) ***Authorized Share Capital***

The Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) ***Equity Financings***

Fiscal 2022

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

Fiscal 2021

On September 14, 2020 the Company completed a non-brokered private placement for 2,500,000 common shares at \$0.05 per share for proceeds of \$125,000. Directors and officers of the Company and private corporations affiliated with the CEO of the Company purchased a total of 1,850,000 common shares in the private placement.

The Company incurred a total of \$1,031 for costs associated with this private placement financing.

(c) ***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

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12. Share Capital (continued)

- (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 comprised 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.

(d) ***Warrants***

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at May 31, 2022 and 2021 and the changes for the years ended on those dates, is as follows:

	2022		2021	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	11,593,243	0.075	-	-
Issued	-	-	11,593,243	0.075
Exercised	<u>(9,750,000)</u>	0.075	<u>-</u>	-
Balance, end of year	<u>1,843,243</u>	0.075	<u>11,593,243</u>	0.075

As at May 31, 2022 there were warrants issued and outstanding to purchase 1,843,243 common shares of the Company at an exercise price of \$0.075 per share expiring January 8, 2024.

(e) ***Share Option Plan***

The Company has established a rolling share option plan (the "Plan") in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years.

No share options were granted during fiscal 2022.

During fiscal 2021 the Company granted share options to purchase 2,185,000 common shares and recorded compensation expense of \$65,550. The fair value of share options granted during fiscal 2021 is estimated using the Black-Scholes Option Pricing Model using the following assumptions: risk-free interest rate of 0.25% - 0.26%; estimated volatility of 112% - 115%; expected life of 3 years; expected dividend yield of 0%; and expected forfeiture rate of 0%.

The weighted average measurement date fair value of all share options granted during fiscal 2021, using the Black-Scholes Option Pricing Model, was \$0.03 per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

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12. Share Capital (continued)

A summary of the Company's share options at May 31, 2022 and 2021 and the changes for the years ended on those dates, is as follows:

	2022		2021	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	2,185,000	0.05	-	-
Granted	-	-	2,185,000	0.05
Balance, end of year	<u>2,185,000</u>	0.05	<u>2,185,000</u>	0.05

The following table summarizes information about the share options outstanding and exercisable at May 31, 2022:

Number	Exercise Price \$	Expiry Date
2,085,000	0.05	July 20, 2023
<u>100,000</u>	0.05	September 23, 2023
<u>2,185,000</u>		

13. 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, the Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"). During fiscal 2022 and 2021 the following amounts were incurred with respect to the CEO and CFO of the Company:

	2022 \$	2021 \$
Professional fees	47,245	47,416
Share-based compensation	-	2,400
	<u>47,245</u>	<u>49,816</u>

No fees were incurred with respect of the Chairman, in either fiscal 2022 or 2021.

On January 8, 2021 the Company issued 650,000 common shares of the Company in settlement of \$48,750 of amounts payable to the CFO. See also Note 12(c).

As at May 31, 2022 \$1,130,359 (2021 - \$1,104,455) remained unpaid and is included in amounts payable to directors and officers.

(b) *Transactions with Other Related Parties*

(i) During fiscal 2022 and 2021 the following amounts were incurred with respect to the non-executive directors and an officer of the Company:

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13. Related Party Disclosures (continued)

	2022 \$	2021 \$
Consulting fees	12,000	12,000
Share-based compensation	-	12,000
	<u>12,000</u>	<u>24,000</u>

On January 8, 2021 the Company issued 1,800,000 common shares of the Company in settlement of \$135,000 of amounts payable to certain directors and an officer of the Company. See also Note 12(c).

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

As at May 31, 2022 \$227,000 (2021 - \$257,250) remained unpaid and is included in amounts payable to directors and officers.

- (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 the CEO of the Company, for accounting and administration services provided by Chase personnel, excluding the CEO. As at May 31, 2022 \$6,546 (2021 - \$48,607) remained unpaid and is included in amounts payable to directors and officers.

- (c) See also Notes 9, 10, 11 and 12(c).

14. Income Taxes

Deferred income tax assets and liabilities of the Company as at May 31, 2022 and 2021 are as follows:

	2022 \$	2021 \$
Deferred income tax assets		
Losses carried forward	5,310,600	5,038,900
Other	4,300	4,800
Valuation allowance	<u>(5,314,900)</u>	<u>(5,043,700)</u>
Net deferred income tax asset	<u>-</u>	<u>-</u>

The recovery of income taxes shown in the consolidated statements of income (loss) and comprehensive income (loss) differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2022 \$	2021 \$
Income tax rate reconciliation		
Combined federal and provincial income tax rate	<u>27.0%</u>	<u>27.0%</u>
Expected income tax expense (recovery)	(711,400)	661,000
Foreign income tax rate differences	(59,600)	29,000
Other	82,700	(228,800)
Unrecognized benefit of income tax losses	688,300	-
Application of prior years losses	<u>-</u>	<u>(461,200)</u>
Deferred income tax expense	<u>-</u>	<u>-</u>

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14. Income Taxes (continued)

As at May 31, 2022 the Company has non-capital losses and accumulated pools of approximately \$19,202,200 (2021 - \$17,539,700) for Canadian income tax purposes to offset against future income, expiring from 2026 through 2042. The Company also has accumulated non-capital losses of approximately \$583,900 (9,054,542 Mexican Pesos) for Mexican tax purposes, expiring from 2023 through 2033. Tax attributes are subject to review, and potential adjustment, by tax authorities. See also Note 19(a).

Deferred income tax benefits which may arise as a result of these losses have not been recognized in these consolidated financial statements as their realization is unlikely.

15. Provision for Site Restoration

	2022 \$	2021 \$
Balance, beginning of year	1,255,839	1,107,355
Accretion	84,543	66,489
Revision of estimates	230,194	-
Foreign exchange	<u>(89,786)</u>	<u>81,995</u>
Balance, end of year	<u>1,480,790</u>	<u>1,255,839</u>

The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligation is US \$1,285,000 which, as at May 31, 2022, has been discounted using a credit adjusted pre-tax risk free rate of 7.65% (2021 - 6.54%) and an inflation rate of 8.87% (2021 - 5.89%). The present value of the reclamation liability may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur. The settlement of the obligation is anticipated to occur primarily in fiscal 2030.

16. Financing Expenses

Financing expenses for fiscal 2022 and 2021 are as follows:

	Note	2022 \$	2021 \$
Interest expense:			
Advances	9	474,511	528,471
Debentures	10	73,850	176,288
Indebtedness	11	<u>326,790</u>	<u>326,790</u>
		<u>875,151</u>	<u>1,031,549</u>

17. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: fair value through profit or loss ("FVTPL"); amortized cost; and fair value through other comprehensive income ("FVOCI"). The carrying values of the Company's financial instruments are classified into the following categories:

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17. Financial Instruments and Risk Management (continued)

Financial Instruments	Category	May 31, 2022 \$	May 31, 2021 \$
Cash	FVTPL	347,045	668,534
Amounts receivable	Amortized cost	1,377,097	1,464,488
Accounts payable and accrued liabilities	Amortized cost	(9,075,526)	(7,259,723)
Amounts payable to directors and officers	Amortized cost	(1,363,905)	(1,410,312)
Lease liabilities	Amortized cost	(474,663)	(340,725)
Interest payable	Amortized cost	(8,892,937)	(7,820,356)
Advances	Amortized cost	(4,017,290)	(4,143,518)
Debentures	Amortized cost	(225,000)	(775,000)
Indebtedness	Amortized cost	(3,631,000)	(3,631,000)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for amounts receivable, accounts payable and accrued liabilities, amounts payable to directors and officers, interest payable and advances approximate their fair value due to their short-term nature. The recorded amounts for lease liabilities, debt and debentures (including the equity portion) approximate fair value and they have interest at market rates for similar debt. The Company's fair value of cash under the fair value hierarchy is measured using Level 1 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote. Amounts receivable are due from one customer.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company's ability to manage this risk is affected by low grades of mineralized material and operational challenges. See Note 1. All of the Company's financial liabilities are classified as current. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

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17. Financial Instruments and Risk Management (continued)

	Contractual Maturity Analysis at May 31, 2022				
	Carrying Amount \$	Contractual Cash Flows \$	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$
Cash	347,045	347,045	347,045	-	-
Amounts receivable	1,377,097	1,377,097	1,377,097	-	-
Accounts payable and accrued liabilities	(9,075,526)	(9,075,526)	(9,075,526)	-	-
Amounts payable to directors and officers	(1,363,905)	(1,363,905)	(1,363,905)	-	-
Lease liabilities	(474,663)	(474,663)	(31,104)	(93,313)	(350,246)
Interest payable	(8,892,937)	(8,892,937)	(8,892,937)	-	-
Advances	(4,017,290)	(4,017,290)	(4,017,290)	-	-
Debentures	(225,000)	(225,000)	(225,000)	-	-
Indebtedness	(3,631,000)	(3,631,000)	(3,631,000)	-	-

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bears a floating rate of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

(b) Commodity Price Risk

The Company is subject to risk from fluctuations in the market prices of silver and gold. Silver and gold prices have historically fluctuated widely and are affected by numerous factors outside of the Company's control. The profitability of the Company's operations is highly correlated to the market prices of these metals, as is the ability of the Company to develop its other properties. If metal prices decline for a prolonged period below the cost of production of the Company's Mina Real mine, it may not be economically feasible to continue production.

The Company does not hedge silver and gold prices.

(c) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and the Company's operating expenses are incurred in Canadian Dollars and Mexican Pesos. The Company also has advances denominated in US Dollars. Management believes the foreign exchange risk related to currency conversions are minimal and therefore does not hedge its foreign exchange risk. At May 31, 2022, 1 Canadian Dollar was equal to 15.51 Mexican Pesos and 0.79 US Dollar.

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17. Financial Instruments and Risk Management (continued)

Balances are as follows:

	Mexican Pesos	United States Dollars	CDN \$ Equivalent
Cash	3,661,227	46,528	294,952
Amounts receivable	117,633	1,061,895	1,351,755
IVA tax receivable	10,800,400	-	696,351
Inventories	20,764,811	-	1,338,977
Accounts payable and accrued liabilities	(127,512,002)	(678,526)	(9,075,342)
Amounts payable to directors and officers	-	(56,150)	(71,076)
Interest payable	-	(2,687,591)	(3,402,014)
Advances	-	(2,827,171)	(3,578,698)
	<u>(92,167,931)</u>	<u>(5,141,015)</u>	<u>(12,445,095)</u>

Based on the net exposures as of May 31, 2022 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Mexican Peso and the US Dollar would result in the Company's comprehensive income (loss) being approximately \$1,245,000 higher (or lower).

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, cash and cash equivalents and short-term investments. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

18. Segmented Information

The Company operates in one reportable segment, the acquisition, exploration and development of exploration and evaluation assets. The Company's mineral operations are located in Mexico and its corporate assets, comprising mainly of cash, are located in Canada.

	<u>May 31, 2022</u>		
	Non-current Assets \$	Revenues \$	Net Loss \$
Mineral operations (Mexico)	2,279,152	13,819,817	(1,215,231)
Corporate (Canada)	-	-	(1,419,535)
	<u>2,279,152</u>	<u>13,819,817</u>	<u>(2,634,766)</u>
	<u>May 31, 2021</u>		
	Non-current Assets \$	Revenues \$	Net Income (Loss) \$
Mineral operations (Mexico)	1,917,436	13,020,558	3,738,132
Corporate (Canada)	-	-	(1,289,851)
	<u>1,917,436</u>	<u>13,020,558</u>	<u>2,448,281</u>

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19. 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 of 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.
- (c) The Company has only made partial concession payments on the Santa Fe Property, as described in Note 6.

20. Supplemental Cash Flow Information

During fiscal 2022 and 2021 non-cash activities were conducted by the Company as follows:

	2022 \$	2021 \$
Operating activities		
Impairment of exploration and evaluation assets	260,792	414,697
Accounts payable and accrued liabilities	-	(183,750)
Lease liabilities	<u>279,621</u>	<u>432,537</u>
	<u>540,413</u>	<u>663,484</u>
Investing activities		
Expenditures on exploration and evaluation assets	(260,792)	(414,697)
Additions to right of use assets	<u>(279,621)</u>	<u>(432,537)</u>
	<u>(540,413)</u>	<u>(847,234)</u>
Financing activities		
Issuance of share capital	731,250	1,053,243
Advances settled	(281,250)	(694,493)
Debentures settled	<u>(450,000)</u>	<u>(175,000)</u>
	<u>-</u>	<u>183,750</u>