

# **ROCHESTER RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MAY 31, 2023**

This discussion and analysis of financial position and results of operation is prepared as at September 28, 2023 and should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ended May 31, 2023 and 2022 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.

### **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 2023 the Company recorded a net loss of \$5,909,051 and, as at May 31, 2023, the Company had a working capital deficit of \$10,152,769 and non-current liabilities of \$20,709,115. The Company has been unable to make all concession payments when due and, as at May 31, 2023, has unpaid government concession payments and related carrying charges totalling \$4,365,853 (included in accounts payable and accrued liabilities). 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 the market prices of gold and silver, its ability to continue 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. See also "Contingent Liabilities and Commitments".

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. To date, the Company has conducted limited exploration on the Santa Fe Property. The agreement was disputed by the 30% concession owners and the court has ordered the Company to return the Santa Fe property concession to the 30% concession owners, pay the ongoing monthly fee of US \$10,000 to the 30% concession until the concession is returned, pay US \$261,000 for a historical extraction and dissolve the Company’s subsidiary Compania Minera. The Company is currently in the negotiation process with the 30% concession owners. The Company made a US \$150,000 payment in August 2022 and, as at May 31, 2023, US \$297,000 (2022 - US \$210,000) remained unpaid.

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 2023 and accumulated for fiscal 2023 and 2022 are provided in the table below:

RESULTS	Q4 (Mar 1/23 - May 31/23)	Q3 (Dec 1/22 - Feb 28/23)	Q2 (Sep 1/22 - Nov 30/22)	Q1 (Jun 1/22 - Aug 31/22)	Accumulated Fiscal 2023	Accumulated Fiscal 2022
Tonnes Processed	14,894 tonnes	13,879 tonnes	14,394 tonnes	15,092 tonnes	58,259 tonnes	60,406 tonnes
Gold Grade	2.04 g/t	1.93 g/t	2.47 g/t	2.36 g/t	2.20 g/t	2.15 g/t
Silver Grade	236.62 g/t	215.86 g/t	197.37 g/t	189.06 g/t	209.66 g/t	178.09 g/t
Gold Recovery	94.96 %	94.49 %	95.62 %	95.64 %	95.23 %	94.94%
Silver Recovery	44.68 %	41.01 %	41.26 %	50.22 %	44.28 %	50.94%
Gold Produced	929 ounces	813 ounces	1,095 ounces	1,095 ounces	3,932 ounces	3,971 ounces
Gold Sold	914.969 ounces	800,615 ounces	1,078.278 ounces	1,078.714 ounces	3,872.575 ounces	3,911.286 ounces
Silver Produced	50,626 ounces	39,506 ounces	37,691 ounces	46,072 ounces	173,895 ounces	176,178 ounces
Silver Sold	49,107.431 ounces	38,320.449 ounces	36,560.566 ounces	44,689.835 ounces	168,678.28 ounces	170,893.54 ounces
Gold Equivalent Produced	1,537 ounces	1,303 ounces	1,534 ounces	1,616 ounces	5,990 ounces	6,275 ounces
Developed Meters	740 meters	774 meters	806 meters	1,085 meters	3,405 meters	3,376 meters
Samples Taken	5,366 samples	4,748 samples	5,294 samples	6,796 samples	22,204 samples	28,419 samples
Diamond Drilling Meters	0 meters	0 meters	0 meters	0 meters	0 meters	542 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 14.26% higher than Q3 (929 ounces compared to 813 ounces) and silver production was 28.14% higher than Q3 (50,626 ounces compared to 39,506 ounces) resulting in the gold equivalent produced being 17.95% higher than Q3 (1,537 ounces compared to 1,303 ounces). The increase was mainly due to a 7.3% (1,015 tonnes) increase in tonnes being processed during Q4 than Q3 due to the Christmas break down time in Q3. In addition, during Q4, the material processed contained higher grades of both gold and silver and slightly better recoveries of both gold and silver were achieved than in Q3.

The grades and recoveries of both gold and silver fluctuate dependent upon which part the majority of the mineralized material processed is transported from. The three main areas materials were processed from during both Q3 and Q4 were the Cholita, Agua Negra and Lluvia de Oro Projects. The Agua Negra area has higher amounts of manganese which causes lower recoveries and the Lluvia de Oro Project has lower gold grades.

### *Fiscal 2023 Compared to Fiscal 2022*

The gold equivalent produced during fiscal 2023 was 5,990 ounces as compared to 6,275 ounces during fiscal 2022, a decrease of 285 ounces. The decrease is a result of the lower silver recovery during fiscal 2023 combined with the 2,147 tonne decrease in materials processed.

### *Drifting*

The allocation for drifting amongst areas during each quarter of fiscal 2023 and accumulated for fiscal 2023 and 2022 are as follows:

Area	Q4		Q3		Q2		Q1		Fiscal 2023		Fiscal 2022	
	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	740	100%	774	100%	806	100%	1,085	100%	3,404	100%	3,376	100%
<b>TOTAL DRIFTING</b>	<b>740</b>	<b>100%</b>	<b>774</b>	<b>100%</b>	<b>806</b>	<b>100%</b>	<b>1,085</b>	<b>100%</b>	<b>3,405</b>	<b>100%</b>	<b>3,376</b>	<b>100%</b>

Distribution of the development during each quarter of fiscal 2023 and accumulated for fiscal 2023 and 2022 are as follows:

Type of Drifting	Q4		Q3		Q2		Q1		Fiscal 2023		Fiscal 2022	
	Meters	%	Meters	%	Meters	%	Meters	%	Meters	%	Meters	%
Exploration	310	42%	114	15%	533	66%	502	46%	1,459	43%	1,488	44%
Stope Preparation	246	33%	216	28%	273	34%	583	54%	1,318	39%	1,888	56%
CAPEX Drifting	184	25%	444	57%	0	0%	0	0%	628	18%	0	0%
<b>TOTAL DRIFTING</b>	<b>740</b>	<b>100%</b>	<b>774</b>	<b>100%</b>	<b>806</b>	<b>100%</b>	<b>1,085</b>	<b>100%</b>	<b>3,405</b>	<b>100%</b>	<b>3,376</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*

During Q2 maintenance on the 6' x 12' mill was conducted including realigning the transmission, adjusting the pinion and retouching the gears in. In Q3 the 4' x 4' mill received maintenance repairs to correct vibrations and noise. At the end of Q4 the mill liners for the 6' x 12' mill arrived at the plant. Changing of the liners is expected to be completed during Q1 of fiscal 2024.

## 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		
	2023 \$	2022 \$	2021 \$
<b>Operations:</b>			
Revenues	13,631,949	13,819,817	13,020,558
Cost of sales	(14,818,014)	(13,309,956)	(9,540,527)
Depletion and amortization	(598,795)	(554,051)	(325,287)
Provision for site restoration	(142,944)	(84,543)	(66,489)
Expenses, excluding impairment	(3,713,547)	(2,245,241)	(225,277)
Impairment of exploration and evaluation assets	(267,700)	(260,792)	(414,697)
Comprehensive income (loss)	(5,909,051)	(2,634,766)	2,448,281
Basic and diluted income (loss) per share	(0.13)	(0.06)	0.09
Dividends per share	Nil	Nil	Nil
<b>Statement of Financial Position:</b>			
Working capital (deficit)	(10,152,769)	(23,509,745)	(21,538,187)
Total assets	6,029,194	6,099,482	5,478,360
Total non-current liabilities	(20,709,115)	(1,831,036)	(1,537,362)

The following selected financial information is derived from the unaudited condensed consolidated interim financial statements of the Company.

Three Month Period Ending	Fiscal 2023				Fiscal 2022			
	May 31/23 \$	Feb 28/23 \$	Nov 30/22 \$	Aug 31/22 \$	May 31/22 \$	Feb 28/22 \$	Nov 30/21 \$	Aug 31/21 \$
<b>Operations:</b>								
Revenues	3,756,469	3,120,733	3,265,679	3,489,068	3,888,512	3,134,698	3,487,557	3,309,050
Cost of sales	(4,270,448)	(3,287,324)	(3,612,867)	(3,647,375)	(2,810,726)	(4,152,561)	(3,285,718)	(3,060,951)
Depletion and amortization	(163,157)	(144,823)	(143,522)	(147,293)	(238,847)	(107,908)	(103,648)	(103,648)
Provision for site restoration	(38,470)	(36,744)	(35,223)	(32,507)	(21,607)	(21,007)	(20,576)	(21,353)
Income (expenses), excluding Impairment	(1,235,965)	(623,656)	(1,033,216)	(820,710)	(1,427,196)	142,009	(82,665)	(877,389)
Impairment of exploration and evaluation assets	(43,632)	(95,938)	(89,402)	(38,728)	(38,935)	(83,159)	(36,938)	(101,760)
Comprehensive loss	(1,995,203)	(1,067,752)	(1,648,551)	(1,197,545)	(648,799)	(1,087,928)	(41,988)	(856,051)
Basic and diluted loss per share	(0.05)	(0.02)	(0.03)	(0.03)	(0.01)	(0.03)	(0.00)	(0.02)
<b>Statement of Financial Position:</b>								
Working capital (deficit)	(10,152,769)	(27,235,183)	(25,977,045)	(24,437,965)	(23,509,745)	(23,134,637)	(22,695,735)	(22,376,308)
Total assets	6,029,194	5,780,163	5,664,403	6,015,402	6,099,482	5,640,239	5,472,903	5,147,277
Total non-current liabilities	(20,709,115)	(1,966,241)	(1,865,629)	(1,957,350)	(1,831,036)	(1,708,182)	(1,690,719)	(1,572,234)

## Results of Operations

*Three Months Ended May 31, 2023 ("Q4") Compared to Three Months Ended February 28, 2023 ("Q3")*

During Q4 the Company reported comprehensive loss of \$1,995,203 compared to comprehensive loss of \$1,067,752 for Q3, an increase in loss of \$927,451. The increase in loss was due to a foreign exchange loss of \$815,481 in Q4 compared to a loss of \$203,670 in Q3 partially offset by the Company reporting an operating loss of \$715,606 during Q4 compared to an operating loss of \$348,158 in Q3.

*Three Months Ended May 31, 2023 Compared to Three Months Ended May 31, 2022*

During the three months ended May 31, 2023 ("Q4/2023") the Company reported comprehensive loss of \$1,995,203 compared to comprehensive loss of \$648,799 for the three months ended May 31, 2022 ("Q4/2022"), an increase in loss of \$1,346,404. During Q4/2023 the Company recorded an operating loss of \$715,606 compared to an operating income of \$817,332 in Q4/2022, a fluctuation of \$1,532,938. This was partially offset by a \$221,357 fluctuation in foreign exchange from a foreign exchange loss of \$1,036,838 in Q4/2022 compared to a foreign exchange loss of \$815,481 in Q4/2023.

*Year Ended May 31, 2023 Compared to Year Ended May 31, 2022*

During the year ended May 31, 2023 (“fiscal 2023”) the Company recorded comprehensive loss of \$5,909,051 compared to comprehensive loss of \$2,634,766 for the year ended May 31, 2022 (“fiscal 2022”), an increase in loss of \$3,274,285. The increase in loss was primarily attributed to a \$1,358,743 fluctuation in foreign exchange from a loss of \$649,822 in fiscal 2022 to a loss of \$2,008,565 in fiscal 2023 and a \$1,799,071 increase in operating loss from a loss of \$128,733 in fiscal 2022 to a loss of \$1,927,804 in fiscal 2023. The fluctuation in operating loss was primarily attributed to a \$1,508,058 increase in cost of sales from \$13,309,956 during fiscal 2022 compared to \$14,818,014 during fiscal 2023.

*Production*

During fiscal 2023 the Company sold 5,869 gold equivalent ounces and realized revenues of \$2,323 per gold equivalent ounce as compared to the sale of 6,275 gold equivalent ounces and realized revenues of \$2,202 per gold equivalent ounce during fiscal 2022.

The Company’s cost of operations per gold equivalent ounce sold during fiscal 2023 was \$2,525 as compared to \$2,121 during fiscal 2022.

Direct operating cost of sales for fiscal 2023 and 2022 comprise the following:

	2023 \$	2022 \$
Mine costs	6,158,984	6,290,030
Mill costs	4,014,488	2,747,570
Service department costs	<u>4,644,542</u>	<u>4,272,356</u>
	<u>14,818,014</u>	<u>13,309,956</u>

General and administrative expenses of \$756,297 were reported for fiscal 2023 compared to \$636,528 during fiscal 2022, an increase of \$119,769. A summary of expenses are as follows:

	2023 \$	2022 \$
Accounting and administrative	57,800	56,500
Audit	73,573	53,000
Director and officer compensation	60,704	26,995
Legal	18,618	14,807
Office	192,509	153,864
Professional fees	13,205	11,024
Regulatory fees	8,960	8,278
Salaries and benefits	309,190	295,528
Shareholder costs	3,010	2,382
Transfer agent fees	6,338	4,731
Travel	<u>12,390</u>	<u>9,419</u>
	<u>756,297</u>	<u>636,528</u>

*Exploration and Evaluation Assets*

During fiscal 2023 the Company incurred \$267,700 (2022 - \$260,792) additions on exploration and evaluation assets for the Santa Fe property, mainly due to 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 \$267,700 (2022 - \$260,792) to reflect management’s determination to fully impair the Santa Fe property.

### *Property, Plant and Equipment*

	<b>Mineral Properties \$</b>	<b>Land \$</b>	<b>Buildings \$</b>	<b>Mill and Mine Equipment \$</b>	<b>Total \$</b>
<b>Cost:</b>					
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	33,934,944	2,692,313	3,517,234	7,766,238	47,910,729
Additions	-	-	49,007	8,165	57,172
Balance, May 31, 2023	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,566,241</u>	<u>7,774,403</u>	<u>47,967,901</u>
<b>Accumulated depletion, amortization and impairment:</b>					
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	(33,934,944)	(2,692,313)	(3,178,591)	(6,346,602)	(46,152,450)
Depletion and amortization	-	-	(48,377)	(370,699)	(419,076)
Balance, May 31, 2023	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(3,226,968)</u>	<u>(6,717,301)</u>	<u>(46,571,526)</u>
<b>Carrying value:</b>					
Balance, May 31, 2022	<u>-</u>	<u>-</u>	<u>338,643</u>	<u>1,419,636</u>	<u>1,758,279</u>
Balance, May 31, 2023	<u>-</u>	<u>-</u>	<u>339,273</u>	<u>1,057,102</u>	<u>1,396,375</u>

Development and production activities conducted during fiscal 2023 are described in “Property Update” in this MD&A.

### *Financings*

During fiscal 2023 and 2022 the Company did not complete any equity financings.

### *Debt Settlements*

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.

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

During fiscal 2023 the Company incurred a net loss of \$5,909,051 and, as at May 31, 2023, the Company had a working capital deficit of \$10,152,769 and non-current liabilities of \$20,709,115. 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.

See also “Contingent Liabilities and Commitments”.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## Proposed Transactions

The Company has no proposed transactions.

## Changes in Accounting Policies

There are no 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, 2023 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 2023 and 2022 the following amounts were incurred:

	2023	2022
	\$	\$
Professional fees - Mr. DeMare	24,480	24,480
Professional fees - Mr. Silva	<u>24,224</u>	<u>22,765</u>
	<u>48,704</u>	<u>47,245</u>

No fees were incurred with respect of Mr. Luna, in either fiscal 2023 or 2022.

As at May 31, 2023 \$1,166,322 (2022 - \$1,130,359) remained unpaid.

During fiscal 2023 certain officers and directors of the Company agreed to not demand repayment of a total of \$1,083,820 of past accrued professional fees until May 31, 2025.

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

- (i) During fiscal 2023 \$12,000 (2022 - \$12,000) was incurred to the Company's Corporate Secretary (Mr. Harvey Lim). As at May 31, 2023 \$228,000 (2022 - \$227,000) remained unpaid to the Company's non-executive directors and the Company's Corporate Secretary on account of past amounts accrued.
  - (ii) During fiscal 2022 the Company recognized a \$32,250 reversal of consulting fees previously accrued to Mr. Tam, a former director of the Company.
  - (iii) During fiscal 2023 the Company incurred a total of \$57,800 (2022 - \$56,500) to Chase Management Ltd. ("Chase"), a private corporation owned by Mr. DeMare, for accounting and administration services provided by Chase personnel, excluding Mr. DeMare's services. As at May 31, 2023 \$7,452 (2022 - \$6,546) 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 the parties have agreed to not demand payment until May 31, 2025.
- As at May 31, 2023 \$873,035 (2022 - \$844,702) of principal is due to Mr. Luna and \$73,728 (2022 - \$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 the parties have agreed to not demand payment until May 31, 2025.

As at May 31, 2023 \$3,325,750 (2022 - \$3,092,265) of principal is due to Mr. Luna and \$11,771 (2022 - \$11,771) is due to a private corporation controlled or affiliated with Mr. DeMare.

- (e) 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 based on 6.4% per annum and a maximum payment based on 20% per annum.

As at May 31, 2023 Mr. Luna holds \$202,000 (2022 - \$202,000) of the Debentures and has agreed to not demand payment until May 31, 2025.

- (f) Indebtedness of \$3,631,000 is secured by the assets of the Company and interest is calculated at 9% per annum.

As at May 31, 2023 \$1,296,812 (2022 - \$1,296,812) of principal and \$1,236,659 (2022 - \$1,119,946) of accrued interest was owed to a private corporation associated with Mr. DeMare. The private corporation has agreed to not demand payment until May 31, 2025.

- (g) Subsequent to May 31, 2023 the Company received a total of US \$717,446 in loan advances, as described in “Contingent Liabilities and Commitments”.

### **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. During fiscal 2023, one of two claims against the Company by the Mexican state of Nayarit’s Secretary of Administration and Finance (“Nayarit SAF”) was annulled reducing the potential liability to \$580,000. The Company continues to work with legal counsel to review and respond to the reassessment and as at May 31, 2023, has accrued a provision of \$580,000 (2022 \$185,000) On August 7, 2023 the Company’s Mexican operating bank account was frozen at the direction of the Nayarit SAF relating to the ongoing dispute. The Company is in the process of pledging security to the Nayarit SAF relating to the dispute to work towards reestablishing the Company’s bank account. The Company has received loan advances totalling US \$717,446 from its Chairman (US \$417,446) and its Chief Executive Officer (US \$300,000) to provide short-term funding to the Company while it resolves the dispute.
- (b) The Company has only made partial government concession payments and accrued carrying charges on its concessions. As at May 31, 2023 \$4,365,853 (2022 - \$2,987,892) 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, 2023, there were 47,144,125 issued and outstanding common shares, share options to purchase 100,000 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.