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**ROCHESTER RESOURCES LTD.**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
MAY 31, 2023 AND 2022

*(Expressed in Canadian Dollars)*

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## 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, 2023 and May 31, 2022, and the consolidated statements of net loss and comprehensive loss, 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, 2023 and May 31, 2022, 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.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended May 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Ownership of Mina Real and San Francisco Properties

#### Description

The Company holds 100% interests in the Mina Real and San Francisco properties. Ownership of these properties is premised upon the Company paying concession payments when due. The Company has not paid all concession payments when due in the current year and prior years.

Preservation of its ownership of these properties is significant to our audit because the Company's ongoing operations are dependent on extracting mineralized material from these properties.



#### *How the Key Audit Matter Was Addressed in the Audit*

Our approach to addressing this matter included the following procedures, among others:

- Reviewed evidence of the Company's ownership of the Mina Real and San Francisco properties including reviewing the current ownership status with the relevant governmental authorities and noting any changes from prior years.
- Observed ongoing extraction and processing at the Company's mineral properties and mill.
- Analyzed management's accounting treatment of consideration paid for concession payments.
- Read the disclosures prepared by management relating to these assets including in Notes 1, 7 and 17.

#### **Completeness of Liabilities and Contingent Liabilities**

##### *Description*

During 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.

Completeness of liabilities is significant to our audit because it is quantitatively significant and requires estimation and judgements from management. See Notes 6, 9, and 17.

#### *How the Key Audit Matter Was Addressed in the Audit*

Our approach to addressing the matter included the following procedures, among others:

- Performed confirmation of liabilities on a sample basis.
- Traced expense and cost of sales transactions, on a sample basis, to invoices and payments made or accrued.
- Performed a search for unrecorded liabilities.
- Obtained an understanding of the types of liabilities owing to Mexican taxation authorities which incur interest, inflation and penalties and performed procedures to validate management's calculation of these amounts owing.
- Assessed the reasonableness of management's accruals related to Santa Fe property dispute (Note 6) and the Mexican state of Nayarit's Secretary of Administration and Finance disagreement of the settlement of certain payroll taxes payable (Note 17).
- Inquired with internal and external legal counsel to obtain their assessment of outstanding matters.
- Read through disclosures prepared by management relating to liabilities and contingent liabilities.

#### **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 \$ 5,909,051 and, as at May 31, 2023, the Company had an accumulated deficit of \$ 83,690,227 and a working capital deficit of \$ 10,152,769. 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Vancouver, B.C.  
September 28, 2023

***"D&H Group LLP"***

**Chartered Professional Accountants**

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

	Notes	May 31, 2023 \$	May 31, 2022 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		181,520	347,045
Amounts receivable	4	1,850,952	1,377,097
GST/IVA tax receivables		930,995	696,488
Prepaid expenses and deposit		85,038	60,723
Inventories	5	<u>1,089,485</u>	<u>1,338,977</u>
<b>Total current assets</b>		<u>4,137,990</u>	<u>3,820,330</u>
<b>Non-current assets</b>			
Property, plant and equipment	7	1,396,375	1,758,279
Right of use assets	8	<u>494,829</u>	<u>520,873</u>
<b>Total non-current assets</b>		<u>1,891,204</u>	<u>2,279,152</u>
<b>TOTAL ASSETS</b>		<u>6,029,194</u>	<u>6,099,482</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		13,507,468	9,075,526
Amounts payable to directors and officers	11	317,954	1,363,905
Current portion of lease liabilities	8	173,226	124,417
Current portion of amounts due	9	<u>292,111</u>	<u>16,766,227</u>
<b>Total current liabilities</b>		<u>14,290,759</u>	<u>27,330,075</u>
<b>Non-current liabilities</b>			
Non-current portion of amounts due to directors and officers	11(a)	1,083,820	-
Non-current portion of amounts due	9	17,789,231	-
Lease liabilities	8	404,292	350,246
Provision for site restoration	13	<u>1,431,772</u>	<u>1,480,790</u>
		<u>20,709,115</u>	<u>1,831,036</u>
<b>TOTAL LIABILITIES</b>		<u>34,999,874</u>	<u>29,161,111</u>
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>			
Share capital	10	47,182,525	47,182,525
Share-based payments reserve		7,293,723	7,293,723
Contributed surplus		243,299	243,299
Deficit		<u>(83,690,227)</u>	<u>(77,781,176)</u>
<b>TOTAL SHAREHOLDERS' EQUITY (DEFICIT)</b>		<u>(28,970,680)</u>	<u>(23,061,629)</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		<u>6,029,194</u>	<u>6,099,482</u>

**Nature of Operations and Going Concern** - See Note 1

**Contingent Liability and Commitments** - See Note 17

**Event after the Reporting Period** - see Note 19

These consolidated financial statements were approved for issue by the Board of Directors on September 28, 2023 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 AND COMPREHENSIVE LOSS**  
*(Expressed in Canadian Dollars)*

	Note	Year Ended	
		May 31, 2023 \$	May 31, 2022 \$
<b>Revenue</b>		13,631,949	13,819,817
<b>Cost of operations</b>			
Cost of sales		(14,818,014)	(13,309,956)
Depletion and amortization	7,8	(598,795)	(554,051)
Provision for site restoration	13	<u>(142,944)</u>	<u>(84,543)</u>
<b>Operating loss</b>		<u>(1,927,804)</u>	<u>(128,733)</u>
<b>Expenses and other</b>			
General and administration		(756,297)	(636,528)
Financing expenses	14	(849,705)	(875,151)
Accretion of interest on lease liabilities	8	(98,980)	(83,740)
Foreign exchange		(2,008,565)	(649,822)
Impairment of exploration and evaluation assets	6	<u>(267,700)</u>	<u>(260,792)</u>
		<u>(3,981,247)</u>	<u>(2,506,033)</u>
<b>Net loss and comprehensive loss for the year</b>		<u>(5,909,051)</u>	<u>(2,634,766)</u>
<b>Basic and diluted loss per common share</b>		<u>\$(0.13)</u>	<u>\$(0.06)</u>
<b>Basic and diluted weighted average number of common shares outstanding</b>		<u>47,144,125</u>	<u>40,599,604</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, 2023					Total Shareholders' Equity (Deficit) \$
	Share Capital		Share-Based Payments Reserve \$	Contributed Surplus \$	Deficit \$	
	Number of Shares	Amount \$				
<b>Balance at May 31, 2022</b>	47,144,125	47,182,525	7,293,723	243,299	(77,781,176)	(23,061,629)
Net loss for the year	-	-	-	-	(5,909,051)	(5,909,051)
<b>Balance at May 31, 2023</b>	<u>47,144,125</u>	<u>47,182,525</u>	<u>7,293,723</u>	<u>243,299</u>	<u>(83,690,227)</u>	<u>(28,970,680)</u>

  

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

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

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

	<b>Year Ended</b>	
	<b>May 31, 2023 \$</b>	<b>May 31, 2022 \$</b>
<b>Operating activities</b>		
Net loss for the year	(5,909,051)	(2,634,766)
Adjustments for:		
Depletion and amortization	598,795	554,051
Provision for site restoration	142,944	84,543
Financing expenses	849,705	875,151
Foreign exchange	342,763	473,236
Accretion of interest on lease liabilities	98,980	83,740
Impairment of exploration and evaluation assets	267,700	-
Changes in non-cash working capital items:		
Amounts receivable	(473,855)	87,391
GST/IVA tax receivables	(234,507)	(339,066)
Prepaid expenses and deposits	(24,315)	81,274
Inventories	249,492	(410,494)
Accounts payable and accrued liabilities	4,431,942	1,755,349
Amounts payable to directors and officers	37,869	(14,157)
<b>Net cash provided by operating activities</b>	<b>378,462</b>	<b>596,252</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(57,172)	(636,146)
Expenditures on exploration and evaluation assets	(267,700)	-
<b>Net cash used in investing activities</b>	<b>(324,872)</b>	<b>(636,146)</b>
<b>Financing activities</b>		
Payments on lease liabilities	(149,800)	(229,423)
Payments on amounts due	(69,315)	(52,172)
<b>Net cash used in financing activities</b>	<b>(219,115)</b>	<b>(281,595)</b>
<b>Net change in cash during the year</b>	<b>(165,525)</b>	<b>(321,489)</b>
<b>Cash at beginning of year</b>	<b>347,045</b>	<b>668,534</b>
<b>Cash at end of year</b>	<b>181,520</b>	<b>347,045</b>

**Supplemental cash flow information - Note 18**

*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, 2023 AND 2022**  
*(Expressed in Canadian Dollars)*

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**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 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 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 San Francisco 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.

**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.

**ROCHESTER RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MAY 31, 2023 AND 2022**  
*(Expressed in Canadian Dollars)*

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**2. Basis of Preparation (continued)**

***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.
- (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.

**ROCHESTER RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MAY 31, 2023 AND 2022**  
*(Expressed in Canadian Dollars)*

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**3. Summary of Significant Accounting Policies (continued)**

Management has determined that impairment indicators were present in IFRS 6 for exploration and evaluation assets for fiscal 2023 and 2022 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 2023 and 2022 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 2023 and 2022 the Company recorded an impairment charge to reduce the carrying value of exploration and evaluations assets to \$nil. In fiscal 2023 and 2022 management concluded that there were no impairment indicators in respect of property, plant and equipment and no impairment charge was required.
- (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, 2023 and 2022 the Company did not have any cash equivalents.

**ROCHESTER RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MAY 31, 2023 AND 2022**  
*(Expressed in Canadian Dollars)*

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**3. Summary of Significant Accounting Policies (continued)**

***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.

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.

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**3. Summary of Significant Accounting Policies (continued)**

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.

***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.

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**3. Summary of Significant Accounting Policies (continued)**

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.

***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.

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**3. Summary of Significant Accounting Policies (continued)**

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.

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.

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**3. Summary of Significant Accounting Policies (continued)**

*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.

*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).

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**3. Summary of Significant Accounting Policies (continued)**

*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, 2023 \$	May 31, 2022 \$
Production receivable	1,809,049	1,334,927
Other	<u>41,903</u>	<u>42,170</u>
	<u>1,850,952</u>	<u>1,377,097</u>

**5. Inventories**

	May 31, 2023 \$	May 31, 2022 \$
Mineralized material in process	555,734	726,462
Mine stores, supplies and other	<u>533,751</u>	<u>612,515</u>
	<u>1,089,485</u>	<u>1,338,977</u>

**6. Exploration and Evaluation Assets**

	Santa Fe Property \$
<b>Balance at May 31, 2021</b>	<u>-</u>
<b>Exploration costs:</b>	
Exploration site	<u>15,078</u>
<b>Acquisition costs:</b>	
Mineral claims	94,418
Option payments	<u>151,296</u>
	245,714
<b>Impairment</b>	<u>(260,792)</u>
<b>Balance at May 31, 2022</b>	<u>-</u>
<b>Acquisition costs:</b>	
Mineral claims	107,404
Option payments	<u>160,296</u>
	<u>267,700</u>
<b>Impairment</b>	<u>(267,700)</u>
<b>Balance at May 31, 2023</b>	<u>-</u>

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**6. Exploration and Evaluation Assets (continued)**

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 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.

**7. Property, Plant and Equipment**

<b>Cost:</b>	<b>Mineral Properties \$</b>	<b>Land \$</b>	<b>Buildings \$</b>	<b>Mill and Mine Equipment \$</b>	<b>Total \$</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	-	-	338,643	1,419,636	1,758,279
Balance, May 31, 2023	-	-	339,273	1,057,102	1,396,375

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.

See also Note 17.

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**8. Right of Use Assets**

<b>Cost:</b>	<b>Land \$</b>	<b>Buildings \$</b>	<b>Mill &amp; Mine Equipment \$</b>	<b>Total \$</b>
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	84,372	118,848	508,938	712,158
Additions	130,259	-	32,472	162,731
Terminations	<u>-</u>	<u>-</u>	<u>(9,056)</u>	<u>(9,056)</u>
Balance, May 31, 2023	<u>214,631</u>	<u>118,848</u>	<u>532,354</u>	<u>865,833</u>
<b>Accumulated amortization:</b>				
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	(15,334)	(12,874)	(163,077)	(191,285)
Amortization	<u>(15,473)</u>	<u>(11,884)</u>	<u>(152,362)</u>	<u>(179,719)</u>
Balance, May 31, 2023	<u>(30,807)</u>	<u>(24,758)</u>	<u>(315,439)</u>	<u>(371,004)</u>
<b>Carrying value:</b>				
Balance, May 31, 2022	<u>69,038</u>	<u>105,974</u>	<u>345,861</u>	<u>520,873</u>
Balance, May 31, 2023	<u>183,824</u>	<u>94,090</u>	<u>216,915</u>	<u>494,829</u>

The Company has lease contracts for various land, housing and vehicles. It does not have any subleases. As at May 31, 2023 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 \$1,012,407 (2022 - \$767,613).

	<b>2023 \$</b>	<b>2022 \$</b>
Balance, beginning of year	474,663	340,725
Additions	162,731	279,621
Terminations	(9,056)	-
Accretion of interest	98,980	83,740
Payments	<u>(149,800)</u>	<u>(229,423)</u>
Balance, end of year	<u>577,518</u>	<u>474,663</u>
Current portion of lease liabilities	173,226	124,417
Non-current portion of lease liabilities	<u>404,292</u>	<u>350,246</u>
Total lease liabilities	<u>577,518</u>	<u>474,663</u>

During fiscal 2023 the Company recorded accretion of interest on lease liabilities of \$98,980 (2022 - \$83,740).

As at May 31, 2023 the total of future minimum lease payments under leases are as follows:

	<b>\$</b>
Less than one year	272,934
Greater than one year	<u>739,473</u>
	<u>1,012,407</u>

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**9. Amounts Due**

The Company had received ongoing loans and advances, incurred indebtedness and issued debentures with its shareholders and current and former directors of the Company. The loans, advances, debentures, indebtedness and accrued interest (the "Amounts Due") were payable on demand and were classified as current liabilities as at May 31, 2022. During fiscal 2023 certain holders of the Amounts Due agreed that they would not demand repayment until May 31, 2025 and accordingly, the Company has reclassified these amounts as non-current liabilities as at May 31, 2023.

	9% Advances \$	12% Advances \$	Debentures \$	Indebtedness \$	Total \$
<b>Principal</b>					
Balance, May 31, 2021	1,006,192	3,137,326	775,000	3,631,000	8,549,518
Advances repaid	-	(12,626)	-	-	(12,626)
Advances settled	(114,960)	(166,290)	(550,000)	-	(831,250)
Foreign exchange adjustment	<u>22,022</u>	<u>145,626</u>	<u>-</u>	<u>-</u>	<u>167,648</u>
Balance, May 31, 2022	913,254	3,104,036	225,000	3,631,000	7,873,290
Foreign exchange adjustment	<u>36,509</u>	<u>233,485</u>	<u>-</u>	<u>-</u>	<u>269,994</u>
Balance, May 31, 2023	<u>949,763</u>	<u>3,337,521</u>	<u>225,000</u>	<u>3,631,000</u>	<u>8,143,284</u>
<b>Interest</b>					
Balance, May 31, 2021	901,465	2,604,385	1,529,004	2,808,998	7,843,852
Interest expense	88,999	385,512	110,807	326,790	912,108
Foreign exchange adjustment	<u>16,114</u>	<u>120,863</u>	<u>-</u>	<u>-</u>	<u>136,977</u>
Balance, May 31, 2022	1,006,578	3,110,760	1,639,811	3,135,788	8,892,937
Interest expense	84,632	393,283	45,000	326,790	849,705
Interest repaid	-	-	(69,315)	-	(69,315)
Foreign exchange adjustment	<u>30,619</u>	<u>234,112</u>	<u>-</u>	<u>-</u>	<u>264,731</u>
Balance, May 31, 2023	<u>1,121,829</u>	<u>3,738,155</u>	<u>1,615,496</u>	<u>3,462,578</u>	<u>9,938,058</u>
<b>Total amounts due:</b>					
As at May 31, 2022					
Current portion	<u>1,919,832</u>	<u>6,214,796</u>	<u>1,864,811</u>	<u>6,766,788</u>	<u>16,766,227</u>
As at May 31, 2023					
Current portion	-	58,823	-	233,288	292,111
Non-current portion	<u>2,071,592</u>	<u>7,016,853</u>	<u>1,840,496</u>	<u>6,860,290</u>	<u>17,789,231</u>
	<u>2,071,592</u>	<u>7,075,676</u>	<u>1,840,496</u>	<u>7,093,578</u>	<u>18,081,342</u>

(a) The 9% Advances bear interest at a rate of 9% per annum. On February 1, 2022 the Company issued 1,532,800 common shares on the exercise of warrants in settlement of \$114,960 principal of 9% Advances.

(b) The 12% Advances bear interest at a rate of 12% per annum. On February 1, 2022 the Company issued 2,217,200 common shares on the exercise of warrants in settlement of \$166,290 principal of 12% Advances.

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**9. Amounts Due** (continued)

- (c) 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.

On February 1, 2022 the Company issued 6,000,000 common shares of the Company in settlement of \$450,000 principal of Debentures. In addition, during fiscal 2022 the Company also settled \$100,000 principal of Debentures.

- (d) The indebtedness (the “Indebtedness”) is secured by the assets of the Company and interest is calculated at 9% per annum.
- (e) See also Note 19.

**10. 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*

The Company did not conduct any equity financings during fiscal 2023 or fiscal 2022.

(c) *Debt Settlements*

On February 1, 2022 the Company issued a total of 9,750,000 common shares on the exercise of warrants in settlement of \$281,250 of Advances and \$450,000 of Debentures. See Note 9.

(d) *Warrants*

A summary of the number of common shares reserved pursuant to the Company’s outstanding warrants at May 31, 2023 and 2022 and the changes for the years ended on those dates, is as follows:

	2023		2022	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	1,843,243	0.075	11,593,243	0.075
Issued	-	-	-	-
Exercised	-	-	<u>(9,750,000)</u>	0.075
Balance, end of year	<u>1,843,243</u>	0.075	<u>1,843,243</u>	0.075

As at May 31, 2023 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.

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**10. Share Capital (continued)**

(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 2023 or 2022.

A summary of the Company’s share options at May 31, 2023 and 2022 and the changes for the years ended on those dates, is as follows:

	2023		2022	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	2,185,000	0.05	2,185,000	0.05
Expired	(80,000)	0.05	-	-
Balance, end of year	2,105,000	0.05	2,185,000	0.05

The following table summarizes information about the share options outstanding and exercisable at May 31, 2023:

Number	Exercise Price \$	Expiry Date
2,005,000	0.05	July 20, 2023*
100,000	0.05	September 23, 2023
2,105,000		

\* Expired without exercise subsequent to May 31, 2023.

**11. 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 2023 and 2022 the following amounts were incurred with respect to the CEO and CFO of the Company:

	2023 \$	2022 \$
Professional fees	48,704	47,245

No fees were incurred with respect of the Chairman, in fiscal 2023 or 2022.

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**11. Related Party Disclosures** (continued)

As at May 31, 2023 \$1,166,322 (2022 - \$1,130,359) remained unpaid and is included in amounts payable to directors and officers.

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 and 2022 the following amounts were incurred with respect to the non-executive directors and an officer of the Company:

	2023 \$	2022 \$
Consulting fees	<u>12,000</u>	<u>12,000</u>

As at May 31, 2023 \$228,000 (2022 - \$227,000) remained unpaid and is included in amounts payable to directors and officers.

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

(ii) During fiscal 2023 the Company incurred a total of \$57,800 (2022 - \$56,500) 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, 2023 \$7,452 (2022 - \$6,546) remained unpaid and is included in amounts payable to directors and officers.

(c) See also Notes 9, 10(c) and 19.

**12. Income Taxes**

Deferred income tax assets and liabilities of the Company as at May 31, 2023 and 2022 are as follows:

	2023 \$	2022 \$
<b>Deferred income tax assets</b>		
Losses carried forward	5,741,400	5,310,600
Other	3,800	4,300
Valuation allowance	<u>(5,745,200)</u>	<u>(5,314,900)</u>
Net deferred income tax asset	<u>-</u>	<u>-</u>

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**12. Income Taxes (continued)**

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:

	2023 \$	2022 \$
<b>Income tax rate reconciliation</b>		
Combined federal and provincial income tax rate	<u>27.0%</u>	<u>27.0%</u>
Expected income tax expense (recovery)	(1,595,400)	(711,400)
Foreign income tax rate differences	(53,500)	(59,600)
Other	144,800	82,700
Unrecognized benefit of income tax losses	<u>1,504,100</u>	<u>688,300</u>
<b>Deferred income tax expense</b>	<u>-</u>	<u>-</u>

As at May 31, 2023 the Company has non-capital losses and accumulated pools of approximately \$20,096,100 for Canadian income tax purposes to offset against future income, expiring from 2026 through 2043. The Company also has accumulated non-capital losses of approximately \$1,064,300 (13,860,700 Mexican Pesos) for Mexican tax purposes, expiring from 2024 through 2034. Tax attributes are subject to review, and potential adjustment, by tax authorities.

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.

**13. Provision for Site Restoration**

	2023 \$	2022 \$
Balance, beginning of year	1,480,790	1,255,839
Accretion	142,944	84,543
Revision of estimates	(445,936)	230,194
Foreign exchange	<u>253,974</u>	<u>(89,786)</u>
Balance, end of year	<u>1,431,772</u>	<u>1,480,790</u>

The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligation at May 31, 2023 is US \$1,285,000 (2022 - US \$1,285,000) which, as at May 31, 2023, has been discounted using a credit adjusted pre-tax risk free rate of 5.7% (2022 - 7.65%) and an inflation rate of 5.84% (2022 - 8.87%). 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.

**14. Financing Expenses**

Financing expenses for fiscal 2023 and 2022 are as follows:

	Note	2023 \$	2022 \$
Interest expense:			
Advances	9	477,915	474,511
Debentures	9	45,000	110,807
Indebtedness	9	<u>326,790</u>	<u>326,790</u>
		<u>849,705</u>	<u>912,108</u>

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**15. 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:

<b>Financial Instruments</b>	<b>Category</b>	<b>May 31, 2023 \$</b>	<b>May 31, 2022 \$</b>
Cash	FVTPL	181,520	347,045
Amounts receivable	Amortized cost	1,850,952	1,377,097
Accounts payable and accrued liabilities	Amortized cost	(13,507,468)	(9,075,526)
Amounts payable to directors and officers	Amortized cost	(1,401,774)	(1,363,905)
Lease liabilities	Amortized cost	(577,518)	(474,663)
Amounts due	Amortized cost	(18,081,342)	(16,766,227)

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, and amounts due approximate their fair value due to their short-term nature. The recorded amounts for lease liabilities and amounts due 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.

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**15. Financial Instruments and Risk Management (continued)**

*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. 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.

	<b>Contractual Maturity Analysis at May 31, 2023</b>				
	<b>Carrying Amount \$</b>	<b>Contractual Cash Flows \$</b>	<b>Less than 3 Months \$</b>	<b>3 - 12 Months \$</b>	<b>1 - 5 Years \$</b>
Cash	181,520	181,520	181,520	-	-
Amounts receivable	1,850,952	1,850,952	1,850,952	-	-
Accounts payable and accrued liabilities	(13,507,468)	(13,507,468)	(13,507,468)	-	-
Amounts payable to directors and officers	(1,401,774)	(1,401,774)	(1,401,774)	-	-
Lease liabilities	(577,518)	(577,518)	(43,307)	(129,919)	(404,292)
Amounts due	(18,081,342)	(18,081,342)	(292,111)	-	(17,789,231)

*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, 2023, 1 Canadian Dollar was equal to 13.02 Mexican Pesos and 0.74 US Dollar.

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**15. Financial Instruments and Risk Management (continued)**

Balances are as follows:

	Mexican Pesos	United States Dollars	CDN \$ Equivalent
Cash	2,095,857	6,626	169,926
Amounts receivable	73,180	1,334,596	1,850,952
IVA tax receivable	12,094,554	-	928,921
Inventories	14,188,777	-	1,089,485
Accounts payable and accrued liabilities	(158,342,985)	(568,519)	(12,929,788)
Amounts payable to directors and officers	-	(60,650)	(81,959)
Amounts due	-	(5,842,553)	(7,895,342)
	<u>(129,890,617)</u>	<u>(5,130,500)</u>	<u>(16,867,805)</u>

Based on the net exposures as of May 31, 2023 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 \$1,780,000 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.

**16. 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, 2023</u>		
	Non-current Assets \$	Revenues \$	Net Loss \$
Mineral operations (Mexico)	1,891,204	13,631,949	(4,848,923)
Corporate (Canada)	-	-	(1,060,128)
	<u>1,891,204</u>	<u>13,631,949</u>	<u>(5,909,051)</u>
	<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>

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**17. 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) See also Note 19.
- (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 concession 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.

**18. Supplemental Cash Flow Information**

During fiscal 2023 and 2022 non-cash activities were conducted by the Company as follows:

	2023 \$	2022 \$
Operating activities		
Impairment of exploration and evaluation assets	267,700	260,792
Lease liabilities	<u>162,731</u>	<u>279,621</u>
	<u>430,431</u>	<u>540,413</u>
Investing activities		
Expenditures on exploration and evaluation assets	(267,700)	(260,792)
Additions to right of use assets	<u>(162,731)</u>	<u>(279,621)</u>
	<u>(430,431)</u>	<u>(540,413)</u>
Financing activities		
Issuance of share capital	-	731,250
Advances settled	-	(281,250)
Debentures settled	<u>-</u>	<u>(450,000)</u>
	<u>-</u>	<u>-</u>

**19. Event after the Reporting Period**

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, as described in Note 17(a). 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.