

ROCHESTER RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MAY 31, 2024

This discussion and analysis of financial position and results of operation is prepared as at October 1, 2024 and should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ended May 31, 2024 and 2023 of Rochester Resources Ltd. ("Rochester" or the "Company"). The following disclosure and associated financial statements are presented in accordance with IFRS Accounting 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.sedarplus.ca 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.

During fiscal 2024 the Company recorded a net loss of \$5,147,499 and, as at May 31, 2024, the Company had a working capital deficit of \$14,048,480 and non-current liabilities of \$21,500,105. The Company has been unable to make all concession payments when due and, as at May 31, 2024, has unpaid government concession payments and related carrying charges totalling \$5,958,636 (included in accounts payable and accrued liabilities). The Company is also in the process of resolving a dispute resulting from government audits and, as a result has relied on advances from its Chairman and CEO, as described in "Related Party Disclosures". 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 on the market prices of gold and silver, its ability to continue improving its operations to generate 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 gold and silver properties located in the state of Nayarit, Mexico, east of the state capital city of Tepic. The Mina Real Property consists of 11 mining concessions and one mineral claim encompassing a total area of 21,367.42 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 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 2024 and accumulated for fiscal 2024 and 2023 are provided in the table below:

RESULTS	Q4 (Mar 1/24 - May 31/24)	Q3 (Dec 1/23 - Feb 28/24)	Q2 (Sep 1/23 - Nov 30/23)	Q1 (Jun 1/23 - Aug 31/23)	Accumulated Fiscal 2024	Accumulated Fiscal 2023
Tonnes Processed	9,211.64 tonnes	10,224 tonnes	12,808 tonnes	13,427 tonnes	45,671 tonnes	58,259 tonnes
Gold Grade	2.01 g/t	1.71 g/t	2.13 g/t	2.32 g/t	2.07 g/t	2.20 g/t
Silver Grade	268.61 g/t	271.12 g/t	266.38 g/t	246.75 g/t	262.12 g/t	209.66 g/t
Gold Recovery	96.61 %	94.07 %	95.08 %	95.49 %	95.28 %	95.23 %
Silver Recovery	56.43 %	37.24 %	39.89 %	43.47 %	43.69 %	44.28 %
Gold Produced	575 ounces	530 ounces	833 ounces	957 ounces	2,895 ounces	3,932 ounces
Gold Sold	566 ounces	522.08 ounces	820.87 ounces	943 ounces	2,852 ounces	3,872 ounces
Silver Produced	44,916 ounces	33,190 ounces	43,401 ounces	46,312 ounces	167,819 ounces	173,895 ounces
Silver Sold	43,568 ounces	32,193 ounces	42,099 ounces	44,923 ounces	162,783 ounces	168,678 ounces
Gold Equivalent Produced	1,114 ounces	907 ounces	1,348 ounces	1,522 ounces	4,891 ounces	5,990 ounces
Developed Meters	294.5 meters	249 meters	358 meters	428 meters	1,330 meters	3,405 meters
Samples Taken	3,511 samples	3,355 samples	3,578 samples	4,672 samples	15,116 samples	22,204 samples
Diamond Drilling Meters	1,306.8 meters	0 meters	0 meters	0 meters	1,306.8 meters	0 meters
Access Road Kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers	0 kilometers

Q4 Compared to Q3

Production of gold during Q4 was 8.49% higher than Q3 (575 ounces compared to 530 ounces) and silver production was 35.33% higher than Q3 (44,916 ounces compared to 33,190 ounces) resulting in the gold equivalent produced being 22.82% higher than Q3 (1,114 ounces compared to 907 ounces). The increase was mainly due to the increase in gold grades and higher gold recoveries in Q4 compared to Q3. Although silver grades were slightly lower in Q4 compared to Q3, silver recovery was 51.5% higher in Q4 compared to 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. During Q4 the majority of material processed was from the San Francisco area. During Q3 materials were processed from the Cholita, Agua Negra and Lluvia de Oro Projects. Materials from the Cholita and Agua Negra area have higher amounts of manganese which causes lower silver recoveries and materials from the Lluvia de Oro Project have lower gold grades.

Fiscal 2024 Compared to Fiscal 2023

The gold equivalent produced during fiscal 2024 was 4,891 ounces as compared to 5,990 ounces during the fiscal 2023, a decrease of 1,099 ounces. The decrease is a result of the 12,588 tonne decrease in materials processed combined with slightly lower gold grades and silver recoveries during fiscal 2024. In August 2023 the processing plant was down for one week due to the lack of electrical power which resulted in the decrease in materials processed and during Q2, Q3 and Q4, hauling of mineralized material decreased due to liquidity issues.

Drifting

The allocation for drifting amongst areas during each quarter of fiscal 2024 and accumulated for fiscal 2024 and 2023 is as follows:

Area	Q4		Q3		Q2		Q1		Fiscal 2024		Fiscal 2023	
	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	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
San Francisco Property	294	100%	249	100%	358	100%	428	100%	1,329	100%	3,404	100%
TOTAL DRIFTING	294	100%	249	100%	358	100%	428	100%	1,329	100%	3,405	100%

Distribution of the development during each quarter of fiscal 2024 and accumulated for fiscal 2024 and 2023 are as follows:

Type of Drifting	Q4		Q3		Q2		Q1		Fiscal 2024		Fiscal 2023	
	Meters	%	Meters	%	Meters	%	Meters	%	Meters	%	Meters	%
Exploration	28	9%	112	45%	156	44%	108	25%	404	30%	1,459	43%
Stope Preparation	226	77%	96	39%	58	16%	69	26%	449	34%	1,318	39%
CAPEX Drifting	40	14%	41	16%	144	40%	251	59%	476	36%	628	18%
TOTAL DRIFTING	294	100%	249	100%	358	100%	428	100%	1,329	100%	3,405	100%

During fiscal 2024 drifting was decreased due to a lack of experienced drilling personnel and the availability of required equipment.

Exploration and Development Activities

The Company has ongoing exploration and development programs at the Mina Real and San Francisco Properties to identify additional mineralized material to provide mill feed for operations.

Mill Area

During fiscal 2024 changing of the liners on the 6' x 12' mill was completed resulting in the 6' x 12' mill now being in good working order. The 10' x 10' mill remains out of operation still waiting for specialized parts. Preliminary work on the 10' x 10' mill is ongoing at the shop. In November 2023 the 4' x 4' mill was halted due to problems with the speed reducer. In January 2024 the mill was sent to the shop for the repair but is still not in operation due to problems with the speed reducer.

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		
	2024 \$	2023 \$	2022 \$
Operations:			
Revenues	12,699,164	13,631,949	13,819,817
Cost of sales	(13,755,653)	(14,818,014)	(13,309,956)
Depletion and amortization	(520,431)	(598,795)	(554,051)

	Fiscal Years Ended May 31		
	2024 \$	2023 \$	2022 \$
Provision for site restoration	(128,911)	(142,944)	(84,543)
Expenses, excluding impairment	(2,793,638)	(3,713,547)	(2,245,241)
Impairment of exploration and evaluation assets	(648,030)	(267,700)	(260,792)
Comprehensive income (loss)	(5,147,499)	(5,909,051)	(2,634,766)
Basic and diluted income (loss) per share	(0.11)	(0.13)	(0.06)
Dividends per share	Nil	Nil	Nil
Statement of Financial Position:			
Working capital (deficit)	(14,048,480)	(10,152,769)	(23,509,745)
Total assets	5,640,393	6,029,194	6,099,482
Total non-current liabilities	(21,500,105)	(20,709,115)	(1,831,036)

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

Three Month Period Ending	Fiscal 2024				Fiscal 2023			
	May 31/24 \$	Feb 29/24 \$	Nov 30/23 \$	Aug 31/23 \$	May 31/23 \$	Feb 28/23 \$	Nov 30/22 \$	Aug 31/22 \$
Operations:								
Revenues	3,272,538	2,287,944	3,437,386	3,701,296	3,756,469	3,120,733	3,265,679	3,489,068
Cost of sales	(3,677,868)	(3,034,141)	(3,661,814)	(3,381,830)	(4,270,448)	(3,287,324)	(3,612,867)	(3,647,375)
Depletion and amortization	(117,815)	(133,570)	(134,523)	(134,523)	(163,157)	(144,823)	(143,522)	(147,293)
Provision for site restoration	(33,063)	(32,198)	(31,753)	(31,897)	(38,470)	(36,744)	(35,223)	(32,507)
(Expenses) income, excluding impairment	(645,902)	(928,202)	(695,714)	(522,217)	(1,235,965)	(623,656)	(1,033,216)	(820,710)
Impairment of exploration and evaluation assets	(401,355)	(104,612)	(63,262)	(78,801)	(43,632)	(95,938)	(89,402)	(38,728)
Comprehensive loss	(1,603,465)	(1,944,779)	(1,149,680)	(449,575)	(1,995,203)	(1,067,752)	(1,648,551)	(1,197,545)
Basic and diluted loss per share	(0.02)	(0.04)	(0.02)	(0.01)	(0.05)	(0.02)	(0.03)	(0.03)
Statement of Financial Position:								
Working capital (deficit)	(14,048,480)	(12,875,142)	(11,287,316)	(10,456,038)	(10,152,769)	(27,235,183)	(25,977,045)	(24,437,965)
Total assets	5,640,393	5,566,821	9,298,224	6,599,270	6,029,194	5,780,163	5,664,403	6,015,402
Total non-current liabilities	(21,500,105)	(21,149,446)	(20,926,064)	(20,739,878)	(20,709,115)	(1,966,241)	(1,865,629)	(1,957,350)

Results of Operations

Three Months Ended May 31, 2024 ("Q4") Compared to Three Months Ended February 29, 2024 ("Q3")

During Q4 the Company reported a comprehensive loss of \$1,603,465 compared to a comprehensive loss of \$1,944,779 for Q3, a decrease in loss of \$341,314. The decrease in loss was due to:

- (i) an operating loss of \$556,208 during Q4 compared to an operating loss of \$911,965 in Q3;
- (ii) a decrease in general and administrative expenses of \$164,832 from \$400,251 in Q3 to \$235,419 in Q4;
- (iii) a fluctuation in foreign exchange of \$119,831, from a foreign exchange loss of \$290,444 in Q3 to a foreign exchange loss of \$170,613 in Q4; and
- (iv) recognition of impairment of exploration and evaluation assets of \$401,355 in Q4 compared to \$104,612 in Q3.

Three Months Ended May 31, 2024 Compared to Three Months Ended May 31, 2023

During the three months ended May 31, 2024 ("Q4/2024") the Company reported comprehensive loss of \$1,603,465 compared to comprehensive loss of \$1,995,203 for the three months ended May 31, 2023 ("Q4/2023"), a decrease in loss of \$391,738. The decrease in loss is due to:

- (i) the Company recording an operating loss of \$556,208 in Q4/2024 compared to an operating loss of \$715,606 in Q4/2023, a fluctuation of \$159,398;
- (ii) a \$644,868 fluctuation in foreign exchange from a foreign exchange loss of \$815,481 in Q4/2023 compared to a foreign exchange loss of \$170,613 in Q4/2024; and
- (iii) recognition of impairment of exploration and evaluation assets of \$401,355 in Q4/2024 compared to \$43,632 in Q3/2023.

Year Ended May 31, 2024 Compared to Year Ended May 31, 2023

During the year ended May 31, 2024 (“fiscal 2024”) the Company recorded comprehensive loss of \$5,147,499 compared to comprehensive loss of \$5,909,051 for the year ended May 31, 2023 (“fiscal 2023”), a decrease in loss of \$761,552. The decrease in loss was primarily attributed to a decrease in operating loss of \$221,973 from an operating loss of \$1,927,804 in fiscal 2023 to an operating loss of \$1,705,831 in fiscal 2024 and a \$1,240,245 decrease in foreign exchange loss from a loss of \$2,008,565 in fiscal 2023 to a loss of \$768,320 in fiscal 2024. The decrease was offset by an increase in general and administrative expenses of \$308,090 from \$756,297 in fiscal 2023 to \$1,064,387 in fiscal 2024.

Production

During fiscal 2024 the Company sold 4,788 gold equivalent ounces and realized revenues of \$2,652 per gold equivalent ounce as compared to the sale of 5,869 gold equivalent ounces and realized revenues of \$2,323 per gold equivalent ounce during fiscal 2023.

The Company’s cost of operations per gold equivalent ounce sold during fiscal 2024 was \$2,873 as compared to \$2,525 during fiscal 2023.

Direct operating cost of sales for fiscal 2024 and 2023 comprise the following:

	2024 \$	2023 \$
Mine costs	4,858,038	6,158,984
Mill costs	3,602,252	4,014,488
Service department costs	<u>5,295,363</u>	<u>4,644,542</u>
	<u>13,755,653</u>	<u>14,818,014</u>

General and administrative expenses of \$1,064,387 were reported for fiscal 2024 compared to \$756,297 during fiscal 2024, an increase of \$308,090 mainly due to an increase in professional fees for consultants engaged to provide corporate advisory services. A summary of expenses are as follows:

	2024 \$	2023 \$
Accounting and administrative	57,250	57,800
Audit	74,944	73,573
Director and officer compensation	60,871	60,704
Legal	17,520	18,618
Office	173,478	192,509
Professional fees	320,647	13,205
Regulatory fees	7,604	8,960
Salaries and benefits	330,470	309,190
Shareholder costs	-	3,010
Transfer agent fees	2,893	6,338
Travel	<u>18,710</u>	<u>12,390</u>
	<u>1,064,387</u>	<u>756,297</u>

Exploration and Evaluation Assets

During fiscal 2024 the Company incurred \$648,030 (2023 - \$267,700) 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 \$648,030 (2023 - \$267,700) to reflect management’s determination to fully impair the Santa Fe property in fiscal 2016..

Property, Plant and Equipment

	Mineral Properties \$	Land \$	Buildings \$	Mill and Mine Equipment \$	Total \$
Cost:					
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	33,934,944	2,692,313	3,566,241	7,774,403	47,967,901
Additions	-	-	-	4,031	4,031
Balance, May 31, 2024	<u>33,934,944</u>	<u>2,692,313</u>	<u>3,566,241</u>	<u>7,778,434</u>	<u>47,971,932</u>
Accumulated depletion, amortization and impairment:					
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	(33,934,944)	(2,692,313)	(3,226,968)	(6,717,301)	(46,571,526)
Depletion and amortization	-	-	(48,377)	(274,223)	(322,600)
Balance, May 31, 2024	<u>(33,934,944)</u>	<u>(2,692,313)</u>	<u>(3,275,345)</u>	<u>(6,991,524)</u>	<u>(46,894,126)</u>
Carrying value:					
Balance, May 31, 2023	-	-	339,273	1,057,102	1,396,375
Balance, May 31, 2024	<u>-</u>	<u>-</u>	<u>290,896</u>	<u>786,910</u>	<u>1,077,806</u>

Development and production activities conducted during fiscal 2024 are described in “Property Update” in this MD&A.

Financings

During fiscal 2024 and 2023 the Company did not complete any equity financings.

Financial Condition / Capital Resources

During fiscal 2024 the Company incurred a net loss of \$5,147,499 and, as at May 31, 2024, the Company had a working capital deficit of \$14,048,480 and non-current liabilities of \$21,500,105. The Company’s ongoing operations are dependent on extracting mineralized material from the Mina Real property 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 generate positive operating cash flow from the Mina Real property 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, 2024 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 2024 and 2023 the following amounts were incurred:

	2024 \$	2023 \$
Professional fees - Mr. DeMare	24,480	24,480
Professional fees - Mr. Silva	24,391	24,224
	<u>48,871</u>	<u>48,704</u>

No fees were incurred with respect of Mr. Luna, in fiscal 2024 and 2023.

As at May 31, 2024 \$1,191,008 (2023 - \$1,166,322) remained unpaid, of which \$1,108,300 (2023 - \$1,083,820) certain officers and directors of the Company agreed to not demand repayment of \$1,108,300 (2023 - \$1,083,820) until June 1, 2025.

(b) *Transactions with Other Related Parties*

- (i) During fiscal 2024 \$12,000 (2023 - \$12,000) was incurred to the Company's Corporate Secretary (Mr. Harvey Lim). No compensation was incurred in fiscal 2024 or 2023 to the non-executive directors of the Company. As at May 31, 2024 \$33,750 (2023 - \$33,750) was due to the Corporate Secretary and \$194,250 (2023 - \$194,250) remained unpaid to the Company's non-executive directors on account of compensation accrued in prior years.
- (iii) During fiscal 2024 the Company incurred a total of \$57,250 (2023 - \$57,800) 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, 2024 \$nil (2023 - \$7,452) remained unpaid.
- (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 June 1, 2025. As at May 31, 2024 \$877,150 (2023 - \$876,035) of principal is due to Mr. Luna and \$73,913 (2023 - \$73,728) 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 June 1, 2025. As at May 31, 2024 \$3,334,062 (2023 - \$3,325,750) of principal is due to Mr. Luna and \$11,771 (2023 - \$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, 2024

Mr. Luna holds \$202,000 (2023 - \$202,000) of the Debentures and has agreed to not demand payment until June 1, 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, 2024 \$1,296,812 (2023 - \$1,296,812) of principal and \$1,353,692 (2023 - \$1,236,659) of accrued interest was owed to a private corporation associated with Mr. DeMare. The private corporation has agreed to not demand payment until June 1, 2025.
- (g) On August 7, 2023 the Mexican state of Nayarit's Secretary of Administration and Finance ("Nayarit SAF") initiated steps seeking to collect amounts owing relating to the ongoing dispute, as described in Note 16(a). The Company is in the process of pledging security of its office building in Tepic to the Nayarit SAF to satisfy collection efforts. As a result of these collection efforts, as at May 31, 2024 the Company received loan advances totalling \$2,710,778 (US \$1,992,849) from its Chairman and CEO to provide short-term funding to the Company while it resolves the dispute. In January 2024 the Company repaid \$2,378,772 (US \$1,782,849) on advances received. As at May 31, 2024 \$286,377 (US \$210,000) of principal is due to Mr. Luna.

Contingent Liability and Commitments

- (a) From time to time the Company becomes involved in various claims and litigation, including various governmental audits, as part of the normal course of operations. The Company continues to work with legal counsel to review and respond to the reassessment and as at May 31, 2024, has accrued a provision of \$750,000 (2023 - \$580,000). The Company has pledged the Mexican office building with an assessed value of \$690,000 and has paid a cash deposit of \$210,000 related to the ongoing litigation with the Mexican state of Nayarit's Secretary of Administration and Finance.
- (b) The Company has only made partial government concession payments and accrued carrying charges on its concessions. As at May 31, 2024 \$5,958,636 (2023 - \$4,365,853) 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 October 1, 2024, there were 47,144,125 issued and outstanding common shares.