

# BAROYECA GOLD & SILVER INC.

## MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended May 31, 2019

### Background

The following discussion and analysis, prepared as of September 28, 2019, should be read together with the audited consolidated financial statements for the year ended May 31, 2019 and related notes attached thereto, which are prepared in accordance with International Financial Reporting Standards. All amounts are stated in Canadian dollars unless otherwise indicated.

These audited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Boroyeca Gold & Silver de Mexico S.A. de C.V., Tombstone Gold & Silver Inc. and Tombstone Resources Inc. Tombstone Gold & Silver Inc. and Tombstone Resources Inc. are both Arizona, USA companies. All inter-company transactions and balances have been eliminated.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

### Overview

Baroyeca Gold & Silver Inc. (the "Company") was incorporated on February 17, 2006 and commenced business at that time. The Company is a mineral exploration and evaluation company with no revenue generating operations, other than some incidental revenue from the sale of gravel from its Tombstone Properties which is reported as a recovery of costs incurred on those properties. Accordingly, any funds raised for the Company's operations are through the sale of shares of its capital stock or from debt financing. The Company's fiscal year end is May 31. The Company completed its initial prospectus offering in December 2010 and is listed on the TSX Venture Exchange under the symbol **BGS**.

During the 2012 fiscal year, the Company reviewed and acquired certain patented mineral claims and unpatented lode claims situated near Tombstone, Arizona, U.S.A. (the "Tombstone Property").

### Results of Operations

#### *Description of Properties*

##### The Tombstone Properties

Pursuant to the terms of a purchase and sale and option agreement dated as of May 16, 2011, (the "Tombstone Option Agreement") entered into with Tombstone Development Company, of Tucson, Arizona, Dale Turner, its principal, and several affiliated companies (collectively, the "Vendor"), the Company, through its wholly-owned Arizona subsidiary, Tombstone Gold & Silver Inc, acquired a parcel of historic patented mining claims comprising in the order of 200 acres, and was granted options to acquire two additional parcels of claims contiguous to the group acquired comprising respectively an additional 135 and 150 acres. The three parcels contain the bulk of the historic patented claims on the hill

just south of the town of Tombstone, Arizona. The price for the first parcel of claims was US\$250,000 in cash and the price for the two optioned parcels, also all cash, is US\$180,000 and US\$250,000 respectively. The Company and its subsidiaries had until September 17, 2011 to exercise the first option, which was exercised by Tombstone Gold & Silver Inc. ("TGSI") and Tombstone Resources Inc. ("TRI") with closing occurring on September 30, 2011. Accordingly, the Company and its subsidiaries had until November 29, 2011 to exercise the second option. On November 29, 2011, the Company and the Vendor amended the Tombstone Option Agreement to extend the exercise date for the second option to February 29, 2012. In consideration of this amendment, the Company paid US\$40,000 of the exercise price to the Vendor which the Company will forfeit if the second option is not exercised. By further amendments to the Tombstone Option Agreement agreed to with the Vendor, the closing date for the second option was extended to June 30, 2012 in consideration of which the Company paid the Vendor an additional US\$50,000 and agreed to issue the Vendor 10,000 shares in the capital of the Company at closing. The Company was unable to pay the remaining balance due of US\$160,000 by June 30, 2012 and has since received a notice of default pursuant to which the Company was to make the payment by October 19, 2012. Due to the very difficult market conditions for junior resource companies, at October 19, 2012, the Company was still without sufficient funds to complete the purchase and spoke with the Vendor who verbally agreed, due to the market conditions, to extend the deadline generally for the payment of the balance of the exercise price.

The first parcel of claims acquired by Tombstone Gold & Silver Inc. comprise, amongst others, the former Tombstone Contention Mine and the Grand Central Mine, previously operated principally as silver mines. The Company was considering further exploration of these properties.

In addition to the patented claims that were acquired or optioned to be acquired, the Company staked approximately 900 acres of claims in several packages, some contiguous and some adjacent, to the purchased and optioned properties, increasing the Company's holdings on completing the two option purchases to approximately 1,400 acres. During the year ended May 31, 2016, due to a shortage of funds, certain of these staked claims were allowed to lapse, accordingly reducing the property so held.

In conjunction with the purchase of the group of claims, the Company agreed to purchase a number of pieces of equipment and an office facility located on the properties that had been used in operations carried out by the vendor for a total of US\$176,000 which has been fully paid.

In addition to the mineral potential of the purchased claims, the property contains a quantity of stockpiled construction aggregate material created as a by-product of previous mining operations. In the current economic circumstances, the Company will be concentrating on extracting, and building the sales of, aggregate from the property as a source of cash flow for the Company.

The former owners of the claims acquired had made an application to the Arizona Department of Environmental Quality ("ADEQ") for closure of the Tombstone Contention Mine on the properties based on their decision that, at that time, the best use of the property was real estate development. Tombstone Gold & Silver Inc. ("TGSI") has agreed with the vendor to carry out the requirements of the ADEQ with respect to that closure application, or otherwise resolve the matter. The Company has met with the ADEQ to discuss the conditions on the property and to develop a process to satisfy the requirements of an Aquifer Protection Plan. Such discussions are ongoing.

During the year ended May 31, 2018, the Company entered into an option agreement with Aztec Minerals Corp. ("Aztec") whereby Aztec can acquire a 75% interest in the Tombstone Properties held by the Company. To earn an interest in the property, Aztec must incur exploration expenditures of CAD \$1,000,000 on the property, make cash payments of CAD\$100,000 and issue 1,000,000 Aztec common shares to the Company over a three year period.

During the year ended May 31, 2019, Aztec incurred sufficient exploration expenses (minimum required \$50,000) on the property, paid the company the cash payment required in the first year (\$30,000) and

issued the Company the shares in its capital (100,000 shares) necessary to maintain the Option in good standing.

### ***Expenditures***

#### *Tombstone Properties*

During the year ended May 31, 2013, the Company engaged a party to monitor the property and to negotiate and supervise, as needed from time to time, the sale and loading and weighing of aggregate from the property for use in roads and other construction projects. The Company received \$190,385 in sales of aggregate during that year, which was offset in the financial statements against the expenses incurred on the property.

In June 2013, the Company acquired a crushing plant for use in its aggregate operations in order to be able to provide a broader variety of product to the market. In the same month, the Company successfully bid to be accepted as a supplier of aggregate to Cochise County, Arizona. Unfortunately, the County activities were slower than anticipated during the year ended May 31, 2014 with sales amounting to a total of only \$214,124 during that year. Sales were a little stronger during the year ended May 31, 2015, amounting to a total of \$278,993, but were very soft in the year ended May 31, 2016, amounting to sales of only \$129,309. Aggregate sales for the year ended May 31, 2017 improved as compared to 2016, amounting to \$327,206 for the period. The sales of aggregate for the year ended May 31, 2017 were offset in the consolidated financial statements as a recovery of expenses incurred on the property. Aggregate sales for the year ended May 31, 2018 amounted to \$276,820 and for the year ended May 31, 2019 amounted to \$149,647, which amounts were offset in the consolidated financial statements as a recovery of expenses incurred on the property.

Details of the expenditures for the years ended May 31 2018 and May 31, 2019 can be seen in Note 5 to the Company's audited consolidated financial statements for the year ended May 31, 2019.

### **SELECTED FINANCIAL DATA**

The following table presents audited selected financial information for the years indicated.

	Years Ended May 31		
	2019 \$	2018 \$	2017 \$
<b>OPERATIONS:</b>			
Revenue	Nil	Nil	Nil
Net Loss for the Period	385,574	862,261	303,822
Comprehensive Loss for the Period	383,716	873,723	294,017
Basic and diluted loss per share	(0.07)	(0.18)	(0.06)
<b>BALANCE SHEET:</b>			
Working capital (deficit)	(2,989,216)	(2,707,445)	(2,167,068)
Total assets	564,150	630,816	1,346,7238
Total exploration and evaluation assets	500,000	570,446	1,191,283

The financial information presented in the table above is from the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards. The reporting currency for all periods is Canadian dollars.

## General and Administrative

### *Discussion of Operating Results – year ended May 31, 2019*

During the year ended May 31, 2019, the Company incurred a net loss of \$385,574 as compared with a net loss of \$862,261 for the year ended May 31, 2018. As at May 31, 2019 and May 31, 2018, the Company recognized an impairment loss to reflect the impairment in the book value of the Tombstone Properties based on the value agreed to be paid under the option agreement by Aztec for the 75% interest in the Properties. For the year ended May 31, 2018, the impairment loss was \$572,162. For the year ended May 31, 2019, the impairment loss was \$191,122.

Other factors leading to the reduced loss incurred in 2019 as compared to 2018 included: a one-time gain of \$91,781 realized in the 2019 period from the sale of equipment no longer necessary for the Company's operations; a decrease of \$45,757 in depreciation expense claimed in the 2019 period due to a reduction in equipment owned; decreases of \$17,291 in travel and promotion, \$4,460 in office and miscellaneous expenses, \$3,230 in bank charges and interest expense, \$1,887 in transfer agent and filing fees and \$687 in utilities expenses, all resulting from a reduction in activity in the Company during 2019; and the receipt of \$1,535 in miscellaneous income; as offset by: an increase of \$52,445 in foreign exchange loss during 2019 as a result of fluctuations in the value between the Canadian and U.S. dollars; an unrealized loss of \$8,000 on the value of marketable securities held by the Company; and increases of \$6,754 in professional fees, \$2,490 in insurance expense, and \$1,292 in finance costs during the 2019 year.

## SUMMARY OF QUARTERLY RESULTS

The following table presents unaudited selected financial information for each of the last eight quarters ended May 31, 2019.

	May 31 2019 \$	Feb. 28 2019 \$	Nov. 30 2018 \$	Aug. 31 2018 \$	May 31 2018 \$	Feb. 28 2018 \$	Nov. 30 2017 \$	Aug. 31 2017 \$
Total Revenues	-	-	-	-	-	-	-	-
Net Income (Loss)	(321,920)	(55,442)	(55,056)	46,844	(38,666)	(664,711)	(83,222)	(75,662)
Basic and Diluted (Income)Loss/Share	(0.06)	(0.00)	(0.00)	0.00	(0.00)	(0.00)	(0.00)	(0.00)

The financial information presented in the table above is from the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

### *Discussion of Operating Results – three months ended May 31, 2019*

During the three months ended May 31, 2019, the Company incurred a net loss of \$321,920 as compared to a net loss of \$38,666 for the three months ended May 31, 2018. The increased loss in the 2019 period is primarily due to: the increase of \$211,122 in the impairment loss taken in the 2019 period being the period when the 2019 adjustment was booked; an increase of \$52,446 in foreign exchange loss incurred in the 2019 period; an increase of \$14,345 in professional fees incurred in the 2019 period; an increase of \$12,969 in finance costs incurred in the 2019 period; an unrealized loss of \$8,000 incurred in 2019 on the market value of securities held by the Company; and increases of \$2,166 in insurance expenses, \$1,883 in transfer agent and filing fees and \$389 in office and miscellaneous expenses experienced in the 2019 period; as offset by: a decrease in of \$11,505 in depreciation expense in 2019 due to the sale of some of

the surplus equipment; a reduction of \$5,678 in travel and promotion expenses in 2019 due to reduced activity in 2019; a reduction of \$2,037 in interest and bank charges in 2019; a reduction of \$687 in utilities expense in 2019 and an increase of \$159 in miscellaneous income received in 2019.

***Discussion of Operating Results – three months ended February 28, 2019***

During the three months ended February 28, 2019, the Company incurred a net loss of \$55,442 as compared to a net loss of \$664,711 for the three months ended February 28, 2018. The principal portion of this decreased loss is due to the write-down in 2018 of the value of the Tombstone Properties made during that period due the value ascribed under the option agreement with Aztec for the 75% interest they are taking an option on being below the value at which the Company carries the Properties on their books. Removing this one-time loss from the results for the 2018 period, the decreased loss incurred in 2019 is reduced to \$16,915 which is primarily due to: a decrease of \$11,231 in depreciation expense claimed in the 2019 period due to a reduction in equipment owned; decreases of \$5,985 in travel and promotion expense, \$990 in office and miscellaneous expense, \$421 in transfer agent and filing fees and \$417 in professional fees all due to the reduced activity of the Company in the period; as offset by: an increase of \$1,474 in insurance expenditures in the 2019 period as compared to 2018, an increase in finance costs net of interest and bank charges of \$655; and the receipt of \$192 in miscellaneous income in the 2019 period.

***Discussion of Operating Results – three months ended November 30, 2018***

During the three months ended November 30, 2018, the Company incurred a net loss of \$55,056 as compared to a net loss of \$83,222 for the three months ended November 30, 2017. The reduced loss experienced in the 2018 period as compared to the 2017 period is primarily due to: a decrease of \$11,203 in depreciation expense claimed in the 2018 period due to a reduction in equipment owned; a decrease of \$7,736 in professional fees during the 2018 period as a result of decreased legal and accounting expenses as compared to the 2017 period; and reductions of \$3,725 in travel and promotion expenses, \$2,129 in transfer agent and filing fees, \$1,813 in finance costs and interest and bank charges and \$1,785 in office and miscellaneous expenses during 2018 all due to the reduced activity of the Company in the period; and the receipt of \$421 in miscellaneous income in the 2018 period; as offset by: an increase of \$590 in insurance expenditures incurred during 2018 as compared to 2017.

***Discussion of Operating Results – three months ended August 31, 2018***

During the three months ended August 31, 2018, the Company earned a net income of \$46,844 as compared to incurring a net loss of \$75,662 for the three months ended August 31, 2017. The turn around to income in 2018 as compared to a loss in 2017 is primarily due to a one-time gain on the sale of equipment of \$91,781 realized in the 2018 period from the sale of equipment no longer necessary for the Company's operations. Removing this gain from the results for the period, there is a decreased loss in the 2018 period of \$30,725 which is primarily due to: a decrease of \$11,898 in depreciation expense claimed in the 2018 period due to a reduction in equipment owned; a decrease of \$11,712 in finance costs and interest and bank charges during 2018 as a result of reduced expenses incurred in the 2018 period; and a reduction of \$1,740 in insurance expenditures incurred during 2018 as compared to 2017; reductions of \$2,074 in office and miscellaneous expenses, \$1,903 in travel and promotion and \$1,220 in transfer agent and filing fees, all due to the reduced activity of the Company in the period; and the receipt of \$819 in miscellaneous income in the 2018 period; as offset by: an increase of \$562 in professional fees during the 2018 period as a result of increased legal and accounting expenses as compared to the 2017 period.

**Investor Relations**

No investor relations activities were undertaken by or on behalf of the Company during the period and no investor relations arrangements or contracts were entered into by the Company during the period.

### **Liquidity and Capital Resources**

The Company has minor ongoing operating revenues from its aggregate operations on its Tombstone Property (reflected in the consolidated financial statements as an offset to expenditures on exploration and evaluation assets in Note 5 to the statements) and finances its operations principally through the sale of shares in its capital and through loans secured against its equipment and other assets. In the short-term, directors of the Company have, in the past, provided cash advances to meet urgent operating needs. At June 1, 2018, the Company had a working capital deficit of \$2,707,445.

During the year ended May 31, 2019, the Company expended: \$232,811 in working capital on its operating activities, a total of \$274,111 on its aggregate operations on its property, from which it realized a total of \$149,647 from the sales of aggregate, received \$30,000 in proceeds under its option agreement with Aztec Mineral Inc., realized \$99,180 in proceeds from the sale of equipment and raised \$25,000 from the sale of shares in its capital stock.

As a result of the foregoing activities, amongst other things, at May 31, 2019, the Company had a working capital deficit of \$2,989,216.

The Company estimates that with contraction of its activities that have occurred due to the current shortage of operating funds, operating expenses for the ensuing the fiscal year will be in the order of \$200,000 before charges for depreciation.

The Company will require funds to satisfy its working capital deficit and make payments to the regulatory authorities with respect to assessments levied on its operations.

The Company will require additional financing to provide all the working capital necessary to meet its requirements. There can be no assurance that the Company will be able to sell any further, or sufficient, securities by way of private placement to raise the required additional working capital.

During the last quarter of its fiscal year ending May 31, 2019, the Company completed a private placement of 250,000 shares in its capital at a price of \$0.10 per share raising a total of \$25,000 in working capital for the Company. The shares issued are subject to a restriction from trading until August 16, 2019.

The Company received TSX Venture Exchange approval to consolidate its common shares on June 25, 2019 on the basis of one common share to every 10 existing common shares of the company. The principal effect of the consolidation is that the number of shares of the Company issued and outstanding is reduced from 53,769,938 existing common shares as of the date hereof to 5,376,994 new common shares. The consolidation of common shares has been reflected retrospectively in this management discussion and analysis.

### **Off Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

### Transactions with Related Parties

The Company had the following related party transactions during the year ended May 31, 2019:

- a) Management fees of \$60,000 were accrued to Mercap Investments Inc., a private company owned 50% by Richard Wilson, President, CEO and a director of the Company;
- b) Professional fees of \$27,750 were accrued to a law firm of which Douglas Eacrett, a director of the Company, is principal;
- c) \$202,899 of the loan payable of \$371,993 (US\$275,000) was made to the Company through a partnership of individuals including William Carr, a director of the Company, who is also the manager of the partnership. \$39,624 of the finance costs incurred during the period (2018 - \$38,307) were incurred with respect to the portion of the loan advanced by the partnership. Refer to Notes 9 and 10 of the audited consolidated financial statements for the year ended May, 31, 2019 for further particulars; and
- d) A company controlled by William Carr, a director of the Company advanced \$16 (2018 - \$9,079) to the Company in the form of a line of credit which has been used for exploration and evaluation assets. The outstanding balance bears interest at 18% per annum and is repayable on demand.

### Financial Instruments

The Company's financial instruments consist of cash, amounts receivable, accounts payable and accrued liabilities, due to related parties, loan payable and advance payable. The fair value of the Company's accounts payable and accrued liabilities, due to related parties, line of credit and loan payable, are estimated by management to approximate their carrying values based on the immediate or short-term maturity of these instruments. Cash is recorded at fair value using Level 1 quoted prices in active markets for identical assets or liabilities and, in management's opinion, the Company is not exposed to significant interest or credit risk from these financial instruments. Please refer to Note 12 of the consolidated financial statements for detailed discussion of the financial risk factors.

### Future Accounting Pronouncements

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended May 31, 2019:

- IFRS 16  
On January 13, 2016 the IASB issued IFRS 16, *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, *Leases*.  
  
This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.  
  
This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be

provided by the lessor. The extent of the impact of the adoption of the standard has not yet been determined by the Company.

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

### **Particulars of Outstanding Securities of the Issuer**

As at the dates noted below, the Company had the following securities outstanding:

#### *Common Shares*

<b>Date</b>	<b>Number Outstanding</b>
May 31, 2019	5,376,994
September 28, 2019	5,376,994

#### *Share Purchase Warrants*

The Company had no share purchase warrants outstanding as of May 31, 2019 or September 28, 2019, the date of this Management Discussion.

#### *Incentive Stock Options*

The following Incentive Stock Options, each entitling the holder to acquire one previously unissued common share of the Company at the prices and for the periods of time set out in the table below are outstanding at May 31, 2019 and September 28, 2019:

<b>Number of Options Outstanding</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
At May 31, 2019:		
<b>Nil</b>		
At September 28, 2019:		
<b>Nil</b>		