

This "Management's Discussion and Analysis" has been prepared as of September 28, 2011 and should be read in conjunction with the consolidated financial statements of the Company for the years ended May 31, 2011 and 2010 and related notes thereto (the "Financial Statements"), which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts in the financial statements and in this discussion and analysis are expressed in Canadian dollars, unless otherwise indicated.

FORWARD LOOKING INFORMATION

This management discussion and analysis ("MD&A") contains certain forward-looking statements and information relating to Oroco Resource Corp. ("Oroco" or the "Company") that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate," "believe," "estimate," "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward looking statements. This MD&A contains forward looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

THE COMPANY

The Company was incorporated under the British Columbia Business Corporations Act on July 7, 2006. The Company's head office is located at Suite 789, 999 West Hastings Street, Vancouver, British Columbia, V6C 2W2. The Company and its subsidiaries are engaged in the acquisition, exploration and development of mineral properties in Mexico with a primary focus on the accelerated exploration and development of its advanced stage polymetallic Cerro Prieto property in Sonora State, Mexico.

The Company is listed on the TSX Venture Exchange ("TSX-V") under the symbol "OCO", and it also trades on the Frankfurt Stock Exchange Open Market under the trading symbol "OR6" and the US OTC exchange under the trading symbol "ORRCF.PK". The Company's website address is: "www.orocoresourcecorp.com".

The Company has three wholly owned subsidiaries: Minera Polimetalicos Mexicanos, S.A. ("Polimetalicos"); Minas de Oroco Resources, S.A. de C.V. ("Minas de Oroco") and Minera Xochipala S.A. de C.A. ("Minera Xochipala"). Minas de Oroco and Minera Xochipala are used to hold the Company's Mexican mining concessions and to conduct business in Mexico. Polimetalicos, 100% owned directly by the Company, is a holding company which holds 98% (49 of 50 shares) of Minas de Oroco (the other 2%, being 1 share, is held by Minera Xochipala). Minera Xochipala is 98% (49 of 50 shares) directly owned by the Company, with 2% (1 share of 50) held by Minas de Oroco.

The Company's principal property is the Cerro Prieto Property, for which the Company has received a positive preliminary economic assessment. The Company is in the process of

THE COMPANY cont'd

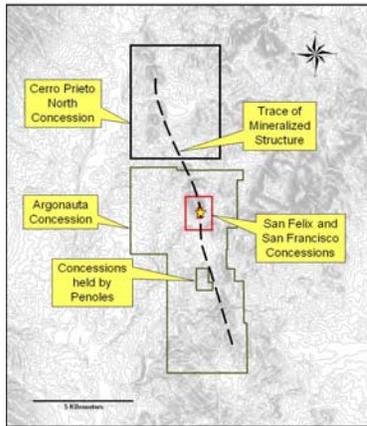
developing the Cerro Prieto Property with the intent of putting an open pit, heap leach gold mine and refinery into production.

The recoverability of amounts shown for mineral properties and related deferred exploration expenditures are dependent upon the ability of the Company to obtain necessary financing to complete the development of the mineral properties and upon future profitable production or proceeds from the disposition thereof.

MINERAL PROPERTIES

Cerro Prieto Property, Sonora State, Mexico

The Cerro Prieto Property (see figure below), located in the Cucurpe Mining District, Sonora, Mexico, is comprised of the San Felix (205 ha), San Francisco (10 ha), Cerro Prieto "North" (2,508 ha) and Argonauta 6 (4,120 ha) mineral concessions. The title each of these concessions is held by Minas de Oroco.



The Cerro Prieto Property is 52 road kilometers from the regional centre of Magdalena de Kino (population 40,000) and 150 kilometers northeast of the city of Hermosillo. Major electricity transmission lines are less than five kilometers from the project and water is also available within five kilometers. A major highway connects Magdalena de Kino with Hermosillo to the south and the state of Arizona, USA 80 kilometers to the north. The heart of the Cerro Prieto Property and the site of all drilling conducted by the Company in its exploration programs, is the San Francisco and San Felix mineral concessions (the "SF Concessions").

The San Francisco concession contains the past producing Cerro Prieto Mine and polymetallic (Pb-Zn-Au-Ag) deposit. Mineralization is contained within a 25 to 65 meter thick shear zone which cuts all units from Jurassic to Lower Tertiary in age and which extends from surface to below the lowest level of the historic workings (a depth of approximately 335 meters), is open at depth and to the north and south. Within this shear zone are series of veins, secondary veins, stringers zones, brecciation and silicification, which, together, produce a continuous mineralized zone 25 meters to 65 meters thick. This principal structure is a regional structure that can be traced for approximately 10 kilometers north and south of the Cerro Prieto Mine with approximately 17.5 kilometers of strike length potential contained on the Cerro Prieto Property.

Cerro Prieto Property Phase One Exploration Program - 2008

SF Concessions

In 2008, the Company conducted a 6,000 meter diamond drill program on the SF Concessions to confirm a historical resource calculated by Morgain Minerals in 1998 and to expand on the resource to depth and along strike. The program was designed to intersect the mineralized structure at 100 meter intervals along strike and down dip. The Phase One program (24 holes, 5,975.1 meters) tested the mineralized structure on the SF Concessions (the "Cerro Prieto Mineralized Zone") over a 900 meter strike length to a maximum depth of 400 meters below

MINERAL PROPERTIES cont'd
Cerro Prieto Property Phase One Exploration Program – 2008 cont'd
SF Concessions cont'd

surface. The mineralized structure was intersected in all but two holes, which were abandoned due to bad drilling conditions prior to intersecting the zone.

Results for all holes have been reported in press releases. Highlights include thick intersections (up to 65.4 meters true thickness) of combined gold, silver, lead and zinc values that may be amenable to open pit extraction as well as thinner intersections of high grade mineralization. The Company also completed a trenching program at 50 meter intervals along the strike of the Cerro Prieto Mineralized Zone. It is significant that, although all trenches did not fully cross the zone due to open stopes or difficult topographic conditions, each section produced assays of potential economic significance and outlined the mineralized zone over a strike length of 1,250 meters.

Using the 2008 drill and trench results the Company obtained a NI 43-101 compliant technical report dated April 14, 2009 (the “Report”) from Gary Giroux, P. Eng, and Duncan Bain, P. Geo, which provided the Company with resource estimates with regard to the 600 metres of strike length, to a maximum depth of 350 metres (see the following table). As the areas of the higher grade gold and the higher grade zinc overlap, but are not totally coincident, resource estimates were calculated using first a gold cut-off and, second, using a zinc cut-off. As the zinc cut-off estimates contain many of the same blocks as included in the gold cut-off estimates, the zinc cut-off estimates should not be added to the gold cut-off estimates. In the opinion of Giroux, these resource estimates indicate a potential open pit scenario. (For tables of resources at different cut off grades please refer to the Report filed on Sedar).

Cerro Prieto “North” Concession

The northwest striking structural zone which hosts the Cerro Prieto Mineralized Zone found on the SF Concessions can be traced for approximately 4.8 kilometers across the Cerro Prieto “North” concession.

During 2008, a preliminary surface sampling program was undertaken to sample surface exposures of the proposed extension of the structure hosting the Cerro Prieto Mineralized Zone. Highlights of the sampling are presented in the following table.

Sample	Length (m)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
FCO 001	1.2	0.342	93.2	0.34	0.28
FCO 002	0.6	2.110	142.0	0.90	0.24
FCO 003	0.9	0.851	31.6	0.30	0.22
FCO 004	grab	0.090	31.0	0.09	0.04
FCO 005	1.2	2.180	134.0	0.44	0.43
FCO 006	1.1	1.960	139.0	0.23	0.26

MINERAL PROPERTIES cont'd
Cerro Prieto Property Phase One Exploration Program – 2008 cont'd
Cerro Prieto “North” Concession cont'd

Sample	Length (m)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
FCO 007	1.3	0.268	200.0	0.15	0.24
FCO 008	0.4	0.330	143.0	0.26	0.09
FCO 009	0.85	1.240	132.0	0.22	0.08
FCO 010	Grab	0.194	87.8	0.17	0.09
FCO 011	0.4	0.146	107.0	0.24	0.20
FCO 012	0.3	0.084	33.3	0.05	0.07
FCO 013	0.3	0.162	111.0	0.07	0.10
FCO 014	0.8	0.400	47.9	0.32	0.79
FCO 015	1.0	1.700	115.0	2.26	3.17
FCO 016	0.5	0.031	1.1	0.04	0.04
FCO 017	1.0	0.616	28.9	0.71	1.40

Cerro Prieto Property Phase Two Exploration Program – 2009

Surface Sampling

As part of the Phase Two exploration program, 122 samples were taken along 900 meters of outcropping vein structure on the Argonauta 6 concession on strike with the Cerro Prieto Mineralized Zone, starting at the northern boundary of the SF Concessions. The samples returned high grade or anomalous gold values along the entire strike length tested. The samples were selectively taken across areas of veining, brecciation or fault gouge only where they are exposed – no physical trenching was attempted. All samples are channel samples, with the exception of two which are composite grab samples. In the collection of channel samples attempts were made to get equal volumes of each rock type in the sample.

Sampling results are grouped into five geographic areas identified on a map which can be viewed at <http://www.orocoresourcecorp.com/projects-Cerro-Prieto-Project-Maps-and-Sections.html>).

In summary, the sampling program confirmed the extension of the Cerro Prieto Mineralized Zone over a strike length of 900 meters in addition to the 1,250 meters outlined by Oroco’s 2008 Phase One drilling and trenching program. The complex structural regime and the high associated gold assays at the north end of the zone are indications of extensive ground preparation with the potential for associated strong mineralization.

Drilling

Resource Expansion Drilling

Phase Two exploration at the Cerro Prieto Property was completed in December 2009. Two drills completed a total of 8,575.9 meters in 42 holes. The drill program focused on the expansion of the Cerro Prieto Mineralized Zone in the SF Concessions on strike to the north of the 2008 resource area, the infill drilling of that portion of the 2008 resource area (the “Resource Area”) considered to have the potential to be the site of initial mining, and a preliminary assessment of the Argonauta 6 concession. Approximately 1,500 meters of strike length of the structure was tested in this phase of exploration.

MINERAL PROPERTIES cont'd
Cerro Prieto Property Phase Two Exploration Program – 2009 cont'd
Drilling cont'd

A total of 16 of the holes were drilled on the SF Concessions directly north of the Resource Area at 100 meter intervals along strike and to depth to attempt to add resources in the oxide zone. Three holes were drilled into the sulphide zone and eight drill holes were completed on the Argonauta 6 concession along the strike of the Cerro Prieto Mineralized Zone to the north of SF Concessions. The remaining 16 holes were infill holes in the upper section of the Resource Area. Results of significant intersections have been reported in press releases issued in 2009 and are available on the Company's website.

At the north end of this drilled area, a post-mineralization crosscutting structure has vertically displaced the geological units between 150 and 200 meters. The near surface geology consists of porous coarse felsic pyroclastics that diffused the mineralization as it was deposited. Although the structure continues through this area, the mineralizing fluids ascending the structure were not as constrained as to the south. The company has only drilled four widely spaced holes testing the structure in the 1.5 kilometer strike length of the exposed structure and will be testing this area in more detail in the future.

Infill Drilling

A total of 16 holes were drilled at the upper section of the Resource Area to close the drill spacing to 50 meters in an area that is considered to have the potential to have a higher than average grade and a low strip ratio. Results of the holes are presented in press releases.

Drilling in Sulphide Zone

Three holes were drilled to test the sulphide zone identified in 2008 by CP011, which intersected 30 metres of 0.15 gram per tonne (g/t) Au, 13.3 g/t Ag, 0.14% Cu, 0.74% Pb and 2.02% Zn, including 8.5 metres of 0.19 g/t Au, 79.6 g/t Ag, 0.78% Cu, 3.71% Pb and 6.13% Zn. .

Although the mineralized zone was intersected in all holes, the grades and thicknesses were less than those obtained in CP011. The program of drilling in the sulphide zone only covered a small portion of the 17.5 kilometer strike length of potential mineralization of this type.

Phase Two Resource Estimates

The Company submitted the data from its 2009 Phase 2 exploration program to an independent geologist to prepare an updated resource calculation. The results of 14,551 meters of drilling in 66 holes now outlines a zone containing potentially economic gold oxide resources over a strike length of 1,000 meters to a depth of approximately 300 meters from the crest of the hill which hosts the mineralization.

The following table shows the estimated oxide gold resource tonnages with their associated grades:

MINERAL PROPERTIES cont'd
Phase Two Resource Estimates cont'd

Category	Tonnes	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
Measured	3,740,000	1.10	15.82	0.19	0.52
Indicated	11,000,000	0.71	11.82	0.38	1.14
Measured and Indicated	14,740,000	0.81	12.83	0.33	0.98
Inferred	281,000	0.66	12.55	0.22	0.74

The following table shows the gross contained metal present within the estimated resources from the oxide gold resource noted in the previous table:

Category	Tonnes	Au (ounces)	Ag (ounces)
Measured	3,740,000	132,028	1,902,286
Indicated	11,000,000	251,805	4,180,304
Measured and Indicated	14,740,000	383,833	6,080,256
Inferred	281,000	5,918	113,383

The current NI 43-101 compliant resource calculation was estimated by Gary Giroux of Giroux Consulting Ltd. using ordinary kriging utilizing a geologic model and all of the data from the two drill programs. The current calculation uses a 0.25 g/t cutoff, which is considered to be the average of cutoffs used for resource calculations for similar deposits in the region.

The current calculation elevates a significant portion of the resource to a higher level of certainty, with 34% classified as Measured, 64% as Indicated, and 2% as Inferred. The previous resource was predominantly classified in the Indicated category with a very small Inferred component. The Measured portion of the resource is the upper portion of the deposit which has been designated as the first area to be considered for mining from both a logistical and an economic perspective.

Grades in this zone are higher than the average of the overall deposit and strip ratios are anticipated to be low due to the resource's setting at the crest of a topographical high.

Metallurgy

The Company retained Kappes Cassidy & Associates ("KCA"), of Reno Nevada, under the direction of the Company's metallurgical consultant, A.H. Winckers & Associates Inc., to conduct column leach tests of four representative composite samples of mineralized material taken from four separate areas of the Cerro Prieto deposit. Test work at KCA was under the supervision of Terence Albert, manager of Laboratory Services and Daniel Kappes, PEng, qualified person for KCA. A summary of the column test recovery results is presented in the following table:

MINERAL PROPERTIES cont'd
Metallurgy cont'd

Zone	Size (mm)	Head Grade (g/t)	Days	Extracted Gold (%)	NaCN (kg/t)	Ca(OH)₂ (kg/t)
1	25.0/6.3	0.95	140	80	0.74	2.02
2	25.0/6.3	0.79	140	66	0.91	2.05
3-Upper	6.3	1.50	214	60	3.16	7.50
3-Lower	6.3	0.90	214	79	3.31	7.50

Additional metallurgical testing is being planned to further refine the extraction process.

Zone 1 encompasses the first 550 meters of the mineralized zone, measured horizontally from the south end of the deposit and from surface to a depth of 150 meters. The sample taken from this zone was a composite of mineralized core from four drill holes. Zone 1 hosts the higher grade material in the deposit and, being situated at the top of the deposit, would potentially be the first area mined.

Zone 2 encompasses the area immediately below Zone 1 to a depth of approximately 350 meters. The sample from this zone was a composite of mineralized core from eight drill holes.

Zone 3 – Upper encompasses the 400 meters of strike length immediately to the north of Zone 1 to a depth of 150 meters. The mineralized sample was taken from four drill holes.

Zone 3 – Lower encompasses the area immediately below Zone 3 – Upper to a depth of 300 meters. The mineralized sample was taken from six drill holes.

Column leach tests on the samples from Zone 1 and Zone 2 were initially conducted at minus 25 mm and minus 12.5 mm crush sizes. After 98 days of leaching, gold extraction ranged from 68% for a Zone 1 sample to 47% for a Zone 2 sample, with sodium cyanide consumption ranging from 0.74 kg/t to 0.91 kg/t and hydrated lime additions ranging from 2.02 kg/t to 2.05 kg/t. After 98 days, the minus 25 mm sample was crushed to 6.3 mm and retested. Indicated cumulative results are 80% from the Zone 1 sample and 66% from the Zone 2 sample.

Column leach tests on the samples from Zone 3 – Upper and Zone 3 – Lower used a 6.3 mm crush size. Results to date show recoveries of 79% from the Zone 3 – Lower sample and 60% for the Zone 3 – Upper sample.

Environmental Study

The Company retained Clifton Associates Ltd. to conduct an initial environmental base line study on that portion of the Cerro Prieto Properties which may be relevant to a possible open pit mining operation. The dry season phase of the preliminary base line study has been completed and the results indicate that there are no apparent factors which would restrict a potential mining operation.

The Company retained Consultores En Planeacion Estrategica y Mejora Continua S.C. in August 2011 to conduct the wet season study and to prepare an environmental impact statement, risk assessment and change of land use study as required for its application for the appropriate mine operating permits.

MINERAL PROPERTIES cont'd

Preliminary Economic Assessment

The Company retained Moose Mountain Technical Services (“Moose Mountain”), an independent engineering firm, to prepare a preliminary economic assessment based on the results of the 2008 Phase One and 2009 Phase Two exploration programs.

The Company also retained Sonoran Resources, LLC (“Sonoran”) of Somerton, Arizona to complete capital and operational cost estimates for potential mining operations of the Cerro Prieto deposit based on a 2,100 tonne per day operating output. The Company chose Sonoran to prepare these estimates because they had just completed the successful planning, construction and commissioning of SilverCrest Mines Inc.’s Santa Helena mine located approximately 60 kilometers from Cerro Prieto. The Santa Elena mine has a production rate of 2,500 tonnes per day and has very similar characteristics, with respect to logistics, ore type and extraction techniques, to those of the Cerro Prieto deposit.

The Company provided the updated resource calculation, the metallurgical data and the costing estimates to Moose Mountain for preparation of the Preliminary Economic Assessment. The PEA focuses on extracting the higher grade portion of the oxide zone of the deposit in the initial years of mining operations and demonstrates robust economics using a \$1,000 (US) per ounce gold price and an \$18 per ounce silver price.

Summary of Estimates:

Base Case (\$US1,000/oz. Au and \$US18/oz. Ag):

Net Cash Flow:	\$US 45.75 million
Net Present Value (NPV) 5% Discount Rate:	\$US37.45 million
Internal Rate of Return:	92%
Payback Period:	0.84 years
Mine Life:	8 years
Processing Rate (Minimum):	545,000 tonnes/year
Capital Costs:	\$US22.2 million
Cash Costs per Au ounce:	\$US430

A Summary of Returns using different gold and silver prices is as follows:

Case	Gold (\$US/oz)	Silver (\$US/oz)	Undiscounted Cash Flow (millions USD)	NPV at 5% (millions USD)	IRR %	Payback (years)
Base case	\$1,000	\$18.00	\$45.75	\$37.45	92	0.84
Base case + 20%	\$1,200	\$21.60	\$70.44	\$58.25	129	0.66
Spot price	\$1,350	\$29.00	\$89.54	\$74.32	157	0.57

MINERAL PROPERTIES cont'd
Preliminary Economic Assessment cont'd

The study was based on measured and indicated resources, using the resource estimate prepared by G. Giroux, P.Eng., that is detailed in a report dated June 10, 2010 and titled (in part) "A Resource Estimation on the Cerro Prieto Project." Economic pit optimization was run using a \$1,000 per ounce gold price and an \$18 per ounce silver price.

The PEA was conducted by a group of experienced independent consultants under the direction of Qualified Person Jim Gray, P.Eng., of Moose Mountain Technical Services. Additional consultants with input into the PEA include Art Winckers, P.Eng., of A. H. Winckers and Associates Inc. (metallurgy); Jenna Hardy, P.Geo., Principal of Nimbus Management Ltd. (environmental); Rafael Sanchez, of Sonoran Resources LLC (capital and operating costs); and Ken Thorsen, P.Eng., an Oroco director who was responsible for oversight.

Per the PEA, a total of 4,723,000 million tonnes of leach feed could be mined over an eight year period which would consist of three types of material that will differ in methods of processing. The High Grade and Medium Grade ore will be crushed to minus 6.25 mm and will be heap-leached using cyanide. Recoveries from preliminary metallurgical tests are estimated at 77% for gold and 5% for silver. The overall strip ratio for this mining scenario is 3.35:1

1. High Grade Heap Leach Ore – Totaling 2,119,000 tonnes, this ore will be mined and processed during the initial four years of mine life and grades 2.08 g/t gold and 26.83 g/t silver.
2. Medium Grade Heap Leach Ore – Totaling 1,791,000 tonnes, this will be mined and stockpiled in the first four years, and is currently scheduled to be processed during the final half of the proposed production period, unless pre-empted by the availability of newly identified higher grade ore.
3. Dump Leach Ore – Totaling 813,000 tonnes, this lower grade ore will be leached without crushing. Current estimates indicate that 40% of the gold and 5% of the silver is recoverable utilizing this extraction method.

Gold equivalent production for the four years of initial operations totals 112,000 ounces. Cash costs for this initial four year period are \$US400 per ounce.

OPERATING COSTS calculated by Sonoran Resources LLC are as follows:

Operating cost allocations:		\$US/Tonne Leach Feed
Mining (\$1.37/t; 3.35:1 strip ratio)	5.96	
Processing	3.55	
Crushing	1.20	
General and Administration	1.00	
Total Operating Costs per tonne of Leach Feed:	11.71	

MINERAL PROPERTIES cont'd
Preliminary Economic Assessment cont'd

CAPITAL COSTS calculated by Sonoran Resources LLC are as follows:

Capital Cost Allocations:	\$US (Million)
Fixed Investments	14.92
Engineering, Procurement, Construction	1.79
Contingency (20% of Fixed Investments)	2.98
Working Capital	2.51
Total Capital Costs:	22.20

The technical report demonstrating the supporting information for the PEA was completed and filed on SEDAR by January 28th, 2011. It was also posted on the Oroco web site. Included in the report are the following recommendations:

1. Further metallurgical tests to quantify the recovery of metals from the low grade uncrushed ore.
2. Further metallurgical tests intended to identify methods by which the recovery rate of the silver from the ore may be increased.
3. Further exploration to the immediate south of the current resource with the intention of adding near term resources.
4. Further exploration directly north of the deposit to more positively define the size and grade of resources that currently show a prohibitive strip ratio if mined on an open pit basis, but may be possible to extract by an adit from the pit highwall proposed in the current PEA.
5. Further exploration along the cumulative 15 kilometer strike extensions to the north and south of the structure that hosts the Cerro Prieto deposit, including at Cerro Prieto North (five kilometers north of the proposed open pit) where the company has defined mineralization on surface of similar tenure to the Cerro Prieto mineralization.
6. Further environmental field work to conclude studies required for permitting.

The PEA is preliminary in nature and while this assessment has not included Inferred Mineral Resources the engineering parameters of the project are at scoping level. As such they are considered too speculative to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is no certainty that all or any part of the mineral resource will be converted into mineral reserves.

Since the receipt of the PEA report, the Company has engaged Sonoran to conduct preconstruction activities. A formal contract to complete all engineering, procurement, and construction management has been finalized with Sonoran.

MINERAL PROPERTIES cont'd

South Extension Sampling Program

On March 7, 2011 the Company announced that it had extended the mineralized zone over 500 meters to the south from the current resource area which was the subject of the previously described preliminary economic assessment.

The Company conducted a surface sampling program from Line 150N (the southern edge of the resource area) along approximately 500 meters of strike extension to line 350S. The samples were taken only where the mineralized zone was exposed and no attempt was made to extend those exposures.

The samples from 150 N to 000 were previously stated in a press release of November 28, 2008 reporting surface sampling from 000 to 1250 N.

Line 000 to 250S are contained within the Elba concession, a 5.82 ha concession to which the Company holds a right to purchase (along with the 20 ha Huerto De Oro and 9.79 ha Reyna de Plata concessions which lie to the east of the Cerro Prieto Project).

The results of the sampling program have formed the basis for a planned drill program to potentially increase the size of the Cerro Prieto deposit.

Pre-Production Program and Activities

Engineering, Procurement and Construction Management (“EPCM”)

After receipt of positive results from the Preliminary Economic Assessment, the Company began to introduce the components necessary to advance the Cerro Prieto Project to production.

A preliminary agreement was signed early in 2011 with Sonoran Resources which contracted Sonoran to prepare the project for production. On August 30, 2011 the Company announced the signing of the final Engineering, Procurement and Construction Management (“EPCM”) agreement with Sonoran. Under the terms of the agreement Sonoran will provide all services with respect to construction of the mine through to “first pour.” In consideration for these services, the Company will pay Sonoran a monthly fee of US\$ 260,900 to a maximum aggregate of US\$3,130,800. In addition, subject to the approval of the TSX Venture Exchange and the successful completion of a series of construction milestones, the EPCM requires the Company to issue to Sonoran an aggregate total of 1,000,000 common shares of the Company and 500,000 options to purchase common shares of the Company at a price of \$0.30 per share for a period of three years from the date of the EPCM agreement.

Surface Rights

On June 17, 2011, the Company entered into a lease agreement (the “Lease Agreement”) for a seven year lease of a 1,050 hectare parcel of surface rights over the Cerro Prieto Project, with the option for two consecutive five year extensions. Pursuant to the Lease Agreement, the Company paid the lessor the aggregate lease rate of US\$2,000,000 for the initial seven year term in advance by installments.

MINERAL PROPERTIES cont'd

Financing Agreement

On June 15, 2011 the Company signed an indicative term sheet (the "Term Sheet") with a New York-based, private institutional investor (the "NY Investor") with regard to a US\$18 million gold prepayment agreement (the "Prepayment Agreement"). The US\$18 million, after deduction of a 3% procurement fee and reimbursement of associated expenses incurred by the NY Investor, expected to be in the range of US\$200,000 (the "Prepayment Funds"), will be used for the construction and initial operation of an open pit, heap leach gold mine and refinery at the Company's Cerro Prieto Project. Pursuant to the indicative terms, the release of the Prepayment Funds will be conditional on the Company raising the balance of the capital necessary to construct the mine and pay for its initial operation. Repayment will be secured by a first priority charge on the Company's assets and will be made by the delivery to the NY Investor of 21,000 ounces of gold, subject to pricing adjustments, over a 24 month period commencing as of the thirteenth month after closing. The Company will also grant to the NY Investor 350 gold warrants per month for 24 months beginning 24 months after closing (8,400 ounces total) at an exercise price of \$1,550 per ounce, with each warrant exercisable from the 2nd business day after the first delivery of the respective calendar month to the 15th business day of that month.

By a loan agreement dated June 15, 2011 (the "Loan Agreement"), the Company borrowed US\$750,000 (the "Bridge Loan") from a wholly owned subsidiary of the NY Investor for the purpose of paying the first lease payment required pursuant to the Lease Agreement. The Bridge Loan is for a term of 180 days unless otherwise repaid earlier from the Prepayment Funds, and is secured by a general security agreement on the assets of the Company and a pledge of its shares in its subsidiaries. The Company paid an origination fee of US\$45,000 to the lender, but the Bridge Loan bears no interest during its term.

On August 29, 2011, the NY Investor exercised its option under the Loan Agreement to advance a further bridge loan of US\$1,721,440, being sufficient funds to pay the second installment of US\$1,400,000 due under the Lease Agreement, the associated 16% value added tax and the lender's 6% origination fee.

Current Activities

As part of the process of preparing the project for production the Company has engaged the following:

- a) The Company has hired Roger Scammell as Vice President of the Company and as President of MOR to oversee the construction of the mine and processing facilities;
- b) The Company has engaged AGP Mining Consultants Inc. of Toronto, Ontario to validate the resources, the mine plan and the economic parameters of the project;

MINERAL PROPERTIES cont'd
Current Activities cont'd

The following on site activities have been completed or are underway:

- 1) Metallurgical samples have been taken and have been submitted to McClelland Laboratories Inc. of Sparkes, Nevada to enhance the metallurgical tests previously completed;
- 2) A first phase of void surveys has been completed;
- 3) A proposal has been accepted from CFE (government electricity company) to construct a power line to the project;
- 4) A weather station has been constructed;
- 5) An airborne photogrammetric survey has been completed;
- 6) Surveying of surface drill hole collars has been completed;
- 7) Plans for a powder magazine have been submitted;
- 8) Environmental studies are ongoing and a report has been submitted to the Mexican authorities;
- 9) Deconstruction of corrals and other infrastructure that will be effected by mine construction has been completed;
- 10) Construction of perimeter fencing is nearing completion;
- 11) Acid generation tests have been completed (a report is pending);
- 12) Electromagnetic surveys to locate a near surface aquifer have been completed and a permit has been requested; and
- 13) A plan for condemnation and geotechnical drilling has been submitted.

Xochipala Property, Guerrero State, Mexico

The Company's title to the Celia Generosa and Celia Gene concessions (the "Xochipala Property") is subject to the successful registration with the Public Registry of Mines ("PRM") of Minera Xochipala's interest. The Company received notice from the PRM on October 14, 2009 advising that it was rejecting the Minera Xochipala's application for registration of its interest in the Xochipala Property on the grounds that such registration would adversely affect the rights of the third party lien holders. The Company and its Mexican legal counsel are of the opinion that the PRM position is wrong and not supported by Mexican law. The Company appealed PRM's initial decision to the Federal Court of Fiscal and Administrative Justice, which handed down its decision on July 14, 2011. While nullifying on technical grounds PRM's rejection of the Company's application for registration, the court agreed with what was assumed to be the basis for PRM's decision. As a result of the Federal Court's decision, PRM is required to reconsider the Company's application. The Company and its Mexican legal counsel are of the opinion that the Federal Court's position on the assumed basis for PRM's rejection of the Company's application is wrong at law and the Company has filed an appeal of that portion of the Federal Court decision. The Company is exploring other avenues of resolving the issue, including

MINERAL PROPERTIES cont'd
Xochipala Property, Guerrero State, Mexico cont'd

making submissions directly to PRM for their consideration when it reconsiders the Company's application for registration of its interest in the Xochipala Property.

The Company has no plans to conduct any further exploration on the Xochipala Property until it has successfully registered its interest. The Company has decided to place this property into abeyance pending the final outcome of its application for registered title. Accordingly, the Company has written off \$224,303 attributed to the costs of the Xochipala property. Similarly, the Company will write off expenses and fees associated with its efforts to obtain registration of its interest.

Salvador Property, Guerrero State, Mexico

The Salvador Property is a 100 hectare mining concession 100% owned by Minera Xochipala which lies approximately 25 kilometers to the west of the Xochipala Property and approximately 30 kilometers west of Chilpancingo, Guerrero. The Salvador property also hosts skarn mineralization associated with felsic intrusions similar to mineralization in the known ore deposits in the area.

The Company has no immediate plans to conduct exploration on it, but may in the future consider conducting an exploration program on the property or forming a joint venturing with another company in order to conduct exploration. The Company decided to write off costs of \$113,010 attributed to the Salvador property at May 31, 2009.

FINANCIAL STATEMENT PRESENTATION

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

Resource Properties and Related Deferred Exploration Expenditures

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the properties are disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be written off over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will first be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and deferred exploration costs will be written off to operations.

FINANCIAL STATEMENT PRESENTATION cont'd
Resource Properties and Related Deferred Exploration Expenditures cont'd

Recorded costs of mineral properties and deferred exploration expenditure do not necessarily reflect present or future values of resource properties.

RESULTS OF OPERATIONS

The Company recorded a loss of \$1,060,020 (2010 - \$1,306,074) or \$0.02 per share (2010 - \$0.03). The Company has no income producing assets and has not reported any revenue from operations. The Company is considered to be in the exploration stage.

The Company is focused on the development of its Cerro Prieto Property. The Company intends to continue its efforts on Cerro Prieto.

For the year ended May 31, 2011, the Company incurred deferred exploration expenditures of \$1,089,302 (2010 - \$2,117,084) on the Cerro Prieto Property as the Company continued its metallurgical, environmental and engineering studies on the property.

For the year ended May 31, 2011, the Company expensed stock – based compensation of \$133,519 (2010 - \$515,011), with \$98,100 being charged to management and director fees, \$29,854 being charged to consulting fees and the balance of \$5,565 being charged to office expense.

During the year ended May 31, 2011, the Company financed operations through the issue of shares and subscriptions in the amount of \$2,525,480 (2010 - \$3,175,575).

General and administrative expenses incurred during the year ended May 31, 2011(\$1,054,775) was lower than for the previous year (\$1,320,512) due to larger stock-based compensation expense recorded in the previous year.

SELECTED ANNUAL INFORMATION

The following information is derived from the financial statements of the Company for each of the years ended May 31, 2011, May 31, 2010 and May 31, 2009:

	May 31, 2011	May 31, 2010	May 31, 2009
Revenue	\$NIL	\$NIL	\$NIL
Operating loss	(1,060,020)	(1,306,074)	(1,266,864)
Net loss and comprehensive loss for the period	(1,060,020)	(1,306,074)	(1,266,864)
Basic and diluted loss per share	(0.02)	(0.03)	(0.05)
Total assets	9,091,432	7,409,211	4,873,300
Total Liabilities	264,216	308,474	229,575

SELECTED ANNUAL INFORMATION cont'd

Significant variation in the total assets is mainly due to the capitalization of acquisition and exploration expenditures associated with the Cerro Prieto Property.

SELECTED QUARTERLY RESULTS

Quarter	May 31, 2011	Feb. 28, 2011	Nov. 30, 2010	Aug. 31, 2010	May 31, 2010	Feb. 28, 2010	Nov. 30, 2009	Aug. 31, 2009
Admin. expense	385,400	235,226	226,832	207,317	262,076	685,397	202,495	170,544
Other income	(7,340)	2,794	(645)	(54)	(665)	(2,775)	16,840	3,073
Net loss for the period	392,740	232,432	227,477	207,371	262,741	688,172	187,689	167,471
Net loss per share	0.01	0.00	0.01	0.00	0.01	0.02	0.01	0.01
Total assets	9,091,432	7,878,547	7,507,519	7,242,981	7,409,211	6,911,210	6,951,746	5,875,035
Total Liabilities	264,216	640,916	269,143	307,278	308,474	219,096	288,053	348,694

Significant variation in the administrative expense for the quarter ending May 31, 2011 is mainly due to the inclusion of \$75,000 of stock based compensation resulting from the granting of options to management in the current quarter. The Company also incurred higher investor relations and travel expenses during the quarter as a result of increased financing activities. Legal fees were higher this quarter due to due diligence being conducted by potential financiers and matters related to the lease of the surface rights.

Significant variation in the administrative expense for the quarter ending February 28, 2010 is mainly due to the inclusion of \$457,706 of stock based compensation resulting from the granting of options to directors, officers, management, and consultants.

Significant variation in the total assets for the quarter ending May 31, 2011 is due to the proceeds from the March 2011 private placement and from the exercise of share purchase warrants from previous private placements. The Company also incurred and capitalized significant expenditures on the Cerro Prieto Properties during the current quarter.

Significant variation in the total assets for the quarter ending November 30, 2009 is due to the completion of a private placement of equity in the Company as set out in Liquidity and Capital Resources below and the capitalization of the expenditures from the Company's 2009 Phase 2 exploration program on the Cerro Prieto Properties incurred during that period

Significant variation in the total assets for the quarter ending August 31, 2009 is due to the completion of a private placement of equity in the Company as set out in Liquidity and Capital Resources below and the capitalization of the expenditures from the Company's 2009 Phase 2 exploration program on the Cerro Prieto Properties incurred during that three month period and the share consideration paid to Yamana Gold Inc. pursuant to the acquisition of an option to the Argonauta Property as set out above.

SELECTED QUARTERLY RESULTS cont'd

Significant variation in total liabilities for the quarter ending February 28, 2011 is mainly due to increased consulting expense related to the Company's increased engineering studies on the property and accrued management consulting fees.

LIQUIDITY AND CAPITAL RESOURCES

As of May 31, 2011, the Company had working capital of \$659,134 as compared to the year ended May 31, 2010 when the Company had a working capital position of \$140,647. Cash in the bank was \$558,766 at May 31, 2011.

On March 11, 2011, the Company completed a private placement of 3,941,334 units at a price of \$0.30 per unit to raise gross proceeds of \$1,182,400. Each unit consisted of one common share and one half of one non-transferable common share purchase warrant with each whole warrant exercisable into one additional common share for a period of eighteen months at a price of \$0.45 per share.

The Company is not in commercial production on any of its mineral properties and, accordingly, it does not generate cash from operations. In order to fund further development and exploration work, the Company is dependent upon raising financing through offerings of new equity and debt, or a combination thereof. The Company has signed an indicative term sheet with regard to the US\$18 million gold prepayment (see "Mineral Properties, *Financing Agreement*" above), but will be required to raise additional financing for the construction of the Cerro Prieto mine and refinery, any further exploration work and general and administrative costs.

OUTLOOK

The Company has as its main asset a property with regard to which the Company has received a favourable preliminary economic assessment and which it is currently developing with the intent of constructing an open pit, heap leach gold mine and refinery. As such, the outlook for the Company is strongly tied to its ability to raise the financing necessary to construct the mine and attain profitable operations thereafter.

OFF BALANCE SHEET ARRANGEMENTS

The Company currently has no off-balance sheet arrangements that would potentially affect current or future operations, or the financial condition of the Company.

TRANSACTIONS WITH RELATED PARTIES

During the year ended May 31, 2011, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting and directors fees totaling \$107,147 to a company controlled by Craig Dalziel, President and CEO of the Company, and to Mr. Dalziel directly for Mr. Dalziel's services as President, CEO and director of the Company;

TRANSACTIONS WITH RELATED PARTIES cont'd

- (b) paid or accrued professional and consulting fees totaling \$87,210 to David Rose, Corporate Secretary of the Company, for legal and management consulting services provided to the Company;
- (c) paid or accrued consulting and directors fees totaling \$37,100 to a company controlled by Ken Thorsen, Chairman of the Board of Directors, and to Ken Thorsen directly, for Mr. Thorsen's services as a geological consultant and director;
- (d) paid or accrued consulting and directors fees totaling \$42,000 to a company controlled by Steve Vanry, Chief Financial Officer of the Company, and to Mr. Vanry directly, for his services as Chief Financial Officer and director;
- (e) paid or accrued directors fees totaling \$7,000 to Stephen Leahy;
- (f) paid or accrued directors fees totaling \$6,000 to Robert Friesen.
- (g) loaned, with the approval of the TSX-Venture Exchange, \$255,000 to a related party in furtherance of a potential transaction. The loan is a refundable advance, bears interest at the rate of prime plus 1%, and is secured by a pledge of security comprised of a promissory note payable on demand with 30 days notice and a pledge of 1,200,000 common shares of the Company held by the related party.

As at May 31, 2011 \$150,385 (May 31, 2010 - \$155,060) was owing to officers and directors for directors, management, legal and accounting fees. These charges were measured by the exchange amount, which is the amount agreed upon by the related parties. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms. The above transactions were incurred in the normal course of operations and are recorded at the exchange amount, being the amount agreed upon by the transacting parties.

CONTRACTUAL OBLIGATIONS

Pursuant to a lease agreement dated May 25, 2007, as amended September 15, 2008, the Company has a commitment relating to its head office lease which expires in August, 2013. The Company also has an agreement with Northern Rand Resource Corp. ("Northern Rand") for the same term, pursuant to which Northern Rand agrees to pay one half of the rent and general operating costs of the head office. The Company's share of the office rent and general operating costs are currently approximately \$5,000 per month. In October, 2010, Northern Rand and the Company agreed to amend the term of their agreement to end September 30, 2011.

Pursuant to a Promise Agreement dated December 27, 2010, the Company has committed to purchase the Elba, Ruena de Plata and Huerto de Oro mineral concessions (see "South Extension Sampling Program" above) in Sonora Mexico for the price of MX\$875,000 pesos, against which the Company has paid a MX\$200,000 peso deposit. On June 22, 2011, pursuant to the terms of the Promise Agreement, the Company gave notice to extend the term of the Promise Agreement by a further six months.

The Company has no material capital lease agreements and no material long term obligations other than those described above or in the description of mineral properties.

PROPOSED TRANSACTIONS

The Company does not currently have any proposed transactions approved by the board of directors. All current transactions are fully disclosed in the audited Financial Statements.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064 “Goodwill and Intangible Assets”, replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs”. This new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company has adopted the new standard for its fiscal year beginning March 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosures of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this standard has not had an impact on the Company’s financial position or results of operations.

Business combinations

In January 2009, the CICA issued Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations, and Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests, which replace Section 1600 – Consolidated Financial Statements. These new sections are effective for years beginning on or after January 1, 2011 with earlier adoption permitted. Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. As well acquisition costs are not part of the consideration and are to be expensed when incurred. These new sections are not expected to have a material impact on the Company’s financial condition or operating results.

New Accounting Standards Not Yet Adopted

International Financial Reporting Standards

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards (“IFRS”) over a transition period ending January 1, 2011. The transition date of June 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2010. The impact of the transition to IFRS on the Company’s financial statements has yet to be determined.

The Company has begun to assess its requirements and first time adoption methodologies, including its internal training and resource needs and first time adoption implications.

Management has developed a project plan for the conversion to IFRS. The conversion plan is comprised of three phases:

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION cont'd

New Accounting Standards Not Yet Adopted cont'd

International Financial Reporting Standards cont'd

- 1) Scoping phase which will assess the overall impact and effort required by the Company in order to transition to IFRS;
- 2) Planning phase which will include a detailed analysis of the conversion process and implementation plan required for disclosure for the Company's first quarter; and,
- 3) Transition phase which will include the preparation of an IFRS compliant opening balance sheet as at May 31, 2010, any necessary conversion adjustments and reconciliations, preparation of a fully compliant pro forma financial statements including all note disclosures and disclosures required for the MD&A.

Management has completed phase one, and is now progressing through phase two and three. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines. Management is currently in the final stages of policy choices.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards". Under IFRS most adjustments made on transition to IFRS must be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time. IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. During the month of October 2011, management will prepare a presentation to the Audit Committee and the Board of Directors, which will focus on the key issues and transitional choices under IFRS 1 applicable to the Company. Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the highest potential impact on the Company's financial statements based on the accounting policy choices approved by the Audit Committee and Board of Directors.

Impairment

The impairment guidance in IAS 36 Impairment of Assets applies to Property, Plant and Equipment (PP&E), goodwill and intangibles and involves significant estimation complexities for mining companies. It also applies to joint venture interests and equity accounted investments. IAS 36 sets out significantly different guidance on identifying an asset that may be impaired and the measurement of impairment.

Mineral Properties & Property, Plant and Equipment (PP&E)

Impairment aside, there are other topical issues relating to IFRS and PP&E. IAS 16 Property, Plant and Equipment places more emphasis than GAAP on a "component" approach to depreciation, under which costs are allocated to "significant parts" of an asset and each part is separately depreciated. For example, large components of a mill that wear out at a separate rate from the mill as a whole would be separately depreciated. The determination of what level of components to separately account for will require some thought as IAS 16 also provides explicit guidance on the recognition of losses on the replacement of undepreciated parts of assets.

The capitalizing of start-up costs allowed by GAAP is not specifically addressed under IFRS. However, directly attributable costs incurred before an asset is ready for operation in the use intended by management can be capitalized. (Also see the discussion of borrowing costs below).

The guidance in IFRS 6 on when exploration expenditures may be, or alternatively, cannot be capitalized is

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION cont'd

New Accounting Standards Not Yet Adopted cont'd

Impairment cont'd

set out differently from GAAP. Generally, however, practices acceptable under GAAP for these assets should be acceptable under IFRS 6.

Share-Based Payments

IFRS and Canadian GAAP largely converge on the accounting treatment for share – based transactions with only a few differences. Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. Currently, the Company is using the straight line method. IFRS 2, on the other hand, allows only the accelerated method. Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur. Upon adoption of IFRS, the Company will change both the method of amortization, which would give rise to an accelerated compensation expense, and the method of forfeiture recognition.

Future Income Taxes

Like Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. Deferred income taxes relating to temporary differences that are in equity are recognized in equity and under IFRS subsequent adjustments thereto are backward traced to equity.

Borrowing Costs

IAS 23 Borrowing Costs, as amended in 2007, becomes mandatorily effective in 2009. It requires that an entity capitalize borrowing costs directly attributable to acquiring, constructing or producing a qualifying asset (an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) as part of the asset's cost. Mineral resources are qualifying assets for this purpose. An entity cannot choose to expense all borrowing costs as it can under GAAP.

Foreign Currency

IAS 21 The Effects of Changes in Foreign Exchange Rates is more specific than GAAP about how an entity should determine its functional currency. This depends on identifying the entity's primary economic environment, based in particular on the currency that mainly influences sales prices for goods and services, or labour, material and other costs of providing goods or services.

Based on management assessment of the information system currently used by the Company, all information required to be reported under IFRS will be available with minimal system changes.

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosures required. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note references. The Company is continuing to assess the level of presentation and disclosures required to its financial statements. Management will continue to review new standards, as well as the impact of the new accounting standards, to ensure all relevant changes are addressed.

RISKS AND UNCERTAINTIES

The Company is in the mineral exploration and development business and, as such, is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. Some of the possible risks include the following:

- a) The industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates. The recovery of the Company's investment in resource properties and the attainment of profitable operations is dependent upon the discovery and development of economic ore reserves and the ability to arrange sufficient financing to bring the ore reserves into production.
- b) The only source of future funds for further acquisitions and exploration programs, or if such exploration programs are successful, the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another interested party carry out further exploration or development.
- c) Any future equity financings by the Company for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders.
- d) The Company's capital resources are largely determined by the strength of the resource markets and the status of the Company's projects in relation to these markets, and its ability to compete for the investor support of its projects.
- e) The prices of metals greatly affect the value of and the potential value of its properties. This, in turn greatly affects its ability to raise equity capital, negotiate option agreements and form joint ventures.

The Company must comply with health, safety, and environmental regulations governing air and water quality and land disturbances and provide for mine reclamation and closure costs. The Company's permission to operate could be withdrawn temporarily where there is evidence of serious breaches of such regulations, or even permanently in the case of extreme breaches. Significant liabilities could be imposed on the Company for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of acquired properties or noncompliance with environmental laws or regulations.

f) The operations of the Company will require various licenses and permits from various governmental authorities. There is no assurance that the Company will be successful in obtaining the necessary licenses and permits to continue exploration and development activities in the future.

g) Although the Company has taken steps to verify title to mineral properties 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 such undetected defects.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described on any forward looking statement. The development and exploration activities of the Company are subject to various laws governing exploration, development, and labour standards which may affect the operations of the Company as these laws and regulations set various standards regulating certain

RISKS AND UNCERTAINTIES cont'd

aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted.

CRITICAL ACCOUNTING ESTIMATES

Preparing financial statements in accordance with GAAP requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property interests and the determination of fair value for stock based transactions, estimated useful lives of assets and the future tax rates to determine future income taxes and realization of future income tax assets. Where estimates have been used, financial results as determined by actual events could differ from those estimates.

All of the expenditures incurred to date on the Cerro Prieto property have been capitalized. It is management's opinion that the estimated cash flows expected to result from the future use of the property and its eventual disposition will exceed its carrying amount.

CAPITAL MANAGEMENT

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

The Company's investment policy is to invest its cash in financial instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments are classified into one of five categories: held-for-trading financial instruments, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost.

Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial instruments are measured at fair value and changes in fair value are

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT cont'd

recognized in net income. Available-for-sale financial assets are measured at fair value and changes in fair value are recognized in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading; receivables are classified as loans and receivables; and accounts payable and accrued liabilities are classified as other liabilities.

The Company provides disclosure that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performances; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

The Company also discloses financial instruments and non-financial derivatives classified from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Credit Risk

The Company is exposed to credit risk with respect to its cash and cash equivalents. However, the risk is minimized as they are held at a major Canadian Chartered Bank.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above.

The Company monitors its ability to meet its short-term exploration and administrative expenditures by raising additional funds through share issuance when required. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits.

The Company's property interests in Mexico make it subject to foreign currency fluctuations which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian dollar and foreign functional currencies. The Company does not invest in derivatives to mitigate these risks.

As at May 31, 2011, the Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values because of their current nature.

OTHER MD&A DISCLOSURE REQUIREMENTS

Disclosure by Venture Issuer without significant revenue

An analysis of the material components of the Company's general and administrative expenses is disclosed in the Financial Statements to which this MD&A relates. An analysis of the material components of the acquisition and deferred exploration costs of the Company's mineral properties is disclosed in the annual Financial Statements to which this MD&A relates.

Share Capital

As at May 31, 2011, the Company had 54,112,355 common shares outstanding. In addition, there were 3,020,000 incentive stock options at an exercise price of \$0.25 per share; 75,000 incentive stock options at exercise prices of \$0.15 per share; 300,000 incentive stock options at an exercise price of \$0.55 per share; and 1,134,750 share purchase warrants with an exercise price of \$0.30 and 1,920,667 share purchase warrants with an exercise price of \$0.45.

Further particulars on stock options and share purchase warrants are available in the Financial Statements for the period ended May 31, 2011.

Information Available on SEDAR

Additional information relating to the Company is available on the SEDAR website at www.sedar.com.

On behalf of the Board of Directors,

September 28, 2011

"Craig Dalziel"
President