

*This "Management's Discussion and Analysis" has been prepared as of October 30, 2013 and should be read in conjunction with the Company's consolidated interim financial statements and related notes for the three months ended August 31, 2013 and the audited consolidated financial statements and related notes thereto for the year ended May 31, 2013 (the "Financial Statements"). Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. 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 818, 475 Howe Street, Vancouver, B.C., V6C 2B3. The Company and its subsidiaries are engaged in the acquisition, exploration and development of mineral properties in Mexico with a primary focus on its Xochipala property in Guerrero 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](http://www.orocoresourcecorp.com)".

The Company has two wholly owned subsidiaries: Minera Xochipala S.A. de C.A. ("Minera Xochipala") and 0973496 B.C. Ltd. Minera Xochipala is used to hold the Company's Mexican mining concessions and to conduct business in Mexico. The Company holds 100% of 0973496 B.C. Ltd. 0973496 B.C. Ltd. holds 98% (49 of 50 shares) in Minera Xochipala, with the remaining 2% (1 share of 50) of Minera Xochipala being held directly by the Company.

## **MINERAL PROPERTIES**

### **Xochipala Property, Guerrero State, Mexico**

The Xochipala Property, comprised of the Celia Gene (100 ha) and the contiguous Celia Generosa (93 ha) concessions, is located in the Municipality of Eduardo Neri, Guerrero, Mexico at the southern end of the Guerrero Gold Belt (the “GGB”), an area containing the most promising and expanding gold reserves in Mexico. This region encompasses a northwest trend of intrusions with associated gold bearing iron skarn deposits. The GGB is currently the focus of aggressive exploration, delineation, development, and mining by a number of mining companies who have to date delineated gold reserves and measured and indicated resources in excess of 20 million ounces with recent discoveries likely to increase the defined gold resource in the region. The discovery of these deposits, beginning in the late 1980s, has led to the development of a predictable exploration model along the trend of the GBB.

The gold mineralization in each of these deposits is found in the contact (skarn) area between felsic to intermediate intrusives and the overlying calcareous sediments. Each of these deposits has a geophysical signature consisting of a strong high magnetic anomaly caused by iron mineralization in the endoskarn (skarn in the intrusive) and exoskarn (skarn in the sediments) in the contact zone between the intrusive and the overlying sediments. All of the major gold deposits in the GBB are hosted in extensive mineralized endoskarn and exoskarn zones associated with similar geological conditions. The Xochipala Property is the last remaining under-explored target in the GGB that has geological characteristics similar to the known deposits, including the existence of a strong magnetic signature and extensive areas of endoskarn and exoskarn.

The Xochipala Property, which is surrounded by concessions owned by Goldcorp Inc., lies approximately four kilometres southeast of Goldcorp’s Los Filos mine, just one kilometre from the town of Xochipala and 30 kilometres by good paved road from the state capital of Chilpancingo. The area is well served by a network of local roads. The district is served with hydroelectric power from the Caracol Dam and water is locally available.

Minera Xochipala acquired a 100% interest in the Xochipala Property in 2007, including the interest purchased from the estate of a Mexican citizen, Carlos Adame Camacho (the “Adame Estate”), which constituted fifty percent (50%) of the Celia Gene concession and all (100%) of the Celia Generosa concession (collectively, the “Adame Interest”). Minera Xochipala applied to the Mexican Public Registry of Mining (the “PRM”) for registration of its acquisition in March, 2008. In October, 2009, the PRM rejected Minera Xochipala’s application on the grounds registration of Minera Xochipala’s acquisition would be prejudicial to the interests of those third parties who held four pre-judgment judicial attachments (the “Prior Liens”) recorded on title against the benefit to the Adame Estate from a prior option agreement which had expired in 2002. In the opinion of Minera Xochipala’s legal counsel, the PRM’s rejection was incorrect at law. Minera Xochipala filed an appeal (the PRM Appeal”) of the PRM’s decision with the Federal Tribunal of Tax and Administrative Justice (the “Federal Tribunal”) in November, 2009. In a decision rendered in July, 2011, the Federal Tribunal nullified the rejection and sent the matter back to the PRM for reconsideration. The PRM registered the Xochipala Concessions to Minera Xochipala on July 12, 2012, with deemed effect as of March, 2008.

However, in 2010, while the PRM Appeal was before the Federal Tribunal, a judgment debtor against the Adame Estate, (from a judicial proceeding which issued one of the Prior Liens), applied to a Guerrero State court (the “State Court”) for enforcement of his judgment. Unaware that the Adame Estate had sold the Adame Interest to Minera Xochipala in 2007 or of the PRM Appeal, and without notice to Minera Xochipala, the State Court attached the Adame

**MINERAL PROPERTIES cont'd**  
**Xochipala Property cont'd**

Interest (the “2010 Attachment”) in February of 2010 (when it no longer was an asset of the Adame Estate), auctioned the Adame Interest in July, 2011, and issued an order to the PRM to register the Adame Interest in the name of the winning bidder, Mr. Bautista Najera (“Bautista”). In July, 2012, in possession of both the Federal Tribunal decision to reconsider Minera Xochipala’s application and the State Court’s order (the “Guerrero Order”) to transfer the Adame Interest to Bautista, the PRM registered a 100% interest in the Xochipala Property in the name of Minera Xochipala. Though successful in obtaining registration of its 100% interest in the Xochipala Property, Minera Xochipala, for reason of the existence of the Guerrero Order, subsequently took the precautionary step of filing an “amparo” petition with the Federal Court of Mexico (the “MX Amparo”) to have the Guerrero Order and the associated legal proceedings struck altogether. As part of that process, Minera Xochipala also obtained an injunction prohibiting the PRM from complying with any order of the State Court with regard to the Adame Interest.

On October 15, 2012, Minera Xochipala was served with notice of an “amparo” petition by Bautista (the “Bautista Amparo” and jointly with the MX Amparo, the “Xochipala Amparos”) seeking to overturn the registration of the Xochipala Property to Minera Xochipala. Bautista’s amparo is based on the PRM’s resolution to not comply with the Guerrero Order in registering the concessions instead to Minera Xochipala, having determined that Minera Xochipala’s application had priority over the Guerrero Order.

On October 30, 2012, the Federal Court joined the two amparo petitions in order to resolve both in a single decision.

On May 16, 2013, the Federal Court denied Minera Xochipala’s amparo petition on the grounds that, in providing to the PRM an acknowledgement of the Prior Liens and acceptance of their proper legal effect as it had been required to do by the PRM, Minera Xochipala had also accepted the 2010 Attachment. The Company’s Mexican legal counsel is of the opinion that the decision of the Federal Court is wrong both in fact and at law. Further, the Federal Court dismissed the Bautista Amparo on the grounds that the relief sought by Bautista can not be obtained through an amparo proceeding.

On June 7, 2013, Minera Xochipala filed an appeal of the decision of the Federal Court on the MX Amparo. Bautista has also filed an appeal of the Federal Court decision to dismiss the Bautista Amparo.

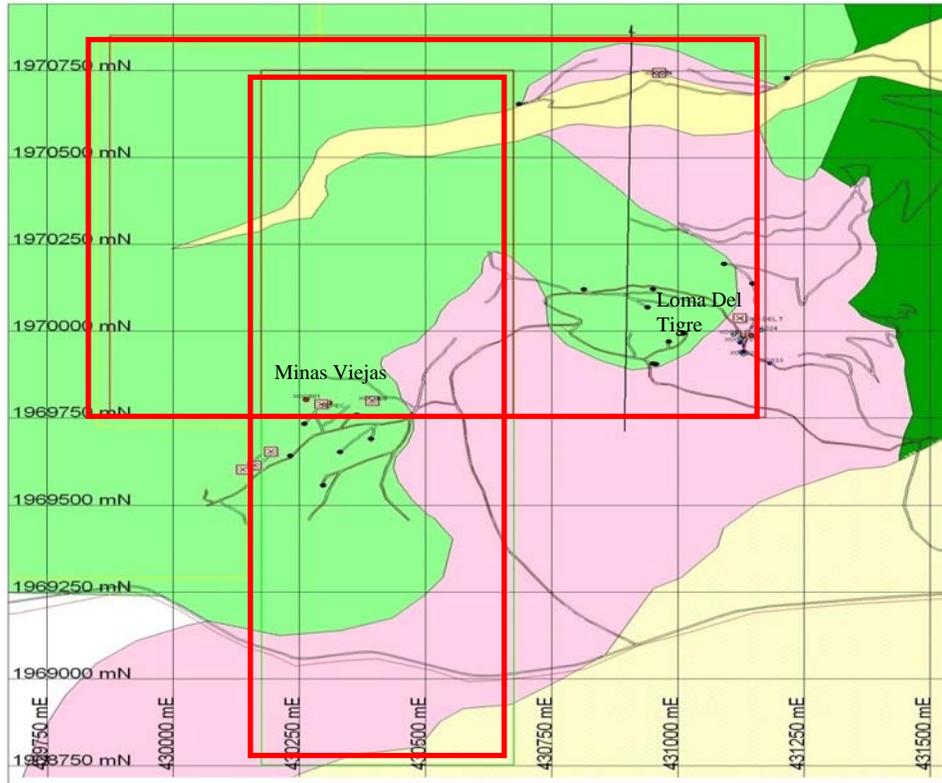
As cited in a report prepared for Britannia Gold Corporation in 1997 by Tawn Albinson, M.Sc., the Xochipala Property was the site of historic, shallow mining, likely going back to the Spanish explorers, and a limited amount of surface bulldozing and geophysical surveys in the 1980s and 90s. Historical workings have exposed highly oxidized mineralized zones from which Oroco geologists took 37 samples in a preliminary evaluation of the claims soon after the property was acquired by Oroco. Highlights of those results are presented in the following table.

**MINERAL PROPERTIES cont'd**  
**Xochipala Property cont'd**

**Select Assay Results From Xochipala Surface Sampling**

<b>HISTORICAL SHOWING</b>	<b>DESCRIPTION</b>	<b>SAMPLE LENGTH (m)</b>	<b>GOLD ASSAY (g/t)</b>
LOMA DEL TIGRE	intrusive with abundant clay and iron oxide	1.0	11.75
LOMA DEL TIGRE	intrusive with abundant clay and iron oxide	0.9	54.50
LOMA DEL TIGRE	intrusive with abundant clay and iron oxide	1.0	0.44
Mina Del Puente / Minas Viejas	marbleized with clay, hematite, magnetite	1.0	3.79
Mina Del Puente / Minas Viejas	highly oxidized, clay, hematite, magnetite	1.2	1.29
Mina Del Puente / Minas Viejas	white to yellow shale horizon	0.9	1.42
Mina Del Puente / Minas Viejas	abundant hematite and magnetite	1.0	2.42
Minas Tepec / Minas Viejas	marbleized with abundant calcite and hematite	1.2	0.59
Minas Tepec / Minas Viejas	limestone with abundant hematite, magnetite	1.2	2.05
Minas Tepec / Minas Viejas	limestone with abundant hematite, magnetite	1.1	6.10

**MINERAL PROPERTIES cont'd**  
**Xochipala Property cont'd**



Map of Xochipala Property (outlined in red)

☒ - old mine showing

The Company has conducted an exploration program consisting of mapping; road cuts, outcrop chip sampling, location of infrastructure, historic showings, and drill holes. The focus of the mapping and sampling program is the extensive areas of marbleized limestones (exoskarns) and highly altered, ferruginous intrusives (endoskarns) that have been identified on the property and which are indicative of potential mineralization in the vicinity of the two kilometres of identified contact zone. Preliminary mapping and assay results indicate that high grade gold mineralization exists at the Xochipala Property in the endoskarn and exoskarn. Subject to the availability of new funding, the Company intends to conduct a drilling program on the property once results are evaluated and the amparo situation is resolved.

**Salvador Property, Guerrero State, Mexico**

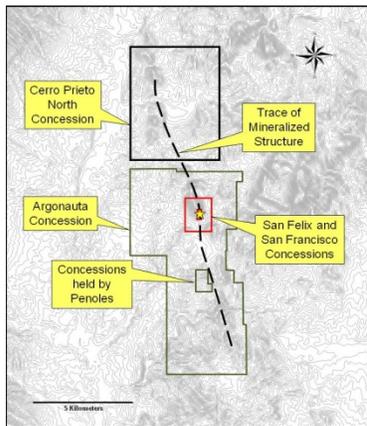
The Salvador Property is a 100 hectare mining concession 100% owned by Minera Xochipala which lies approximately 25 kilometers to the west of the Xochipala Property and approximately 30 kilometers west of Chilpancingo, Guerrero. The Salvador property also hosts skarn mineralization associated with felsic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

## MINERAL PROPERTIES cont'd Salvador Property cont'd

At the completion of the initial exploration on the Xochipala Property, the company intends to conduct a preliminary mapping and sampling program on the Salvador Property. The Company decided to write off costs of \$113,010 attributed to the Salvador property as at May 31, 2009.

### 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), Elba (5.82 ha), Huerta de Oro (20 ha), Reyna de Plata (9.79 ha), Cerro Prieto "North" (2,508 ha) and Argonauta 6 (4,120 ha) mineral concessions. The title to all of these concessions are held by Minas de Oroco Resources, S.A. de C.V. ("MOR").



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 and development programs, are the San Francisco, San Felix, Elba and Argonauta mineral concessions (the "SF Concessions").

The San Francisco concession contains the past producing Cerro Prieto Mine and polymetallic (Au-Ag-Zn-Pb) 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). Within this shear zone are veins, secondary veins, stringers zones, brecciation and silicification, which, together, produce a continuous mineralized zone 25 meters to 65 meters thick. This principal host to mineralization 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.

Further to a Letter Agreement dated January 24, 2013 (the "Letter Agreement") and a Debt Assignment and Share Purchase Agreement dated April 8, 2013, the Company entered into an Amended and Restated Debt Assignment and Share Purchase Agreement (the "Amended Agreement") with Goldgroup Mining Inc. ("Goldgroup") dated August 30, 2013, effecting the sale of the Cerro Prieto Property (the "Goldgroup Transaction") by way of the sale of the Company's then wholly owned subsidiary, Minera Polimetalicos Mexicanos, S.A. ("Polimetalicos") and one share of MOR. Polimetalicos holds 49 of 50 shares of MOR, and MOR holds the Cerro Prieto Property.

Pursuant to the terms of the Amended Agreement, the following occurred on closing:

1. Goldgroup made payment of (all currency amounts in US dollars):

**MINERAL PROPERTIES cont'd**  
**Cerro Prieto Property cont'd**

- (i) \$4,500,000 (of which \$140,000 had previously been advanced);
  - (ii) \$63,172.76 in reimbursement of interest accrued since June 28, 2013 on the Company's debentures then outstanding (the "Debentures");
  - (iii) 5,500,000 common shares in the capital of Goldgroup (the "Goldgroup Shares");
  - (iv) a promissory note (the "First Note") in the principal amount of \$1,500,000 bearing 8% simple interest and payable in six equal monthly installments of \$250,000 each, commencing on the later of either January 31, 2015 or the first day of the month following the date the Property achieves Commercial Production (with "Commercial Production" being any periods of production after 1,000 ounces of gold have been produced from the Property); and
  - (v) a second promissory note (the "Second Note") in the principal amount of \$4,125,000, bearing no interest. The principal amount of the Second Note will be repayable on the second anniversary of the Transaction closing date. Goldgroup may elect to pay the principal of the Second Note by issuing and delivering to Oroco 16,500,000 Goldgroup common shares in lieu of cash.
2. In addition, Goldgroup agreed to pay to Oroco a production royalty (the "Production Royalty") quarterly in arrears. The Production Royalty, payable for each month in which the monthly average of the daily PM London gold fix is in excess of \$1,250 per ounce, is calculated at the rate of 20% of the dollar value of that excess for each ounce of gold Produced from the Property during that month, to a maximum royalty of \$90 per ounce. This Production Royalty will be payable for each and every of the greater of:
- (i) the first 90,000 ounces of gold produced from the Property; and
  - (ii) all ounces of gold produced from the Property until the completion of five full years of Commercial Production.

Goldgroup also agreed to assume from Oroco all obligations with respect to the 2% (two percent) net smelter returns royalty payable pursuant to the terms and conditions of the Contract for the Sale and Purchase of Shares dated June 19, 2007 between Oroco and Ruben Rodriguez Villegas and Rosa Delia Salazar Parra.

In furtherance of closing the Transaction, the Company also entered into a subordination agreement (the "Subordination Agreement) with Goldgroup and the agent for the holders of the Debentures, who are also the lenders to Goldgroup of a \$4.25 million dollar senior secured loan facility (the "Loan Facility). Pursuant to the Subordination Agreement, the Company will not accept any payment related to the First Note, the Second Note and the Production Royalty until after the Loan Facility has been repaid. However, if Goldgroup elects to pay the Second Note with 16,500,000 of its common shares in lieu of cash, the Company may accept those shares.

On August 8, 2013, Goldgroup released an updated resource calculation relating to the Cerro Prieto Property. The following section is extracted verbatim from that press release:

**MINERAL PROPERTIES cont'd**  
**Cerro Prieto Property cont'd**

*“Mineral resource estimate highlights:*

- *Measured mineral resources in veins composed of 1.18 million tonnes grading 1.56 grams per tonne gold, 30.28 g/t silver, 0.15 per cent lead and 0.33 per cent zinc for a total of approximately 59,000 ounces of gold;*
- *Indicated mineral resources in veins composed of 4.92 million tonnes grading 1.03 g/t gold, 22.12 g/t silver, 0.32 per cent lead and 0.80 per cent zinc for a total of approximately 163,000 ounces of gold;*
- *Inferred mineral resources in veins composed of 5,025,000 tonnes grading 0.75 g/t gold, 20.62 g/t silver, 0.49 per cent lead and 1.28 per cent zinc for a total of approximately 121,000 ounces of gold;*
- *Cerro Prieto remaining open to the south of the existing resource along the 7.5-kilometre extension of the mineralized shear zone;*
- *Preliminary column leach testwork completed by Kappes Cassidy & Associates, under the direction of Arthur H. Winckers and Associates, a consultant for the company, at the project, returned gold recoveries of between 47 per cent to 68 per cent with head grades ranging from 0.79 g/t to 0.95 g/t gold over 98 days.*

**CERRO PRIETO MEASURED RESOURCE IN VEINS**

<i>Cut-off (Au g/t)</i>	<i>Tonnes</i>	<i>Grade</i>			
		<i>Au (g/t)</i>	<i>Ag (g/t)</i>	<i>Pb (%)</i>	<i>Zn (%)</i>
<i>0.10</i>	<i>1,230,000</i>	<i>1.51</i>	<i>30.67</i>	<i>0.15</i>	<i>0.34</i>
<i>0.15</i>	<i>1,230,000</i>	<i>1.51</i>	<i>30.69</i>	<i>0.15</i>	<i>0.34</i>
<i>0.20</i>	<i>1,220,000</i>	<i>1.52</i>	<i>30.46</i>	<i>0.15</i>	<i>0.34</i>
<i>0.25</i>	<i>1,180,000</i>	<i>1.56</i>	<i>30.28</i>	<i>0.15</i>	<i>0.33</i>
<i>0.30</i>	<i>1,160,000</i>	<i>1.58</i>	<i>30.31</i>	<i>0.15</i>	<i>0.33</i>
<i>0.40</i>	<i>1,090,000</i>	<i>1.66</i>	<i>30.45</i>	<i>0.14</i>	<i>0.33</i>
<i>0.50</i>	<i>1,030,000</i>	<i>1.73</i>	<i>30.68</i>	<i>0.15</i>	<i>0.33</i>
<i>0.60</i>	<i>960,000</i>	<i>1.81</i>	<i>30.74</i>	<i>0.14</i>	<i>0.33</i>
<i>0.70</i>	<i>880,000</i>	<i>1.92</i>	<i>30.77</i>	<i>0.14</i>	<i>0.33</i>
<i>0.80</i>	<i>790,000</i>	<i>2.05</i>	<i>30.98</i>	<i>0.14</i>	<i>0.32</i>
<i>0.90</i>	<i>720,000</i>	<i>2.17</i>	<i>31.00</i>	<i>0.14</i>	<i>0.32</i>
<i>1.00</i>	<i>660,000</i>	<i>2.28</i>	<i>31.03</i>	<i>0.15</i>	<i>0.32</i>

**MINERAL PROPERTIES cont'd**  
**Cerro Prieto Property cont'd**

*CERRO PRIETO INDICATED RESOURCE IN VEINS*

Cut-off (Au g/t)	Tonnes	Grade			
		Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
0.10	5,130,000	1.00	22.60	0.32	0.79
0.15	5,120,000	1.00	22.56	0.32	0.79
0.20	5,050,000	1.01	22.43	0.32	0.80
0.25	4,920,000	1.03	22.12	0.32	0.80
0.30	4,760,000	1.06	21.79	0.31	0.79
0.40	4,090,000	1.17	22.11	0.31	0.76
0.50	3,450,000	1.31	21.92	0.31	0.76
0.60	2,940,000	1.44	22.23	0.31	0.75
0.70	2,570,000	1.55	22.72	0.30	0.72
0.80	2,230,000	1.67	23.33	0.28	0.70
0.90	1,950,000	1.79	23.51	0.27	0.66
1.00	1,750,000	1.89	24.29	0.26	0.64

*CERRO PRIETO INFERRED RESOURCE IN VEINS*

Cut-off (Au g/t)	Tonnes	Grade			
		Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
0.10	5,100,000	0.74	21.20	0.49	1.28
0.15	5,100,000	0.74	21.20	0.49	1.28
0.20	5,091,000	0.74	21.05	0.49	1.28
0.25	5,025,000	0.75	20.62	0.49	1.28
0.30	4,883,000	0.76	20.59	0.49	1.28
0.40	3,994,000	0.85	21.39	0.51	1.29
0.50	3,160,000	0.96	22.67	0.51	1.27
0.60	2,323,000	1.11	23.68	0.48	1.18
0.70	1,901,000	1.21	22.99	0.47	1.15
0.80	1,538,000	1.32	21.21	0.45	1.11
0.90	1,315,000	1.40	19.85	0.45	1.09
1.00	1,082,000	1.50	19.94	0.44	1.05

*Qualified persons*

*The mineral resource estimate and other scientific and technical information contained in this news release were prepared by or under the supervision of G.H. Giroux, PEng, MASc, and Dr. Duncan J. Bain, PGeo, who are independent qualified persons under National Instrument 43-101 (standards of disclosure for mineral projects). Key assumptions, parameters and methods used, such as, but not exclusively, metal prices, cut-off grades, proper quality assurance/quality control procedures, competency of laboratory analyses and methods, and other factors are all reported in the 2013 technical report from which this news release is derived. Based on his experience carrying out mineral resource estimates, one of the qualified persons has no reason to believe that the Cerro Prieto mineral resource estimates could be materially affected by any known environmental, permitting, legal, title, taxation, socio-economic, marketing, political or other relevant factors.*

## RESULTS OF OPERATIONS

For the three months ended August 31, 2013, the Company recorded a loss of \$351,795 (2012 - \$449,935) or \$0.01 per share (2012 - \$0.01). The Company has no income producing assets and has not reported any revenue from operations. The Company is considered to be in the acquisition and exploration stage.

The Company is focused on the exploration of the Xochipala Property. During the quarter ended August 31, 2013, the Company sold its Cerro Prieto Property to Goldgroup Mining Inc.

For the three months ended August 31, 2013, the Company recorded from continuing operations, \$28,795 (2012 - \$95,520) of finance fees and interest costs related to the Debentures. On August 30, 2013, the Debentures were paid in full. The Company incurred consulting fees of \$39,190 (2012 - \$24,000), management and directors fees of \$60,250 (2012 - \$60,250), and professional fees of \$117,909 (2012 - \$61,898) as it pursued the sale of its Cerro Prieto Property and protection of its interest in the Xochipala Property.

For the three months ended August 31, 2013, the Company recorded investor relations fees of \$9,895 (2012 - \$44,828).

## SELECTED QUARTERLY RESULTS

Quarter	Aug 31 2013	May 31 2013*	Feb. 28, 2013*	Nov 30, 2012*	Aug 31, 2012*	May 31 2012*	Feb. 29, 2012*	Nov 30, 2011*
Loss from operations	351,795	689,960	728,530	828,999	449,935	701,902	347,399	444,450
Other items	-	(6,670,962)	-	-	-	-	-	1,302
DIT expense (recovery)	-	133,700	-	-	-	(133,700)	-	-
Loss for the period	351,795	7,494,622	728,530	828,999	449,935	568,202	347,399	443,148
Loss per share	0.01	0.10	0.01	0.01	0.01	0.03	0.01	0.01
Total assets	4,134,259	8,322,679	15,245,546	15,216,195	14,649,063	15,010,485	13,963,333	13,202,608
Total Liabilities	726,188	4,562,813	4,070,058	4,359,787	3,697,606	3,609,093	3,465,218	2,999,471

\* prior quarterly results have not been restated to conform with the current period reclassification of discontinued operations.

The smaller loss in the current quarter is due to reduced operations as the Company completed the indirect sale of the Cerro Prieto Property by way of the sale of Polimetalicos and MOR.

Relative increases in loss from operations in the three quarters previous to the current quarter is due primarily to break fees and interest expense accrued in relation to the Debentures, the break fee associated with the uncompleted Waterton Facility and professional fees and filing fees related to the Debentures, the Waterton Facility and Goldgroup transaction. The significant increase in other income (loss) for the three months ended May 31, 2013, is due to the

## **SELECTED QUARTERLY RESULTS cont'd**

impairment of exploration and evaluation assets. Significant variation in net loss from operations for the quarter ending May 31, 2012 is due to the reclassification and inclusion of accrued interest on debt.

Significant variation in total assets for the current quarter is due to the indirect sale of the Cerro Prieto Property in the quarter. Significant variation in total assets for the quarters ending August 31, 2012, May 31, 2012, November 30, 2011, August 31, 2011 and May 31, 2011 are due to proceeds from the Debentures, and proceeds from the November 2011, July 2011 and March 2011 private placements respectively and, for the quarter ending May 31, 2011, from the exercise of share purchase warrants from previous private placements. The Company also incurred and capitalized significant expenditures on the Cerro Prieto Property during those quarters. Significant variation in total liabilities in the current quarter is due to the payout of the Debentures.

Significant variation in total liabilities beginning in the quarter ending August 31, 2011 is due to the Bridge Loan, which was received and repaid during the year ended May 31, 2012, and to the Debentures issued by the Company to repay the Bridge Loan, fund the ongoing exploration of the Cerro Prieto Property and pay general and administrative expenses. The deferred income tax recovery and expense recorded in the quarter ended May 31, 2012 and May 31, 2013 is associated with the Debentures.

The variation in other income over the quarters, other than the most current quarter, is due to gains and losses on foreign currency fluctuations between the Canadian Dollar and Mexican Peso.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of August 31, 2013, the Company had working capital of \$770,417 as compared to the year ended May 31, 2013 when the Company had a working capital deficit of \$4,425,269.

On November 23, 2011, the Company completed a private placement of 4,772,000 units at a price of \$0.25 per unit to raise gross proceeds of \$1,193,000. Each unit consists 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 \$0.40 per share.

On March 22, 2012, the Company completed a private placement of 5,991,800 units (including 121,800 units paid as finders fees) at a price of \$0.25 per unit to raise gross proceeds of \$1,467,500. Each unit consists 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 \$0.40 per share. The warrants have since expired unexercised.

On April 12, 2012 the Company, with the approval of the TSX Venture, amended the terms of 1,000,000 outstanding warrants by extending their term from April 14, 2012 to October 14, 2012. There has been no change to the exercise price of \$0.30 per share. The warrants have since expired unexercised.

## **LIQUIDITY AND CAPITAL RESOURCES cont'd**

On May 2, 2012, pursuant to the Term Sheet, the Company issued the Debentures, in the aggregate amount of \$3,750,000, to affiliates (the "Holders") of the US Investor. The Debentures had a term of two years and bear interest at a rate of 10% per annum payable semi-annually. Each whole warrant entitled the holder to purchase one common share of the Company at a price of \$0.40 per share for a period of two years from the date of issuance of the Debenture. The Company paid finders' fees of \$56,250 in connection with the issuance of the debentures. The Company repaid the Debentures in the amount of \$4,068,750 on August 30, 2013

On September 12, 2012 the Company, with the approval of the TSX Venture, amended the terms of 1,970,667 outstanding warrants by extending their term from September 12, 2012 to March 12, 2013. There has been no change to the exercise price of \$0.45 per share. The warrants have since expired unexercised.

On October 17, 2012 the Company, with the approval of the TSX Venture, amended the terms of 2,125,000 outstanding warrants by extending their term from October 26, 2012 to April 26, 2013. There has been no change to the exercise price of \$0.42 per share. The warrants have since expired unexercised.

On December 21, 2012, the Company completed a private placement of 3,571,250 units (at a price of \$0.20 per unit to raise gross proceeds of \$714,250. Each unit consists 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 \$0.35 per share.

On February 4, 2013, pursuant to the terms of letter agreement with Goldgroup with regard to a conditional sale of the Cerro Prieto Project (see PROPOSED TRANSACTIONS below), the Company completed a private placement to Goldgroup of 5,000,000 units at a price of \$0.20 per unit to raise gross proceeds of \$1,000,000. Each unit consists of one common share and one non-transferable common share purchase warrant with each warrant exercisable into one additional common share for a period of two years at a price of \$0.25 per share.

## **OUTLOOK**

The Company has as its main assets, the Xochipala Property and the remaining balance, after payout of the Debentures and payment of various accounts payable, of the consideration paid by Goldgroup for the Cerro Prieto Property (the "Consideration")(details on pages 6 and 7 above)

Pursuant to the terms of the Goldgroup Transaction, Oroco took an assignment of all of Minas de Oroco's right to the refund of all value added tax paid by Minas de Oroco in the years 2008 through 2012 (the "VAT Refund"). This amount is estimated to be in excess of \$500,000.

However, the amount of such refund actually obtained and the timing of payment is uncertain.

The payment of the First Note and Production Royalty are contingent upon Goldgroup achieving Commercial Production from the Cerro Prieto Property. The First Note, Second Note and Production Royalty are scheduled to be paid over time or at a future time. Payment of the Production Royalty is based on the average price of gold in the month in which it is produced. Further, pursuant to the Subordination Agreement, the Company may not receive any payment of

## **OUTLOOK cont'd**

the First Note, Second Note (unless paid in shares of Goldgroup), or the Production Royalty until Goldgroup has repaid the Loan Facility and all related amounts.

The Company obtained registration of its interest in the Xochipala Property during the current fiscal year, which registered title is the subject of two “amparo” petitions (See MINERAL PROPERTIES, Xochipala Property above). The Company, subject to the availability of funding, intends to commence the exploration of the Xochipala Property following obtaining a favourable outcome to the Amparos.

The outlook for the Company is strongly tied to receiving the Goldgroup Transaction Consideration in a timely fashion in order to fund the exploration of the Xochipala Property and other operations of the Company. The Company’s ability to do so is largely contingent upon Goldgroup achieving Commercial Production from the Cerro Prieto Property, Goldgroup’s settlement of the Loan Facility and the future market price of Goldgroup’s common shares.

## **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 three months ended August 31, 2013, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting and directors fees totalling \$38,750 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;
- (b) paid or accrued professional and consulting fees totalling \$34,155 to David Rose, Corporate Secretary of the Company, for legal and management consulting services provided to the Company;
- (c) paid or accrued directors fees totalling \$1,250 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 director;
- (d) paid or accrued consulting and directors fees totalling \$10,250 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 totalling \$1,250 to Stephen Leahy;
- (f) paid or accrued directors fees totalling \$1,250 to Robert Friesen.

As at August 31, 2013, \$272,934 (August 31, 2013 - \$187,157) 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 WITH RELATED PARTIES cont'd**

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**

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.

## **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 sources 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 Goldgroup Transaction Consideration, any VAT Refund obtained, and the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another interested party to 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 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.
- (f) 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.

## **RISKS AND UNCERTAINTIES cont'd**

- (g) 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.
- (h) 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.
- (i) The Company's title to the Xochipala Property is subject to a legal challenge from the Bautista Amparo. While the Company's Mexican legal counsel is of the opinion that the Bautista Amparo is without proper legal basis, there is no guarantee that the decision of the Mexican Federal Court of Appeal will be in favour of the Company.

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 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**

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Share-based compensation - The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data and which involves uncertainty and subjectivity in estimates used by management in the assumptions. Changes in the input assumptions can materially affect the fair value estimate of stock options.

Recovery of deferred tax assets - Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and

## **CRITICAL ACCOUNTING ESTIMATES cont'd**

taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

The carrying value and the recoverability of exploration and evaluation assets – Management has determined that exploration, evaluation and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probably mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

## **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 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.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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.

### ***Industry Risk***

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations; however it is not possible to be certain that all aspects of environmental issues affecting the Company, if any, have been fully determined or resolved.

### ***Financial Risk***

The carrying value of cash, receivables, and accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments. Cash is measured at a level 1 of the fair value hierarchy. The Company's financial instruments are exposed to certain financial risks, which include credit risk, liquidity risk, and market risk.

### ***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

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT cont'd**

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 August 31, 2013, the Company's financial instruments consist of cash, marketable securities, receivables, 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 October 30, 2013, the Company had 77,947,405 common shares, 3,175,000 incentive stock options, and 6,785,625 share purchase warrants outstanding.

### ***Information Available on SEDAR***

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

On behalf of the Board of Directors,

October 30, 2013

*"Craig Dalziel"*

President