

*This "Management's Discussion and Analysis" has been prepared as of September 19, 2014 and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended May 31, 2014 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 1502 – 1166 Alberni Street, Vancouver, B.C., V6E 3Z3. 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 three wholly owned subsidiaries: Minera Xochipala S.A. de C.A. ("Minera Xochipala"), Xochipala Gold, S.A. de C.V. ("Xochipala Gold") and 0973496 B.C. Ltd. Xochipala Gold 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 99% (99 of 100 shares) in Xochipala Gold, with the remaining 1% (1 of 100 shares) being held directly by the Company. 0973496 B.C. Ltd. also holds 98% (49 of 50 shares) in Minera Xochipala, with the remaining 2% (1 share of 50) 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 GGB.

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 GGB 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.

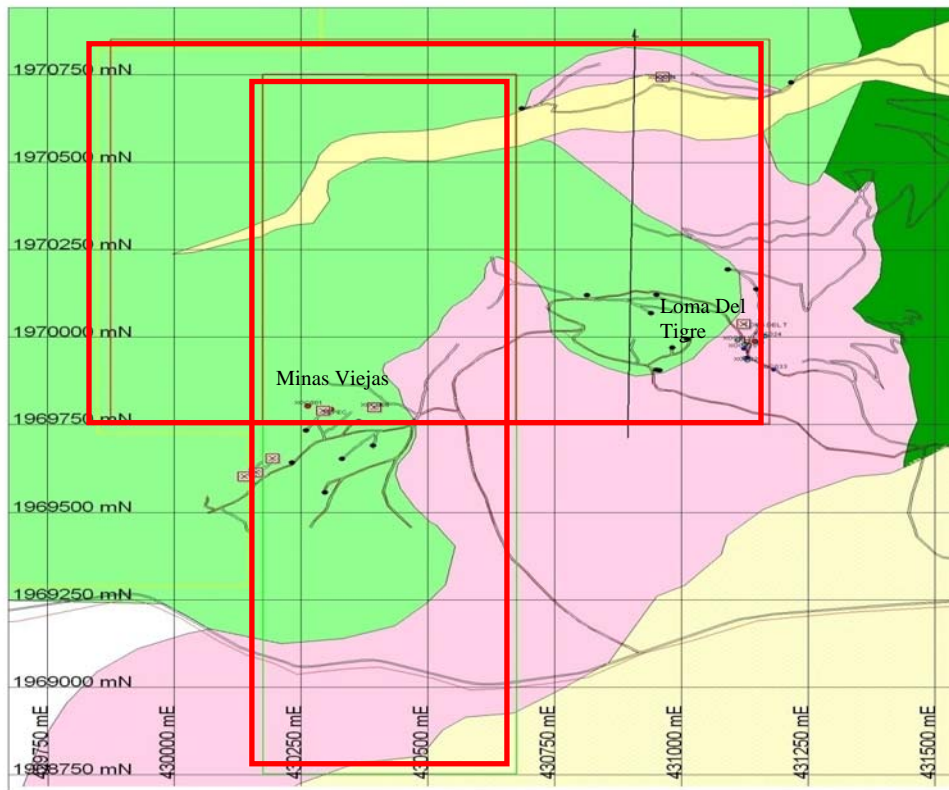
As cited in a report prepared for Britannia Gold Corporation in 1997 by Tawn Albinson, M.Sc., the Xochipala Property was the site of historic, shallow mining, likely going back to the Spanish explorers, and a limited amount of surface bulldozing and geophysical surveys in the 1980s and 90s. Historical 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.

#### **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

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

<b>HISTORICAL SHOWING</b>	<b>DESCRIPTION</b>	<b>SAMPLE LENGTH (m)</b>	<b>GOLD ASSAY (g/t)</b>
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



Map of Xochipala Property (outlined in red)

☒ - old mine showing

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

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.

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 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 (the "Court Auction"), 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 to transfer the Adame Interest to Bautista (the "Guerrero Order"), 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")

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

seeking to overturn the registration of the Xochipala Property to Minera Xochipala. Bautista's amparo was 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 enjoined 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 was of the opinion that the decision of the Federal Court was wrong both in fact and at law. The Federal Court also dismissed the Bautista Amparo on the grounds that the relief sought by Bautista could 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 also filed an appeal of the Federal Court decision dismissing the Bautista Amparo.

On February 5, 2014, the Federal Appeal Court of Mexico granted the Company's appeal of the decision of the lower Federal Court and ordered that all aspects of the 2010 Attachment and the Court Auction be set aside. The decision of the Appeal Court confirms that the Company's subsidiary, Minera Xochipala, S.A. de C.V., is the sole legal owner of 100% of each of the Celia Gene and Celia Generosa concessions.

The Appeal Court also dismissed Bautista's appeal of the decision of the Federal Court which had dismissed his amparo petition for enforcement of his claim to the Adame Interest arising from the Court Auction. The Appeal Court determined that, upon granting the Company's amparo and setting aside the entire Court Auction process, Bautista had no legal claim or interest in the concessions and thus had no legal standing to petition the courts. The decision of the Appeal Court is final, with no appeal available.

**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.

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.

## **MINERAL PROPERTIES cont'd**

### **Cerro Prieto Property, Sonora State, Mexico**

The Cerro Prieto Property, 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 titles to all of these concessions are held by Minas de Oroco Resources, S.A. de C.V. ("MOR").

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 August 30, 2013:

1. Goldgroup made payment of (all currency amounts in US dollars):
  - (i) \$4,500,000;
  - (ii) \$66,666 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.

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

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 Rodriquez 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 February 4, 2013, as a condition precedent to the Transaction, Goldgroup purchased 5,000,000 units of the Company at a price of \$0.20 per unit. Each unit consisted of one common share and one non-transferrable 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. See Note 9.

**RESULTS OF OPERATIONS**

For the fiscal year ended May 31, 2014, the Company recorded income (loss) of \$1,683,013 (2013 – (\$9,502,086)) or \$0.02 per share (2013 – (\$0.13)). The Company has no income producing assets. The Company reported royalty revenues during the current quarter as a result of the Goldgroup transaction. 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 fiscal year ended May 31, 2014, the Company recorded income (loss) from continuing operations of \$1,720,381 (2013 - \$2,653,683) which included finance fees and interest costs of \$97,476 (2013 - \$1,446,957) related to the Company's debentures then outstanding (the "Debentures"). On August 30, 2013, the Debentures were paid in full. The Company incurred consulting fees of \$142,819 (2013 - \$114,000), management and directors fees of \$233,500 (2013 - \$259,000), and professional fees of \$335,934 (2013 - \$386,471) as it pursued the sale of its Cerro Prieto Property and protection of its interest in the Xochipala Property.

For the fiscal year ended May 31, 2014, the Company recorded investor relations fees of \$6,179 (2013 - \$174,384).

**SELECTED ANNUAL INFORMATION**

The following information is derived from the financial statements of the Company for each of the years ended May 31, 2014, May 31, 2013 and May 31, 2012:

### SELECTED ANNUAL INFORMATION cont'd

	May 31, 2014 IFRS	May 31, 2013 IFRS	May 31, 2012 IFRS
Royalty Revenue	26,973	\$NIL	\$NIL
Interest Income	97,578	628	4,236
Operating income (loss)	1,720,381	(2,653,055)	(2,017,824)
Net income (loss)	1,683,013	(9,502,086)	(1,884,124)
Comprehensive income (loss) for the period	1,890,738	(9,502,086)	(1,884,124)
Basic and diluted loss per share	0.02	(0.13)	(0.03)
Total assets	6,228,283	8,322,679	15,010,485
Total Liabilities	577,679	4,562,813	3,609,093

Revenue is from interest income payable on the First Note, gains on the sale of available for sale securities (common shares of Goldgroup) and royalty revenue from production at Cerro Prieto. The significant reduction in the operating loss for 2014 is due to the Company's scaling back its operations after the sale of the Cerro Prieto Property at the end of the first quarter while it continued its legal action in defence of the Xochipala Property, pursued the acquisition of exploration data from the Xochipala Property, commenced the process of environmental permitting for the Xochipala Property and investigated acquisition opportunities for other properties. The significant reduction in Total Liabilities for the year ended May 31, 2014 is due to the payout of the Debentures.

The increased operating loss for the year ended May 31, 2013 is due to the impairment of exploration and evaluation assets recorded during the year. This impairment also accounts for the decrease in total assets at May 31, 2013.

### SELECTED QUARTERLY RESULTS

Quarter	May 31, 2014	Feb 28, 2014	Nov 30, 2013	Aug 31 2013	May 31 2013*	Feb. 28, 2013*	Nov 30, 2012*	Aug 31, 2012*
Loss from operations	301,289	174,213	236,240	351,795	646,219	728,530	828,999	449,935
Other items	(2,695,969)	(87,949)	-	-	6,670,962	-	-	-
DIT expense (recovery)	13,443	-	-	-	133,700	-	-	-
Loss from discontinued operations	23,925	-	-	-	43,741	-	-	-
Loss (gain) for the period	(2,357,312)	86,264	236,240	351,795	7,494,622	728,530	828,999	449,935
Loss per share	0.01	0.01	0.01	0.01	0.10	0.01	0.01	0.01
Total assets	6,228,283	3,868,625	3,237,443	4,134,259	8,322,679	15,245,546	15,216,195	14,649,063
Total Liabilities	577,679	479,728	505,612	726,188	4,562,813	4,070,058	4,359,787	3,697,606



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

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

The smaller loss in the two quarters ending May 31, 2014 is due to reduced operations as the Company pursued the acquisition of exploration data from the Xochipala Property, commenced environmental permitting and investigated acquisition opportunities for other properties. Other items in the current quarter are made up of interest receivable on the note receivable and the gain realized on the sale of available for sale assets.

Relative increases in loss from operations in the three quarters ending November 30, 2012, February 28, 2013 and May, 2013 is due primarily to break fees and interest expense accrued in relation to the Debentures, the break fee associated with an uncompleted credit facility (the "Credit Facility") and professional fees and filing fees related to the Debentures, the Credit Facility and Goldgroup transaction. The significant increase in other items for the three months ended May 31, 2013, is due to the 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 other items for the quarter ending May 31, 2014 is due to; realization of a contingent gain of \$1,664,550 recorded on the First and Second notes received pursuant to the sale of the Cierro Prieto Property; gain on valuation of the Second note receivable of \$825,000; gain on the sale of available for sale assets of \$103,151; interest income of \$97,578; recovery from Goldgroup of \$66,666; and royalty revenue of \$26,973. The foregoing items all relate to various considerations received pursuant to the sale of the Cierro Prieto Property to Goldgroup.

Significant variation in total assets for the quarter ending August 31, 2013 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 quarter ended August 31, 2013, is due to the payout of the Debentures.

Significant variation in total liabilities in the quarters beginning August 31, 2011 and ending August 31, 2013 is due to a loan taken by the Company, which was received and repaid during the fiscal year ended May 31, 2012 (the "Bridge Loan"), 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.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of May 31, 2014, the Company had working capital of \$1,068,233 as compared to the year ended May 31, 2013 when the Company had a working capital deficit of \$4,425,269. Cash in the bank was \$130,322 at May 31, 2014.

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

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.

On May 2, 2012 the Company issued the Debentures, in the aggregate amount of \$3,750,000, to affiliates (the "Holders") of a US-based, private institutional investor (the "US Investor"). The Debentures had a term of two years and bore 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 the Letter Agreement with Goldgroup with regard to a conditional sale of the Cerro Prieto Project, 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”).

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 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. On January 9, 2014 Goldgroup announced that it had completed the phase 1 development of the Cerro Prieto mine and are now beginning to produce gold, having produced 285 ounces from the initial production in December, 2013.

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 fiscal year ended May 31, 2014, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting and directors fees totalling \$116,500 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 \$166,620 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 \$3,500 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 \$41,000 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 totalling \$7,000 to Stephen Leahy;
- (f) paid or accrued directors fees totalling \$5,500 to Robert Friesen.

## **TRANSACTIONS WITH RELATED PARTIES cont'd**

As at May 31, 2014, \$255,985 (May 31, 2013- \$232,335) 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**

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.

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.

- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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

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

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.
- (h) 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.

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

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 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.

In assessing the probability of realizing deferred tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

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.

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.

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

### ***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 February 28, 2014, 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.

## **LEGAL ACTION AGAINST THE COMPANY**

In March, 2014, Sonoran Resources LLC. and its Mexican subsidiary, SR Servicios Mineros, S.A. de C.V. ( jointly, "Sonoran"), commenced an amended lawsuit in Arizona against Goldgroup Mining Inc. ("Goldgroup"), Oroco and Minas de Oroco arising from events and services related to the engineering, procurement and construction management agreement ("EPCM Agreement") and related service agreements (the jointly, the "Sonoran Contracts") between Oroco, Minas de Oroco and Sonoran in regard to the mine construction at the Cerro Prieto Property.

In its claim, Sonoran alleges that Oroco (1) breached the Sonoran Contracts; (2) breached its duty of good faith under the Sonoran Contracts; and (3) made fraudulent and/or negligent misrepresentations which harmed Sonoran. Sonoran is seeking damages in an amount to be determined at trial, but claimed to be in excess of US\$3,000,000, being the fees claimed to be payable to Sonoran pursuant to the Sonoran Contracts if they had been carried out, inclusive of a net amount of \$177,066.43 in unpaid invoices, and 250,000 common shares of Oroco. The Company has denied all of Sonoran's claims and it is management's opinion that the Company has no liability to Sonoran.

Further, Sonoran has also claimed that Goldgroup breached the Sonoran Contracts, to which Goldgroup was not a party, and that it intentionally interfered with Sonoran's business expectations, causing the loss of at least US\$3,000,000 of net profits from the fees claimed to be payable pursuant to the Sonoran Contracts if they had been carried out. As a part of the sale of the Cerro Prieto Property, Oroco agreed to indemnify and defend Goldgroup and Minas de Oroco



## **LEGAL ACTION AGAINST THE COMPANY cont'd**

against all claims brought by Sonoran arising from the events or services related to the Sonoran Contracts. It is the Company's opinion that the claims against Goldgroup are completely without merit.

## **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 September 19, 2014, the Company had 77,947,405 common shares, 3,100,000 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,

September 19, 2014

*"Craig Dalziel"*

President