

*This "Management's Discussion and Analysis" has been prepared as of September 27, 2010 and should be read in conjunction with the consolidated financial statements of the Company for the years ended May 31, 2010 and 2009 and related notes thereto (the "Financial Statements"), which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts in the financial statements and in this discussion and analysis are expressed in Canadian dollars, unless otherwise indicated.*

## **FORWARD LOOKING INFORMATION**

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

## **THE COMPANY**

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

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

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

The Company's properties are in the exploration stage and the Company has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability

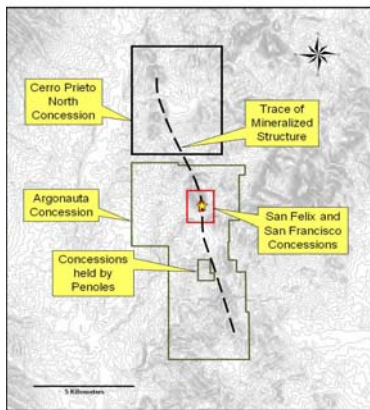
## THE COMPANY cont'd

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

## MINERAL PROPERTIES

### Cerro Prieto Property, Sonora State, Mexico

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



The heart of the Cerro Prieto Property and the site of all drilling conducted by the Company in its 2008 exploration program, is the San Francisco and San Felix mineral concessions (the "SF Concessions"). The Company acquired an assignment of ATM Mining Corp.'s ("ATM") and Salvador Rivero's ("Rivero") rights and interests in the SF Concessions and the Celia Gene and Celia Generosa concessions (the "Xochipala Property") pursuant to an assignment agreement (the "Assignment Agreement") dated August 26, 2006, as amended on December 15, 2006 and May 18, 2007. Under the Assignment Agreement, the Company paid \$69,000 to ATM for costs associated with the Xochipala Property, accepted share subscriptions from ATM to purchase 5,350,000 common shares of the Company and assumed ATM's obligation to issue 3,150,000 common shares to

Rivero.

The title to the SF Concessions, the Cerro Prieto "North" and the Argonauta 6 concessions are held by Minas de Oroco. Both Polimetalicos and Minas de Oroco were formed by the vendors of the SF Concessions (the "Cerro Prieto Vendors") to facilitate the Company's acquisition of the SF Concessions which were the sole asset of Minas de Oroco at that time. Polimetalicos acts as a holding company for shares of Minas de Oroco as set out above. In connection with the Assignment Agreement, the Company entered into an agreement with the Cerro Prieto Vendors to purchase 100% of the outstanding shares of Polimetalicos in consideration for \$2,500,000 USD (paid).

The SF Concessions are subject to a 2% net smelter royalty in favor of the Cerro Prieto Vendors, with a minimum royalty payment in the amount of US\$30,000 per quarter payable from April 1, 2009 until net smelter royalty payments commence from production.

The Cerro Prieto "North" concession was staked on behalf of the Company by German Gonzalez Canas in 2007. Minas de Oroco acquired registered title to the concession pursuant to an agreement with Mr. Canas dated March 9, 2009.

The Company acquired an option to the Argonauta 6 concession pursuant to an agreement with Yamana dated May 5, 2009 (the "May Agreement"). Under this agreement, Yamana caused its

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

Mexican subsidiary, Minera Meridian S. de R.L. de C.V. (“Meridian”) to enter into an option agreement with Minas de Oroco dated May 14, 2009 pursuant to which Meridian granted Minas de Oroco an option (the “Argonauta Option”) to acquire a 100% interest, subject to a 2% net smelter royalty, in that 4,120 ha portion of Meridian’s Argonauta 5 mineral concession that, upon partition, became the Argonauta 6 concession. In order to exercise the Argonauta Option, Minas de Oroco was required to conduct 750 metres of drilling before December 31, 2009 (completed), a further 750 metres of drilling by December 31, 2010 (completed) and to reimburse Yamana for any related property taxes paid by Yamana during the term of the option. Pursuant to the May Agreement, the Company agreed to pay Yamana 500,000 common shares at the time of granting the Argonauta Option (paid) and a further 500,000 common shares upon its being exercised (paid). Minas de Oroco exercised the Argonauta Option and acquired registered title to the Argonauta 6 concession pursuant to an agreement with Meridian dated September 13, 2010.

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

**Cerro Prieto Property Phase One Exploration Program - 2008**

***SF Concessions***

In April 2008, the Company commenced a 6,000 meter diamond drill program on the SF Concessions to confirm a historical resource calculated by Morgain Minerals in 1998 and to expand on the resource to depth and along strike. The program was designed to intersect the mineralized structure at 100 meter intervals along strike and down dip. The Phase One program (24 holes, 5,975.1 meters) tested the mineralized structure on the SF Concessions (the “Cerro Prieto Mineralized Zone”) over a 900 meter strike length to a maximum depth of 400 meters below surface. The mineralized structure was intersected in all but two holes, which were abandoned due to bad drilling conditions prior to intersecting the zone.

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

**MINERAL PROPERTIES cont'd**  
**Phase One Exploration Program cont'd**

potential economic significance and outlined the mineralized zone over a strike length of 1,250 meters.

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

*Phase One Resource Estimates*

**A. Using a 0.50 g/t Gold Cut-off**

<b>ESTIMATED RESOURCES IN OXIDE ZONE</b>					
<b>Category</b>	<b>Tonnes &gt; 0.50 Au g/t Cut-Off</b>	<b>Au (g/t)</b>	<b>Ag (g/t)</b>	<b>Pb (%)</b>	<b>Zn (%)</b>
<b>Indicated</b>	7,450,000	1.24	12.8	0.41	1.04
<b>Inferred</b>	140,000	0.99	11.2	0.73	1.98

The following table shows gross contained metal within the estimated resources from the tables above. However, potentially recoverable amounts of each metal will be reduced by metallurgical and other recovery factors.

<b>Category</b>	<b>Tonnes &gt; Cut-Off</b>	<b>Au (ounces)</b>	<b>Ag (ounces)</b>	<b>Zn (pounds)</b>
<b>Indicated</b>	7,450,000	297,000	3,066,300	170,765,900
<b>Inferred</b>	140,000	4,500	50,400	6,109,500

**B. Using a 0.50% Zinc Cut-off**

<b>ESTIMATED RESOURCES IN OXIDE ZONE</b>					
<b>Category</b>	<b>Tonnes &gt; 0.50% Zn Cut-Off</b>	<b>Au (g/t)</b>	<b>Ag (g/t)</b>	<b>Pb (%)</b>	<b>Zn (%)</b>
<b>Indicated</b>	20,440,000	0.43	8.7	0.38	1.20
<b>Inferred</b>	6,290,000	0.13	14.5	0.30	1.04

The following table shows gross contained metal within the estimated resources from the tables above. However, potentially recoverable amounts of each metal will be reduced by metallurgical and other recovery factors.

**MINERAL PROPERTIES cont'd**  
**Phase One Resource Estimates cont'd**

Category	Tonnes > Cut-off	Au (ounces)	Ag (ounces)	Zn (pounds)
<b>Indicated</b>	20,440,000	282,600	5,717,400	540,597,100
<b>Inferred</b>	6,290,000	26,300	2,932,400	144,176,900

**Metallurgy**

The Company retained SGS de Mexico, S.A. de C.V. (“SGS”), under the direction of the Company’s consultant, Mr. Art Winckers of Arthur H. Winckers and Associates (“Winckers”) to conduct a preliminary metallurgical study on sample rejects from drill holes CP009 and CP019, two holes that are considered by the Company to be representative of the deposit.

SGS was asked to deliver results for precious metal extraction using a cyanide leach and for zinc extraction using a sulphuric acid leach. Highlights of the results of the tests include:

1. Gold – using a grind size of 80% minus 200 mesh and a NaCN concentration of 3 g/l, extracted an average of 91.5% of the gold and 35% of the silver over six tests in a 96 hour leach.
2. Gold – using the minus 10 mesh fraction and a NaCN concentration of 0.25 g/l, extracted an average of 85% of the gold and 19.7% of the silver from an overall composite sample within less than 48 hours.
3. Zinc – using a grind size of 80% minus 200 mesh, and a sulphuric acid addition of 31 kg/t, extracted an average of 64% of the zinc and 13% of the silver in a six hour leach. Winckers noted that the relatively low recovery was probably a result of the short leach time.
4. Zinc – using the minus 10 mesh fraction on an overall composite sample and a sulphuric acid addition of 35.8 kg/t resulted in an 85.3% zinc extraction and a 13.0% silver extraction within less than 72 hours.
5. Lead – lead was not recoverable above 10% in any of the tests attempted.

Winckers concluded that: “The results of these very preliminary leach tests are viewed as promising considering that high zinc and gold extractions were obtained with low lixiviant additions that are not considered to be optimized.”

The 85.3% zinc recovery using only 35.8 kg/t of sulphuric acid indicates the lack of problematic carbonate rock and silicate minerals in the Cerro Prieto Project. Most producing zinc oxide deposits are in carbonate hosts and many also contain zinc silicate minerals. As zinc is extracted using sulphuric acid, and carbonate rock neutralizes sulphuric acid, extraction of zinc in carbonate hosts requires either a very high amount of sulphuric acid (up to 200 kg/t) to digest both the carbonate and the zinc or a very costly alternative method to reduce the carbonate rock prior to extraction of the zinc. Zinc silicates are also difficult to extract requiring either very high rates of acid use or other, very costly, alternate techniques. The preliminary zinc extraction rates achieved indicate that zinc silicates are also not a problem in the Cerro Prieto mineralization.

## MINERAL PROPERTIES cont'd

### *Cerro Prieto "North" Concession*

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

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

Sample	Length (m)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
FCO 001	1.2	0.342	93.2	0.34	0.28
FCO 002	0.6	2.110	142.0	0.90	0.24
FCO 003	0.9	0.851	31.6	0.30	0.22
FCO 004	grab	0.090	31.0	0.09	0.04
FCO 005	1.2	2.180	134.0	0.44	0.43
FCO 006	1.1	1.960	139.0	0.23	0.26
FCO 007	1.3	0.268	200.0	0.15	0.24
FCO 008	0.4	0.330	143.0	0.26	0.09
FCO 009	0.85	1.240	132.0	0.22	0.08
FCO 010	Grab	0.194	87.8	0.17	0.09
FCO 011	0.4	0.146	107.0	0.24	0.20
FCO 012	0.3	0.084	33.3	0.05	0.07
FCO 013	0.3	0.162	111.0	0.07	0.10
FCO 014	0.8	0.400	47.9	0.32	0.79
FCO 015	1.0	1.700	115.0	2.26	3.17
FCO 016	0.5	0.031	1.1	0.04	0.04
FCO 017	1.0	0.616	28.9	0.71	1.40

### **Cerro Prieto Property Phase Two Exploration Program – 2009**

#### *Surface Sampling*

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

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

**MINERAL PROPERTIES cont'd**  
**Phase Two Exploration Program – 2009 cont'd**

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

***Drilling***

***Resource Expansion Drilling***

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

A total of 16 of the holes were drilled on the SF Concessions directly north of the Resource Area at 100 meter intervals along strike and to depth to attempt to add resources in the oxide zone. Three holes were drilled into the sulphide zone and eight drill holes were completed on the Argonauta 6 concession along the strike of the Cerro Prieto Mineralized Zone to the north of SF Concessions. The remaining 16 holes were infill holes in the upper section of the Resource Area.

**Significant Intersections from Cerro Prieto Resource Expansion Drill Results**

Hole No	From (m)	To (m)	Apparent Thickness	True Thickness	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
CP025	219.0	272.1	53.1	34.5	0.13	4.2	0.19	1.01
and	222.0	266.5	44.5	28.9	0.14	4.9	0.22	1.16
and	223.5	253.0	29.5	19.2	0.15	7.1	0.29	1.45
CP026	131.0	146.6	15.6	14.0	0.32	65.2	0.10	0.28
incl	140.4	146.6	6.2	6.0	0.69	156.2	0.11	0.25
and	139.0	143.5	4.5	4.3	1.03	82.9	0.11	0.24
CP027	82.5	96.0	13.5	12.2	0.83	10.2	0.09	0.22
incl	87.0	93.5	6.5	5.9	1.66	19.1	0.14	0.25
incl	87.9	91.0	3.1	2.9	2.78	26.2	0.20	0.25
CP028	NO ASSAYS							
CP029	187.0	194.0	7.0	7.0	1.46	2.5	0.18	0.48
incl	188.5	189.5	1.0	1.0	9.07	5.3	0.25	0.64
CP030	*NSA							

## MINERAL PROPERTIES cont'd

Significant Intersections from Cerro Prieto Resource Expansion Drill Results cont'd

Hole No	From (m)	To (m)	Apparent Thickness	True Thickness	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
CP031	204.0	240.0	36.0	31.0	1.28	2.3	0.33	1.13
incl	220.5	231.0	10.5	9.0	3.78	5.6	0.68	2.43
and	220.5	237.0	16.5	14.2	2.43	4.5	0.61	2.09
CP033	*NSA							
CP036	241.0	245.5	4.5	4.1	0.05	0.2	0.20	0.72
CP038	203.5	262.0	58.5	53.0	0.07	0.6	0.27	0.79
CP038 cont'd								
incl	204.5	213.0	8.5	7.7	0.18	0.9	0.48	1.45
and	236.5	245.5	9.0	8.2	0.04	0.7	0.33	1.26
CP040	246.5	328.5	82.0	61.0	0.20	0.7	0.18	0.87
incl	255.0	265.5	10.5	7.8	0.55	1.3	0.25	1.58
CP042	135.5	178.5	43.0	38.0	0.19	11.8	0.25	0.39
incl	137.0	139.0	2.0	1.7	1.81	2.8	0.31	0.33
and	142.5	152.0	9.5	8.1	0.39	24.6	0.46	0.86
CP043	214.0	243.5	29.5	20.5	0.23	9.2	0.44	1.41
incl	223.3	229.0	5.7	4.0	0.464	37.7	1.10	2.80
CP045	315.1	323.5	8.4	5.1	0.1111	1.2	0.11	0.89
CP047	90.5	92.0	1.5	1.5	0.63	0.2	0.02	0.07
and	117.0	120.0	3.0	3.0	0.03	13.1	0.16	0.71
CP048	282.0	350.0	68.0	40.0	0.17	1.2	0.30	0.79
incl	286.5	301.5	15.0	8.8	0.51	2.2	0.56	1.38
CP049	138.0	149.0	11.0	11.0	0.08	1.0	0.22	0.62
and	154.5	169.4	14.9	14.9	0.08	4.7	0.19	0.84

\*NSA – No Significant Assays

At the north end of this drilled area, a post-mineralization crosscutting structure has vertically displaced the geological units between 150 and 200 meters. The near surface geology consists of porous coarse felsic pyroclastics that diffuse the mineralization as it is deposited. Although the structure continues through this area, the mineralizing fluids ascending the structure were not as constrained as to the south. The company has only drilled four widely spaced holes testing the



**MINERAL PROPERTIES cont'd**  
**Resource Expansion Drilling cont'd**

structure in the 1.5 kilometer strike length of the exposed structure and will be testing this area in more detail in the future.

***Infill Drilling***

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

Significant Intersections from Cerro Prieto Infill Drilling

Hole	From (m)	To (m)	Thickness (m)	TT# (m)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
CP051	12.3	69.0	56.7	45.4	0.35	24.9	0.25	0.60
incl.	26.0	30.0	4.0	3.2	1.34	11.7	0.32	0.93
and	46.5	49.5	3.0	2.4	2.48	3.9	0.35	0.90
CP052	94.5	142.5	48.0	28.5	0.19	6.5	0.37	0.76
incl.	108.0	126.0	18.0	10.7	0.32	14.6	0.66	0.44
CP053	52.5	63.5	11.0	11.0	1.76	19.7	0.37	1.34
incl.	57.0	62.3	5.3	5.3	3.26	17.4	0.53	1.79
also	81.0	103.5	22.5	22.5	4.36	65.6	0.10	0.21
incl.	85.5	90.0	4.5	4.5	3.78	4.1	0.03	0.08
and	94.5	103.5	9.0	9.0	8.62	155.8	0.19	0.37
CP054	39.0	96.5	57.5	32.0	0.16	5.8	0.17	0.54
incl.	46.0	54.5	8.5	4.7	0.39	3.5	0.13	0.33
and	83.0	84.3	1.3	0.7	1.48	131.0	0.23	0.31
and	84.3	92.0	7.7	4.3	0.05	5.0	0.27	1.63
CP055	59.0	87.5	28.5	28.5	0.91	14.3	0.17	0.52
incl.	59.0	65.1	6.1	6.1	1.56	25.1	0.25	1.36
and	81.2	87.5	6.3	6.3	2.08	8.1	0.03	0.07
CP056	78.0	132.5	54.5	37.5	0.40	2.5	0.25	0.78
incl.	79.5	85.5	6.0	4.1	1.15	3.0	0.15	0.68
and	95.9	102.5	6.6	4.5	1.03	6.9	0.94	2.44
CP057	44.0	106.5	62.5	43.0	0.37	3.6	0.18	0.68
incl.	44.0	48.5	4.5	3.1	1.83	11.3	0.07	0.23
and	74.0	81.0	7.0	4.8	0.58	6.3	0.41	2.11
and	88.0	96.0	8.0	5.5	0.71	1.7	0.24	0.66
CP058	18.5	33.5	15.0	15.0	1.45	78.8	0.16	0.28
also	41.0	64.2	23.2	23.2	1.47	9.5	0.11	0.29
incl.	53.0	64.2	11.2	11.2	2.26	13.7	0.17	0.45

**MINERAL PROPERTIES cont'd**

Significant Intersections from Cerro Prieto Infill Drilling cont'd

Hole	From (m)	To (m)	Thickness (m)	TT# (m)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)
CP059	31.0	41.5	10.5	10.5	1.05	52.9	0.12	0.23
CP060	62.0	82.0	20.0	20.0	1.03	5.3	0.26	0.64
and	97.5	111.0	13.5	13.5	1.51	9.9	0.12	0.29
CP061	22.5	27.0	4.5	4.5	2.29	3.5	0.10	0.16
and	42.0	52.5	10.5	10.5	1.02	33.5	0.17	0.27
CP062	4.5	9.0	4.5	2.5	0.76	3.8	0.17	0.16
incl.	21.0	45.0	24.0	13.5	1.75	6.1	0.07	0.12
CP063	65.6	88.5	22.9	14.0	1.82	3.3	0.13	0.38
incl.	71.0	81.5	10.5	6.4	3.18	3.4	0.12	0.36
CP064	31.0	59.0	28.0	26.0	2.96	5.7	0.04	0.12
incl.	31.0	34.5	3.5	3.3	7.80	12.6	0.07	0.31
CP065	32.4	57.5	25.1	19.0	2.99	18.1	0.12	0.28
incl.	39.3	50.0	10.7	8.1	6.42	40.6	0.19	0.48
CP066	78.0	85.0	7.0	6.7	0.16	98.1	1.07	2.03
and	96.5	100.5	4.0	3.8	0.98	4.4	0.16	0.41

“TT” means True Thickness

Holes CP051, CP052, CP054, CP056 and CP057 were drilled at the south end of the deposit where the base metals are more predominant than the precious metals because of a combination of vertical zoning and topography. The remaining holes were drilled at the north end of the deposit where precious metals are more predominant.

***Drilling in Sulphide Zone***

Three holes were drilled to test the sulphide zone identified in 2008 by CP011, which intersected 30 metres of 0.15 gram per tonne (g/t) Au, 13.3 g/t Ag, 0.14% Cu, 0.74% Pb and 2.02% Zn, including 8.5 metres of 0.19 g/t Au, 79.6 g/t Ag, 0.78% Cu, 3.71% Pb and 6.13% Zn. CP041, drilled 100 metres below CP011, intersected a 12-metre-thick mineralized zone with 0.08 g/t Au, 5.3 g/t Ag, 0.23% Cu and minor amounts of lead and zinc. CP044, drilled 200 metres south of CP011, intersected a 36-metre mineralized zone, including nine metres averaging 0.5 g/t Au, 5.9 g/t Ag, 0.14% Cu, 0.25% Pb and 1.37% Zn. CP046, drilled 300 metres north of CP011, intersected a 59-metre mineralized zone with weak values of all metals other than a 0.5-metre section that assayed 0.3 g/t Au, 4.3 g/t Ag, 18.7% Cu, 1.29% Pb and 0.16% Zn. Although the high-grade section intersected in CP011 was not intersected in the three follow-up holes, a significant strike length (over 16 kilometres) of the mineralized shear zone remains to be tested.

## MINERAL PROPERTIES cont'd

### *Phase Two Resource Estimates*

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

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

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

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

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

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

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

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

## MINERAL PROPERTIES cont'd

### *Metallurgy*

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

<b>Zone</b>	<b>Size (mm)</b>	<b>Head Grade (g/t)</b>	<b>Days</b>	<b>Extracted Gold (%)</b>	<b>NaCN (kg/t)</b>	<b>Ca(OH)<sub>2</sub> (kg/t)</b>
1	25.0/6.3	0.95	140	80	0.74	2.02
2	25.0/6.3	0.79	140	66	0.91	2.05
3-Upper	6.3	1.50	115	66	1.72	7.5
3-Lower	6.3	0.90	115	79	3.01	7.5

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

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

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

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

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

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

Column leach tests on the samples from Zone 3 – Upper and Zone 3 – Lower used a 6.3 mm crush size. Results to date show recoveries of 79% from the Zone 3 – Lower sample and 66% for the Zone 3 – Upper sample.

### *Environmental Study*

The Company retained Clifton Associates Ltd. to conduct an initial environmental base line study on that portion of the Cerro Prieto Properties which may be relevant to a possible open pit mining operation. The dry season phase of the preliminary base line study has been completed and the

**MINERAL PROPERTIES cont'd**  
*Environmental Study cont'd*

wet season portion will be completed in October, 2010. The results from the dry season study indicate that there are no apparent factors which would restrict a potential mining operation.

*Preliminary Mining Assessment*

The Company has retained Moose Mountain Technical Services (“Moose Mountain”), an independent engineering firm, to commence preparation of a preliminary mining assessment based on the results of the 2008 Phase One and 2009 Phase Two exploration programs. The Company has submitted the data from the updated resource calculation to Moose Mountain, to complete a Preliminary Economic Assessment. It is anticipated that the Preliminary Economic Assessment will be available in October, 2010. The Company is now focused on fast tracking the higher grade portion of the deposit to production.

**Xochipala Property, Guerrero State, Mexico**

The Company, through its subsidiary, Minera Xochipala, purchased an interest in two contiguous mining concessions, Celia Generosa and Celia Gene (the “Xochipala Property”) and is pursuing the acquisition of registered title. In connection with the acquisition of the interest in the Xochipala Property, the Company paid approximately \$18,000 (186,000 pesos) to the Xochipala vendors and various other parties, assumed a lien settlement of 500,000 pesos (approximately \$50,000) and legal fees and other fees of 650,000 pesos (approximately \$65,000). In addition the Company reimbursed ATM \$69,000 for related expenses as mentioned above. The Company was aware at the time of purchase of liens registered on title to the Xochipala Property as against the benefit of a then expired (March, 2002) option agreement (the “Liens”), but had received Mexican legal advice that the liens could be removed and Minera Xochipala’s interest could then be registered.

Minera Xochipala’s title to the Xochipala Property is subject to the successful registration with the Public Registry of Mines (“PRM”) of Minera Xochipala’s acquisition. The Company received notice from the PRM on October 14, 2009 advising that it was rejecting the Company’s application for registration of its interest in the Xochipala Property on the grounds that such registration would adversely affect the rights of the third party lien holders. The Company and its Mexican legal counsel are of the opinion that the PRM position is wrong and not supported by Mexican law. The Company has appealed the PRM initial decision to the Federal Court of Fiscal and Administrative Justice. The Company expects to receive a decision from the Federal Court by the end of 2010. If the Company is successful in having its interest in the Xochipala Property registered, it will be required to pay concession tax arrears and penalties in the amount of approximately 670,000 pesos (approximately \$56,000). The Company has no current plans to conduct any further exploration on the Xochipala Property. The Company has decided to place this property into abeyance pending the final outcome of its application for registered title. Accordingly, the Company has written off \$224,303 attributed to the costs of the Xochipala property in fiscal 2009.

The Xochipala Property has a combined area of 193 hectares and is located in the southeast extreme of the former Morelos National Mining Reserve in the state of Guerrero, Mexico, 30 kilometres northwest of Chilpancingo, the regional capital. The Morelos National Mining Reserve was a 49,400 hectares federal mineral reserve which encompassed a northwest trend of intrusions with associated gold bearing iron skarn deposits and is part of a wider area which has

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

come to be known as the Guerrero Gold Belt. The Guerrero Gold belt hosts several producing or near producing gold deposits including Los Filos – Bermajal (Goldcorp), El Limon (Goldcorp and Teck Cominco) and Nukay (Goldcorp).

The Xochipala Property hosts skarn mineralization associated with felsic intrusions of similar age and composition to mineralization in the known ore deposits in the area. The mineralization lies in very well defined structures that outcrop for over one kilometer and were the site of some of the earliest gold mining in the region from a number of small underground artisanal workings.

**Salvador Property, Guerrero State, Mexico**

The Salvador Property is a 100 hectare mining concession 100% owned by Minera Xochipala which lies approximately 25 kilometers to the west of the Xochipala Property and approximately 30 kilometers west of Chilpancingo, Guerrero. The Salvador property also hosts skarn mineralization associated with felsic intrusions similar to mineralization in the known ore deposits in the area. The concession was acquired for the sum of 1,021,877 pesos (\$108,201) paid in cash.

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

**FINANCIAL STATEMENT PRESENTATION**

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

**Resource Properties and Related Deferred Exploration Expenditures**

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

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

## RESULTS OF OPERATIONS

The Company recorded a loss of \$1,306,074 or \$0.03 per share for the year ended May 31, 2010. The Company has no income producing assets and has not reported any revenue from operations. The Company is considered to be in the exploration stage.

The Company is focused on its Cerro Prieto properties and its exploration efforts and funding are directed to Cerro Prieto.

Stock-based compensation of \$515,011 based on the granting of stock options was expensed for the year, with \$354,900 being charged to management and director fees, \$47,250 being charged to professional fees, \$102,676 being charged to consulting fees and the balance of \$10,165 being charged to office expense.

For the year ended May 31, 2010, the Company incurred deferred exploration expenditures of \$2,117,084 on the Cerro Prieto Property.

Administrative expenses are higher compared to the previous year due to the stock based compensation expense recorded in the current year.

## SELECTED ANNUAL INFORMATION

The following information is derived from the financial statements of the Company for each of the years ended May 31, 2010, May 31, 2009 and May 31, 2008:

	May 31, 2010	May 31, 2009	May 31, 2008
Revenue	\$NIL	\$NIL	\$NIL
Operating loss	(1,306,074)	(1,266,864)	(603,784)
Net loss and comprehensive loss for the period	(1,306,074)	(1,266,864)	(603,784)
Basic and diluted loss per share	(0.03)	(0.05)	(0.03)
Total assets	7,409,211	4,873,300	5,984,580
Total Liabilities	308,474	229,575	248,966

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

## SUMMARY OF QUARTERLY RESULTS

Quarter	May 31, 2010	Feb. 28, 2010	Nov. 30, 2009	Aug. 31, 2009	May 31, 2009	Feb. 28, 2009	Nov. 30, 2008	Aug. 31, 2008
Admin. expense	262,076	685,397	202,495	170,544	753,563	167,533	243,397	138,454
Other income	(665)	(2,775)	14,805	3,073	(13,077)	(2,706)	8,074	(28,374)
Net loss for the period	262,741	688,172	187,690	167,471	694,474	170,239	235,323	166,828
Net loss per share	0.01	0.02	0.01	0.01	0.02	0.01	0.01	0.01
Total assets	7,409,211	6,911,210	6,951,746	5,875,035	4,873,300	5,470,068	5,618,027	5,834,785
Total Liabilities	308,474	219,096	288,053	348,694	229,575	221,361	199,081	265,999

Significant variation in the administrative expense for the quarter ending February 28, 2010 is mainly due to the inclusion of \$457,706 of stock based compensation resulting from the granting of options to directors, officers, management, and consultants. Additional stock based compensation expense of \$50,211 was recorded in the quarter ending May 31, 2010. Significant variation in the administrative expense for the quarter ending May 31, 2009 is mainly due to the write down of previously capitalized acquisition and exploration expenditures associated with the Xochipala Property and Salvador concession.

Significant variation in the total assets for the quarter ending May 31, 2009 is due to the exercising of share purchase warrants from the private placement of units of the Company in July, 2009.

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

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

## LIQUIDITY AND CAPITAL RESOURCES

As of May 31, 2010, the Company had a working capital position of \$140,647 as compared to the year ended May 31, 2009 when the Company had a negative working capital position of \$(132,992). Cash in the bank was \$376,230 at May 31, 2010. The Company currently has no commitments for capital expenditures. While the Company anticipates that its general and administrative expense will remain consistent during the 2011 fiscal year with those incurred during 2010, capital and exploration expenditures will be dependent upon the results of the preliminary economic assessment currently being prepared and the Company's ability to raise



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

sufficient funds to meet the resulting funding requirements. The Company is confident in its ability to complete new equity funding in the form of private placements of common shares during fiscal 2011. Solicitation of such funding will be structured so as to, at minimum, adequately cover ongoing costs for the entirety of fiscal 2011.

In July 2009, the Company completed a private placement of 6,500,000 units at a price of \$0.15 per unit to raise gross proceeds of \$975,000. Each unit consisted of one common share and one non-transferable common share purchase warrant exercisable into one additional common share for a period of nine months at a price of \$0.25 per share. The Company paid finders fees consisting of \$4,500 and 307,200 "Finders Units," wherein each Finders Unit is comprised of one common share of the Company and one warrant exercisable for one year at \$0.40.

On December 3, 2009, the Company completed a private placement of 7,000,000 units at a price of \$0.225 per unit to raise gross proceeds of \$1,575,000. Each unit consisted of one common share and one half of one non-transferable common share purchase warrant with each whole warrant exercisable into one additional common share for a period of eighteen months at a price of \$0.30 per share. The Company paid finders fees consisting of \$14,925 cash and 176,700 units, with each such "finders unit" having the same terms and conditions as the private placement units.

During the month of December the Company granted a total of 2,400,000 incentive share purchase options, with each option having an exercise price of \$0.25 per share and a term of 5 years. Also during the month of December, 2009, 1,800,000 options were surrendered to the Company for cancellation.

In June 2010, the Company issued 70,000 common shares to Thorsen Consulting Ltd., a company controlled by Ken Thorsen, director, to settle \$17,500 of the debt owed to Thorsen Consulting Ltd. for Mr. Thorsen's services.

The Company is not in commercial production on any of its mineral properties and, accordingly, it does not generate cash from operations. In order to fund further exploration work, the Company is dependent upon raising financing through the issuance of its securities.

## **OUTLOOK**

The Company has as its main asset an exploration property. As such the outlook for the Company is strongly tied to exploration drilling success.

## **OFF BALANCE SHEET ARRANGEMENTS**

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

## **TRANSACTIONS WITH RELATED PARTIES**

During the year ended May 31, 2010, the Company entered into transactions with related parties as follows:

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

- (a) paid or accrued consulting and directors fees totaling \$76,417 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 totaling \$70,076 to David Rose, Corporate Secretary of the Company, for legal and management consulting services provided to the Company;
- (c) paid or accrued consulting and directors fees totaling \$53,500 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 geological consultant and director;
- (d) paid professional and directors fees totaling \$31,083 to Casey Forward, Chief Financial Officer of the Company until December 16, 2009, for his services as Chief Financial Officer and director during that period;
- (e) paid or accrued consulting and directors fees totaling \$21,692 to a company controlled by Steve Vanry, Chief Financial Officer of the Company since December 16, 2009, and to Mr. Vanry directly, for his services as Chief Financial Officer and director.
- (f) paid or accrued directors fees totaling \$9,000 to Stephen Leahy;
- (g) paid or accrued directors fees totaling \$8,000 to Robert Friesen..

As at May 31, 2010 accounts payable and accrued liabilities included \$155,060 (2009 - \$94,852) owing to officers and directors for directors, management, legal and accounting fees. These charges were measured by the exchange amount, which is the amount agreed upon by the related parties. The amounts owing are unsecured, non-interest bearing and have no fixed repayment terms. The above transactions were incurred in the normal course of operations and are recorded at the exchange amount, being the amount agreed upon by the transacting parties.

## **CONTRACTUAL OBLIGATIONS**

Pursuant to a lease agreement dated May 25, 2007, as amended September 15, 2008, the Company has a commitment relating to its head office lease which expires in August, 2013. The Company also has an agreement with Northern Rand Resource Corp. ("Northern Rand") for the same term, pursuant to which Northern Rand agrees to pay one half of the rent and general operating costs of the head office. The Company's share of the office rent and general operating costs are currently approximately \$4,000 per month.

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

## **PROPOSED TRANSACTIONS**

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

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

### *Goodwill and intangible assets*

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

### *Business combinations*

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

### *International Financial Reporting Standards (“IFRS”)*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles (“GAAP”) with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that IFRS will replace Canadian GAAP for publicly-listed companies for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three-month period May 31, 2011, which are expected to include presentation of its comparative results for fiscal 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company will develop an IFRS conversion plan comprised of three phases:

<b>PHASE</b>	<b>DESCRIPTION AND STATUS</b>
<i>PRELIMINARY PLANNING AND SCOPING</i>	<p>The IFRS conversion plan will include consideration of the impacts of IFRS on the Company’s financial statements, internal control over financial reporting, information systems and business activities such as foreign operations, if any, compensation metrics, and personnel and training requirements.</p> <p>Based on Management’s preliminary review of IFRS and current Company processes, minimal impact is expected on information systems and compensation metrics.</p>

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION cont'd**  
***International Financial Reporting Standards (“IFRS”) cont'd***

<p><i>DETAILED IMPACT ASSESSMENT</i></p>	<p>This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company’s financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company’s conversion to IFRS and evaluation of the impact on outstanding operational elements such as debt covenants and budgeting. The Company expects to complete this phase by the end of 2010.</p>
<p><i>IMPLEMENTATION</i></p>	<p>This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company’s quarterly and annual consolidated financial statements and related notes effective June 1, 2011, however continued progress on the IFRS conversion plan is necessary before the Company is able to describe or quantify those effects</p>

**RISKS AND UNCERTAINTIES**

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

- a) The industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates. The recovery of the Company’s investment in resource properties and the attainment of profitable operations is dependent upon the discovery and development of economic ore reserves and the ability to arrange sufficient financing to bring the ore reserves into production.
  
- b) The only source of future funds for further acquisitions and exploration programs, or if such exploration programs are successful, the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another interested party carry out further exploration or development. 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.

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

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 the 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.

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.

e) 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

f) the necessary licenses and permits to continue exploration and development activities in the future.

g) Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by such undetected defects.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described on any forward looking statement. The development and exploration activities of the Company are subject to various laws governing exploration, development, and labour standards which may affect the operations of the Company as these laws and regulations set various standards regulating certain aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted.

## **CRITICAL ACCOUNTING ESTIMATES**

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

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

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

## **CAPITAL MANAGEMENT**

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

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

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

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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

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

### ***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.

### ***Foreign Exchange Risk***

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

As at May 31, 2010, the Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values because of their current nature.

## **SUBSEQUENT EVENTS**

On June 4, 2010 the Company issued 70,000 common shares to Thorsen Consulting Ltd. at a deemed value of \$0.25 per share, in settlement of \$17,500 of the debt owed to Thorsen Consulting Ltd. for Ken Thorsen's services as President and Chief Executive Officer of the Company during the period November 1, 2008 to July 31, 2009.

Pursuant to a concession assignment agreement dated September 13, 2010, Minas de Oroco exercised its option and acquired a 100% interest, subject to a 2% net smelter returns royalty, in the 4,120 hectare Argonauta 6 mineral concession from Meridian, the Mexican subsidiary of Yamana Gold Inc. Also on September 13, 2010, pursuant to the related May Agreement, the Company issued 500,000 common shares to Yamana (See MINERAL PROPERTIES – Cerro Prieto Property).

## **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

**OTHER MD&A DISCLOSURE REQUIREMENTS cont'd**  
***Disclosure by Venture Issuer without significant revenue cont'd***

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

***Share Capital***

As at May 31, 2010, the Company had 44,657,421 common shares outstanding. In addition, there were 250,000 incentive stock options with an exercise price of \$0.55; 2,960,000 incentive stock options at an exercise price of \$0.25 per share; 75,000 incentive stock options at exercise prices of \$0.15 per share; 3,588,350 share purchase warrants with an exercise price of \$0.30 and 307,200 share purchase warrants with an exercise price of \$0.40. Further particulars on stock options and share purchase warrants are available in the Financial Statements for the period ended May 31, 2010.

***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 27, 2010

*"Craig Dalziel"*  
President