
ROCHESTER RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2010 AND 2009

AUDITORS' REPORT

To the Shareholders of
Rochester Resources Ltd.

We have audited the consolidated balance sheets of Rochester Resources Ltd. as at May 31, 2010 and 2009 and the consolidated statements of loss and comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"D&H Group LLP"

Vancouver, B.C.
September 23, 2010

Chartered Accountants

ROCHESTER RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
AS AT MAY 31

	2010 \$	2009 \$
A S S E T S		
CURRENT ASSETS		
Cash	1,693,382	154,082
Short-term deposits (Note 3)	1,950,000	-
Amounts receivable (Note 4)	1,450,384	1,253,241
Prepaid expenses	51,741	352,176
Inventories (Note 5)	<u>727,194</u>	<u>1,317,168</u>
	5,872,701	3,076,667
NON-CURRENT PORTION OF IVA TAX RECEIVABLE (Note 4)	241,712	210,774
MINERAL PROPERTY INTERESTS (Note 6)	16,736,296	22,100,381
PROPERTY, PLANT AND EQUIPMENT (Note 7)	<u>7,275,423</u>	<u>6,233,596</u>
	<u><u>30,126,132</u></u>	<u><u>31,621,418</u></u>
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	2,229,735	3,954,411
Royalty payable (Note 6(a))	100,000	100,000
Advances (Note 8)	424,286	1,095,425
Current portion of long-term debt (Note 9)	<u>306,443</u>	<u>345,772</u>
	3,060,464	5,495,608
LONG-TERM DEBT (Note 9)	-	263,957
ASSET RETIREMENT OBLIGATION (Note 19)	999,265	930,292
FUTURE INCOME TAX LIABILITIES (Note 15)	61,260	2,258,760
NON-CONTROLLING INTEREST (Note 10)	<u>2,159,093</u>	<u>2,353,686</u>
	<u>6,280,082</u>	<u>11,302,303</u>
S H A R E H O L D E R S ' E Q U I T Y		
SHARE CAPITAL (Note 11)	44,984,472	33,968,243
CONTRIBUTED SURPLUS (Note 13)	6,957,287	4,805,497
DEFICIT	<u>(28,095,709)</u>	<u>(18,454,625)</u>
	<u>23,846,050</u>	<u>20,319,115</u>
	<u><u>30,126,132</u></u>	<u><u>31,621,418</u></u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

APPROVED BY THE BOARD

"Eduardo Luna" , Director

"Nick DeMare" , Director

The accompanying notes are an integral part of these consolidated financial statements.

ROCHESTER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF
LOSS AND COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED MAY 31

	2010 \$	2009 \$
REVENUE	8,364,090	3,909,543
COST OF SALES	8,124,707	5,805,011
DEPLETION AND AMORTIZATION	972,337	847,777
ACCRETION OF RECLAMATION OBLIGATION (Note 19)	<u>68,973</u>	<u>61,190</u>
OPERATING LOSS	<u>(801,927)</u>	<u>(2,804,435)</u>
EXPENSES		
General and administration	1,327,584	1,853,848
Interest expense on advances and long-term debt	85,205	127,694
Stock-based compensation (Note 12)	<u>1,607,788</u>	<u>187,657</u>
	<u>3,020,577</u>	<u>2,169,199</u>
LOSS BEFORE OTHER ITEMS	<u>(3,822,504)</u>	<u>(4,973,634)</u>
OTHER ITEMS		
Write-down of mineral property interest (Note 6 (a))	(8,300,000)	(6,000,000)
Interest and other income	15,413	54,925
Foreign exchange	73,914	(27,913)
Loss on disposition of interest in subsidiaries (Note 6 (a))	<u>-</u>	<u>(2,033,041)</u>
	<u>(8,210,673)</u>	<u>(8,006,029)</u>
LOSS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	(12,033,177)	(12,979,663)
FUTURE INCOME TAX RECOVERY (Note 15)	2,197,500	1,840,000
NON-CONTROLLING INTEREST (Note 10)	<u>194,593</u>	<u>193,602</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(9,641,084)	(10,946,061)
DEFICIT - BEGINNING OF YEAR	<u>(18,454,625)</u>	<u>(7,508,564)</u>
DEFICIT - END OF YEAR	<u>(28,095,709)</u>	<u>(18,454,625)</u>
 BASIC AND DILUTED LOSS PER SHARE	 <u>\$(0.10)</u>	 <u>\$(0.28)</u>
 WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	 <u>95,949,982</u>	 <u>39,079,675</u>

The accompanying notes are an integral part of these consolidated financial statements.

ROCHESTER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31

	2010	2009
	\$	\$
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(9,641,084)	(10,946,061)
Adjustment for items not involving cash		
Accretion of reclamation obligation	68,973	61,190
Depletion and amortization	972,337	847,777
Stock-based compensation	1,607,788	187,657
Interest expense	-	106,890
Foreign exchange	(41,987)	(77,687)
Write-down of mineral property interest	8,300,000	6,000,000
Future income tax recovery	(2,197,500)	(1,840,000)
Loss on disposition of interest in subsidiaries	-	2,033,041
Non-controlling interest	(194,593)	(193,602)
Gain on sale of equipment	-	(3,211)
	<u>(1,126,066)</u>	<u>(3,824,006)</u>
Increase in short-term deposits	(1,950,000)	-
(Increase) decrease in amounts receivable	(197,143)	652,355
Decrease (increase) in prepaid expenses and deposits	300,435	(153,824)
Decrease (increase) in inventories	589,974	(443,266)
(Increase) decrease in IVA tax receivable	(30,938)	369,000
Decrease in accounts payable and accrued liabilities	<u>(2,431,103)</u>	<u>(548,122)</u>
	<u>(4,844,841)</u>	<u>(3,947,863)</u>
FINANCING ACTIVITIES		
Issuance of common shares	12,462,994	4,369,300
Share issue costs	(902,763)	(467,522)
Advances received	(629,152)	1,095,425
Repayment of long-term debt	(303,286)	(1,110,349)
Proceeds from disposition of interest in subsidiaries	-	2,742,288
Proceeds from sale of equipment	-	35,110
	<u>10,627,793</u>	<u>6,664,252</u>
INVESTING ACTIVITIES		
Additions to mineral property interests	(2,992,141)	(2,880,554)
Additions to property, plant and equipment	<u>(1,251,511)</u>	<u>(629,846)</u>
	<u>(4,243,652)</u>	<u>(3,510,400)</u>
INCREASE (DECREASE) IN CASH FOR THE YEAR	1,539,300	(794,011)
CASH - BEGINNING OF YEAR	<u>154,082</u>	<u>948,093</u>
CASH - END OF YEAR	<u><u>1,693,382</u></u>	<u><u>154,082</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION (Note 18)

The accompanying notes are an integral part of these consolidated financial statements.

ROCHESTER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

1. NATURE OF OPERATIONS AND GOING CONCERN

Rochester Resources Ltd. and its subsidiaries (collectively the “Company”) are engaged in the exploration, development and mining of its mineral property interests in Mexico.

The mineral exploration, development and mining business involves, by its nature, a high degree of risk and there can be no assurance that the current operations or exploration projects will result in profitable mining operations. All of the Company’s mineral property interests are located in Mexico, and hence are subject to the risks normally associated with foreign investment including unanticipated changes in taxes and royalties, renegotiation of contracts, foreign currency fluctuations and political uncertainties.

During fiscal 2010 the Company incurred a net loss of \$9,641,084 and, as at May 31, 2010, had an accumulated deficit of \$28,095,709 and working capital of \$2,812,237. In the immediate term, the Company’s ability to continue as a going concern is dependent upon its ability to raise additional capital to fund its ongoing business operations. Additional capital may be sought from existing shareholders and creditors and from the sale of additional common shares or other equity or debt instruments. There is no assurance such additional capital will be available to the Company on acceptable terms or at all.

In the longer term, the recoverability of the carrying value of the Company’s long-lived assets is dependent upon the Company’s ability to preserve its interest in the underlying mineral property interests, the discovery of economically recoverable reserves, the achievement of profitable operations and the ability of the Company to obtain financing to support its ongoing exploration programs and mining operations.

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian GAAP and include the accounts of the Company, its wholly-owned subsidiary ALB Holdings Ltd. (“ALB”), its 80% owned subsidiary Mina Real Mexico S.A. de C.V. (“Mina Real”) and its 56% owned subsidiary Compania Minera Santa Fe S.A. de C.V. (“Compania Minera”). Inter-company balances and transactions are eliminated on consolidation.

ROCHESTER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results may differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of asset retirement obligations, stock-based compensation, depletion and amortization and impairment of property, plant and equipment and mineral interests. The financial statements have, in management's opinion, been properly prepared using careful judgement within the framework of the significant accounting policies summarized in this note.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand and money market instruments with terms to maturity not exceeding 90 days at date of acquisition. The Company is not exposed to significant credit or interest rate risk although cash and cash equivalents are held in excess of federally incurred limits with major financial institutions.

Short-term Deposits

Short-term deposits comprise guaranteed investments certificates ("GICs") with a term to maturity at the date of purchase of greater than 90 days but less than one year from the date of acquisition. The Company has the intent to redeem the short-term deposits, in whole or in part, as needed and has classified them as held-for-trading. These short-term deposits are initially recorded and subsequently measured at fair value.

Inventories

Finished product and ore in process is valued at the lower of cost and net realizable value. Cost is determined as the average production cost of saleable gold and silver. Materials and supplies are valued at the lower of cost and replacement cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. These assets are depreciated using the straight-line method at the following rates which approximate the useful life of the assets:

Motor vehicles	25%
Office equipment, furniture and fixtures	10%
Plant and equipment	10%
Buildings	5%

Capital works in progress costs are not depreciated until the related asset is complete, ready for use and utilized in commercial production.

ROCHESTER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Property Interests

The amounts shown as mineral property interests represent net costs to date, less amounts depleted and do not necessarily represent present or future values. The recoverability of these amounts and any additional amounts required to place these properties into commercial production are dependent upon certain factors. These factors include the existence of ore deposits sufficient for commercial production and the Company's ability to obtain the required additional financing necessary to develop its mineral property interests.

Mineral property interests costs and exploration, development and field support costs directly relating to mineral property interests are deferred until the interests to which they relate is placed into production, sold or abandoned. The deferred costs will be amortized over the life of the orebody following commencement of commercial production or written off if the mineral interest is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific mineral interest are expensed as incurred.

On the commencement of commercial production, depletion of each mining property is provided on a unit-of-production basis using estimated proven and probable reserves as the depletion base.

On a periodic basis management reviews the carrying values of deferred mineral interest acquisition and exploration expenditures with a view to assessing whether there has been any impairment in value. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or interest will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or interest.

Asset Retirement Obligations

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a liability at fair value as at the time in which they are incurred or the event occurs giving rise to such an obligation. The liability is increased (accreted) over time through periodic charges to earnings. The corresponding asset retirement cost is capitalized as part of the asset's carrying value, and is amortized over the asset's estimated useful life. The amount of the liability will be subject to re-measurement at each reporting period.

The Company is subject to laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

ROCHESTER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flows from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings. Where estimates of future net cash flows from the asset are not available and where conditions suggest impairment, management assesses whether the carrying value can be recovered by considering alternative methods of determining fair value.

Revenue Recognition

The Company recognizes revenue from the sale of gold and silver concentrates based on market metal prices and mineral content when title to the concentrates transfers to the customer, which generally occurs on the date the shipment is received by the customer. Revenue from the sale of the concentrates is subject to adjustment upon final settlement based on weights and assays. Subsequent to initial recognition, final settlement adjustments for mineral content are recorded in revenue when they become known to the Company.

Stock-Based Compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus. If and when the stock options are exercised the applicable amounts of contributed surplus are transferred to share capital.

Translation of Foreign Currencies

As the Company's foreign subsidiaries have been dependent on funding from their parent, the operations are considered to be integrated. As a result, the temporal method of translating the accounts of the foreign subsidiaries have been adopted. Under this method, the Company translates monetary items at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at average rates in effect during the period in which they were earned or incurred. Revenues and expenses are translated at average rates in effect during the period except for depreciation and amortization which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income.

Future Income Taxes

Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using substantially enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

ROCHESTER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss Per Share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share by application of the treasury stock method. Basic and diluted loss per share are the same as the effect of potential issuances of shares under warrants and share option arrangements would be anti-dilutive.

Financial Instruments

Under Section 3251, *Equity* and Section 3855, *Financial Instruments - Recognition and Measurement*, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financial instruments will be expensed in the period incurred.

The Company has designated its cash and short-term deposits as held-for-trading, which are measured at fair value. Amounts receivable and IVA tax receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, royalty payable, advances and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

Comprehensive Income

Section 1530, *Comprehensive Income*, provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

ROCHESTER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Assessing Going Concern

Section 1400, *General Standards of Financial Statement Presentation*, was amended to include requirements for management to make an assessment of a company's ability to continue as a going concern and to use the going concern basis in the preparation of the financial statements unless management either intends to liquidate the company or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon a company's ability to continue as a going concern, those uncertainties should be disclosed. The Company has performed such an assessment and has concluded that it is appropriate to present these consolidated financial statements using the going concern assumption.

Financial Instruments

Section 3862, *Financial Instruments - Disclosures*, requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; 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 principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3863, *Financial Instruments - Presentation*, and Section 3865, *Hedges*. Disclosure requirements pertaining to Section 3862 are contained in Note 17.

Section 3863, *Financial Instruments - Presentation*, enhances financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, 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.

Capital Disclosures

Section 1535, *Capital Disclosures*, establishes standards for disclosing information about an entity's capital and how it is managed. The Company has included the required disclosures recommended by Section 1535 in Note 20.

Adoption of New Accounting Standards

Goodwill and Intangible Assets

The Accounting Standards Board ("AcSB") issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

The adoption of Section 3064 did not have an impact on the Company's financial position and results of operations.

ROCHESTER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

During 2009 the CICA amended Section 3862, *Financial Instruments – Disclosures*, to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs that are not based on observable market data.

Effective June 1, 2009 the Company adopted the new recommendations. The additional disclosures as a result of the amended Section 3862 are contained in Note 17.

Future Accounting Policies

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

3. SHORT-TERM DEPOSITS

	2010	2009
	\$	\$
Redeemable GIC due February 14, 2011 at cost plus accrued interest at prime minus 1.8% per annum	950,000	-
Redeemable GIC due March 16, 2011 at cost plus accrued interest at 0.55% per annum	<u>1,000,000</u>	<u>-</u>
	<u><u>1,950,000</u></u>	<u><u>-</u></u>

ROCHESTER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

4. AMOUNTS RECEIVABLE

	2010 \$	2009 \$
Production receivable	910,711	312,017
Current portion of IVA tax receivable	330,231	824,133
Employee advances	28,992	38,802
Other receivables	<u>180,450</u>	<u>78,289</u>
	<u><u>1,450,384</u></u>	<u><u>1,253,241</u></u>

The Company incurs value added tax (“IVA”) as expenditures are incurred and records it as IVA tax receivable. The IVA is recoverable from the Mexican government by the Company as claims are made and assessed. As at May 31, 2010 the Company has an IVA balance of \$571,943 (2009 - \$1,034,907), of which \$241,712 (2009 - \$210,774) was incurred prior to fiscal 2010 and is considered past due. The Company expects to recover the full amount.

5. INVENTORIES

	2010 \$	2009 \$
Ore in process	123,056	328,588
Mine stores, supplies and other	604,138	361,416
Precipitate	<u>-</u>	<u>627,164</u>
	<u><u>727,194</u></u>	<u><u>1,317,168</u></u>

6. MINERAL PROPERTY INTERESTS

	2010 \$	2009 \$
Producing		
Mina Real Property		
Acquisition and other	18,458,507	18,458,507
Deferred exploration and development costs	8,114,548	7,965,774
Accumulated depletion, loss on disposition and write-downs	<u>(19,325,393)</u>	<u>(10,295,434)</u>
	<u>7,247,662</u>	<u>16,128,847</u>
Non-Producing		
Mina Real Property		
Deferred exploration and development costs	8,450,598	5,091,908
Santa Fe Property		
Acquisition and other	803,571	654,796
Deferred exploration	<u>234,465</u>	<u>224,830</u>
	<u>9,488,634</u>	<u>5,971,534</u>
	<u><u>16,736,296</u></u>	<u><u>22,100,381</u></u>

ROCHESTER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

6. MINERAL PROPERTY INTERESTS (continued)

(a) Mina Real Property

The Mina Real Property, located in Tepic, Mexico, comprises six concessions covering approximately 7,358 hectares.

Effective January 21, 2009 the Company disposed of a 20% interest in Mina Real. Mina Real owns a 70% interest in Compania Minera. Under the sale agreement Mina Real issued shares to each of E-Energy Ventures Ltd. ("E-Energy") and Cooper Minerals Ltd. ("Cooper") (collectively the "Partners") for total consideration of \$2,950,000.

Pursuant to the agreement, all net profit received from the operations at the Mina Real Property shall be divided on a 80% / 20% basis between the Company and the Partners, respectively, with a fixed royalty of \$25,000 per month paid free and clear of any and all costs or expenses incurred in connection with the operation of the Mina Real Property. During fiscal 2010 the Company recorded a royalty of \$600,000 (2009 - \$200,000) to the Partners, which has been included as part of cost of operations. As at May 31, 2010, \$100,000 (2009 - \$100,000) remained unpaid.

The Company has a back-in option to re-acquire in whole and not in part the equity interest in Mina Real and Compania Minera. The back-in option is for a term of three years under which:

- (i) during the initial year the back-in option shall not be exercisable;
- (ii) during the second year the back-in option shall be exercisable by a cash payment of \$2,075,000; and
- (iii) during the third year the back-in option shall be exercisable by a cash payment of \$2,000,000.

The Company paid a finder's fee of \$191,750 cash and issued finder's warrants which were exercisable to acquire 1,300,000 common shares of the Company at an exercise price of \$0.17 per share on or before January 20, 2010. The fair value of the finder's warrants were estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; expected volatility - 122%; risk-free interest rate of 0.85%; and an expected life of one year. The value assigned to the finder's warrants was \$195,000. The Company also incurred additional legal and filing fees of \$15,962. During fiscal 2010 the finder's warrants expired without exercise.

During fiscal 2009 the Company recorded a loss of \$2,033,041 on the disposition of this 20% interest in Mina Real.

During fiscal 2010 the Company recorded an \$8,300,000 (2009 - \$6,000,000) write-down on the Mina Real property to reflect management's estimate of its fair value.

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6. MINERAL PROPERTY INTERESTS (continued)

(b) Santa Fe Property

On March 12, 2007 the Company entered into an option agreement to acquire a 70% interest in the Santa Fe Property located in Tepic, Mexico near the Mina Real Property. The agreement comprises one concession covering approximately 3,823 hectares. Under the terms of the agreement the Company has agreed to implement a program of exploration to determine if the Santa Fe Property can be economically exploited. In addition, if the exploration work is successful, the Company has agreed to provide the necessary capital to construct a processing plant capable of processing a minimum of 200 tonnes per day. The Company will pay a monthly fee of US \$10,000 while it is conducting exploration and development on the Santa Fe Property.

The Company has also staked an additional two concessions covering approximately 13,164 hectares adjacent to the Santa Fe Property.

7. PROPERTY, PLANT AND EQUIPMENT

	2010		
	Cost	Accumulated	Net Book
	\$	Amortization	Value
	\$	\$	\$
Motor vehicles	241,559	116,808	124,751
Office equipment	87,158	18,072	69,086
Mill and mine equipment	2,579,581	374,814	2,204,767
Buildings	2,342,442	66,591	2,275,851
Land	2,600,968	-	2,600,968
	<u>7,851,708</u>	<u>576,285</u>	<u>7,275,423</u>
	2009		
	Cost	Accumulated	Net Book
	\$	Amortization	Value
	\$	\$	\$
Motor vehicles	219,864	62,796	157,068
Office equipment	51,558	8,819	42,739
Mill and mine equipment	2,412,615	221,284	2,191,331
Buildings	1,336,458	41,008	1,295,450
Land	2,547,008	-	2,547,008
	<u>6,567,503</u>	<u>333,907</u>	<u>6,233,596</u>

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8. ADVANCES

	2010 \$	2009 \$
Advances, 12% per annum (a)	424,286	1,018,698
Advances, non-interest bearing (b)	<u>-</u>	<u>76,727</u>
	<u>424,286</u>	<u>1,095,425</u>

(a) Advances have been made by directors of the Company and bear interest at a rate of 12% per annum and have no fixed terms of repayment. During fiscal 2010 the Company repaid \$552,425 and recorded \$85,205 (2009 - \$106,890) of interest expense. As at May 31, 2010 advances totalling \$424,286 remained outstanding. In addition, \$112,415 of interest remained unpaid and is included in accounts payable and accrued liabilities.

(b) The Company had received advances from officers of the Company for ongoing working capital purposes. The advances were non-interest bearing and was due on demand. During fiscal 2010 the Company repaid the advances.

9. LONG-TERM DEBT

	2010 \$	2009 \$
Long-term debt	306,443	609,729
Less: Current portion	<u>(306,443)</u>	<u>(345,772)</u>
	<u>-</u>	<u>263,957</u>

The Company has acquired land and surface rights to enable access to the development of the Mina Real Property. As at May 31, 2010 the Company is required to make ongoing monthly principal payments of approximately \$37,999 plus interest, calculated at a simple rate of 7.20% per annum.

During fiscal 2010 the Company capitalized interest totalling \$32,903 (2009 - \$70,971).

10. NON-CONTROLLING INTEREST

As at May 31, 2010 and 2009 the Partners hold a 20% non-controlling interest in Mina Real, which is 80% owned by the Company. See Note 6(a).

The balance of the non-controlling interest is shown in the table below:

	2010 \$	2009 \$
Balance, beginning of year	2,353,686	-
Non-controlling interest on disposition	-	2,547,288
Non-controlling interest's share of loss	<u>(194,593)</u>	<u>(193,602)</u>
Balance, end of year	<u>2,159,093</u>	<u>2,353,686</u>

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11. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Issued:	2010		2009	
	Shares	Amount \$	Shares	Amount \$
Balance, beginning of year	53,399,811	33,968,243	32,832,061	30,281,745
Issued during the year				
For cash				
Private placements	82,859,960	12,428,994	20,067,750	4,219,300
Exercise of warrants	-	-	500,000	150,000
Exercise of agent's warrants	200,000	34,000	-	-
Reallocation from contributed surplus on exercise of agent's warrants	-	8,000	-	-
	83,059,960	12,470,994	20,567,750	4,369,300
Less: share issue costs	-	(1,454,765)	-	(682,802)
	<u>83,059,960</u>	<u>11,016,229</u>	<u>20,567,750</u>	<u>3,686,498</u>
Balance, end of year	<u>136,459,771</u>	<u>44,984,472</u>	<u>53,399,811</u>	<u>33,968,243</u>

- (a) During fiscal 2010 the Company completed a private placement of 82,859,960 units, at \$0.15 per unit, for gross proceeds of \$12,428,994. Each unit comprised one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.20 per share on or before November 25, 2011.

The Company paid the agent a commission of \$690,003 and issued 4,600,020 warrants. Each warrant entitles the holder to purchase an additional common share on or before November 25, 2012, at a price of \$0.15 per share. The fair value of the warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 91%; a risk-free interest rate of 1.92%; and an expected life of three years. The value assigned to the warrants was \$552,002. The Company also incurred \$212,760 in legal and filings fees associated with this private placement.

Certain officers and directors of the Company purchased 9,522,960 units of the private placement.

- (b) During fiscal 2009 the Company completed the following private placements:
- (i) 2,223,000 units, at a purchase price of \$0.45 per unit, for gross proceeds of \$1,000,350. Each unit comprised one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.75 per share for a period of two years. The Company also paid the agent a commission of \$80,028 and issued 177,840 agent's warrants (the Agent's Warrants). Each Agent's Warrant is exercisable at an exercise price of \$0.45 per share for a period of two years.

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11. SHARE CAPITAL (continued)

The fair value of the Agent's Warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 87%; a risk-free interest rate of 2.68% - 2.92%; and an expected life of two years. The value assigned to the Agent's Warrants was \$39,120. The Company also incurred \$62,276 in legal and filings fees associated with this private placement;

- (ii) 7,000,000 common shares, at a price of \$0.15 per common share, for total gross proceeds of \$1,050,000. The Company paid a cash finder's fee of \$105,000 and also issued finder's warrants which were exercisable to acquire 700,000 common shares of the Company, at an exercise price of \$0.17 per common share, of which 333,333 finder's warrants expired on December 5, 2009 and 366,667 finder's warrants expired on December 22, 2009.

The fair value of the finder's warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 95% - 122%; a risk-free interest rate of 0.85%; and an expected life of one year. The value assigned to the finder's warrants was \$35,333. The Company also incurred \$28,354 in legal and filings fees associated with this private placement; and

- (iii) 10,844,750 units, at a price of \$0.20 per unit, for total gross proceeds of \$2,168,950. Each unit comprised one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.30 per common share for a period of eighteen months. The Company paid a cash finder's fee of \$148,956 and also issued finder's warrants which are exercisable to acquire 930,975 common shares of the Company at an exercise price of \$0.20 per common share for a period of eighteen months. The Company also incurred \$45,657 in legal and filing fees associated with this private placement.

The fair value of the finder's warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 108% - 111%; a risk-free interest rate of 0.84% - 0.87%; and an expected life of 1.5 years. The value assigned to the finder's warrants was \$140,827.

- (c) A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at May 31, 2010 and 2009 and the changes for the years ended on those dates is as follows:

	2010		2009	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	9,142,690	0.32	3,004,254	2.21
Issued	87,459,980	0.20	9,642,690	0.32
Exercised	(200,000)	0.17	(500,000)	0.30
Expired	<u>(1,800,000)</u>	0.17	<u>(3,004,254)</u>	2.21
Balance, end of year	<u>94,602,670</u>	0.21	<u>9,142,690</u>	0.32

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11. SHARE CAPITAL (continued)

(d) The following table summarizes information about the number of common shares reserved pursuant to warrants outstanding at May 31, 2010:

Number	Exercise Price \$	Expiry Date
1,354,875	0.30	September 13, 2010
270,975	0.20	September 13, 2010
779,000	0.75	September 18, 2010
124,640	0.45	September 18, 2010
221,000	0.75	September 22, 2010
35,360	0.45	September 22, 2010
111,500	0.75	September 24, 2010
17,840	0.45	September 24, 2010
2,412,500	0.30	October 13, 2010
550,000	0.20	October 13, 2010
1,155,000	0.30	November 11, 2010
110,000	0.20	November 11, 2010
82,859,960	0.20	November 25, 2011
<u>4,600,020</u>	0.15	November 25, 2012
<u>94,602,670</u>		

Subsequent to May 31, 2010 warrants to purchase a total of 2,915,190 common shares at prices ranging from \$0.20 to \$0.75 per share expired without exercise.

12. STOCK OPTIONS AND STOCK-BASED COMPENSATION

The Company has established a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSX Venture Exchange. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of five years.

During fiscal 2010 the Company granted 10,070,000 (2010 - 320,000) stock options to the Company's directors, employees and consultants and recognized compensation expense of \$1,547,100 (2009 - \$82,400) on these stock options and \$60,688 (2009 - \$105,257) on stock options which vested during the year.

The fair value of stock options granted and vested is estimated using the Black-Scholes option pricing model with the following assumptions made during fiscal 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Risk-free interest rate	2.20% - 4.62%	1.03% - 4.08%
Estimated volatility	78% - 99%	78% - 101%
Expected life	2 years - 5 years	2 years - 3 years
Expected dividend yield	0%	0%

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12. STOCK OPTIONS AND STOCK-BASED COMPENSATION (continued)

The average fair value of stock options granted and vested during fiscal 2010 was \$0.16 (2009 - \$0.26) per share.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

A summary of the Company's outstanding stock options at May 31, 2010 and 2009 and the changes for the years ended on those dates is as follows:

	<u>2010</u>		<u>2009</u>	
	Options Outstanding	Weighted Average Exercise Price \$	Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	3,250,500	1.64	2,953,000	1.69
Granted	10,070,000	0.23	320,000	0.43
Expired	<u>(2,039,000)</u>	1.72	<u>(22,500)</u>	0.62
Balance, end of year	<u><u>11,281,500</u></u>	0.37	<u><u>3,250,500</u></u>	1.64

The following table summarizes information about the stock options outstanding and exercisable at May 31, 2010:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
100,000	100,000	1.65	June 8, 2010
174,000	174,000	1.65	June 12, 2010
200,000	200,000	0.50	August 26, 2010
450,000	450,000	2.12	October 26, 2010
80,000	80,000	2.30	November 16, 2010
120,000	120,000	0.32	May 8, 2011
87,500	87,500	0.90	September 5, 2011
300,000	75,000	0.22	February 1, 2012
9,310,000	9,310,000	0.23	January 26, 2015
230,000	230,000	0.23	March 16, 2015
<u>230,000</u>	<u>230,000</u>	0.23	March 30, 2015
<u><u>11,281,500</u></u>	<u><u>11,056,500</u></u>		

Subsequent to May 31, 2010 stock options to purchase a total of 474,000 common shares at prices ranging from \$0.50 to \$1.65 per share expired without exercise.

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13. CONTRIBUTED SURPLUS

The Company's contributed surplus as at May 31, 2010 and 2009 and the changes for the years ended on those dates is presented below:

	2010 \$	2009 \$
Balance, beginning of year	4,805,497	4,207,560
Stock-based compensation on stock options (Note 12)	1,607,788	187,657
Stock-based compensation on agent's warrants (Note 11)	552,002	39,120
Stock-based compensation on finder's warrants	-	371,160
Agent's warrants exercised	<u>(8,000)</u>	<u>-</u>
Balance, end of year	<u><u>6,957,287</u></u>	<u><u>4,805,497</u></u>

14. RELATED PARTY TRANSACTIONS

During fiscal 2010 and 2009 the Company was charged for various services provided by companies controlled by current and former directors and officers of the Company, as follows:

	2010 \$	2009 \$
Accounting and administration	85,095	100,280
Professional fees	<u>260,446</u>	<u>349,647</u>
	<u><u>345,541</u></u>	<u><u>449,927</u></u>

As at May 31, 2010 accounts payable and accrued liabilities include \$nil (2009 - \$39,369) due to these related parties. These transactions were measured at the exchanged amount which was the amount of consideration established and agreed to by the related parties.

See also Notes 8 and 11(a).

15. INCOME TAXES

Future income tax assets and liabilities of the Company as at May 31, 2010 and 2009 are as follows:

	2010 \$	2009 \$
Future income tax assets		
Losses carried forward	4,495,700	3,997,600
Share issue costs	<u>276,900</u>	<u>107,900</u>
	4,772,600	4,105,500
Valuation allowance	<u>(4,472,600)</u>	<u>(4,105,500)</u>
Net future income tax asset	<u><u>-</u></u>	<u><u>-</u></u>
Future income tax liabilities		
Mineral properties	<u><u>(61,260)</u></u>	<u><u>(2,258,760)</u></u>

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15. INCOME TAXES (continued)

The recovery of income taxes shown in the consolidated statements of loss and comprehensive loss differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2010 \$	2009 \$
Income tax rate reconciliation		
Combined federal and provincial income tax rate	<u>29.38%</u>	<u>30.00%</u>
Expected income tax recovery	3,534,700	3,893,900
Non-deductible stock-based compensation	(472,300)	(56,300)
Effect of income tax rate changes	(47,100)	(214,700)
Foreign income tax rate differences	(33,400)	(136,400)
Other	146,100	65,200
Unrecognized benefit of income tax losses	<u>(930,500)</u>	<u>(1,711,700)</u>
Future income tax recovery	<u>2,197,500</u>	<u>1,840,000</u>

As at May 31, 2010 the Company has non-capital losses and accumulated pools of approximately \$7.5 million for Canadian income tax purposes to offset against future income, expiring from 2011 through 2030. The Company also has accumulated non-capital losses of approximately \$10.3 million (128.0 million pesos) for Mexican tax purposes, expiring from 2017 through 2020.

Future income tax benefits which may arise as a result of these losses have not been recognized in these financial statements as their realization is unlikely.

16. SEGMENTED INFORMATION

The Company operates within a single operating segment, which is the acquisition, exploration and development of mineral interests. The Company's mineral operations are located in Mexico and its corporate assets are located in Canada.

	<u>2010</u>		
	Identifiable Assets \$	Revenues \$	Net Loss \$
Mineral operations (Mexico)	26,542,285	8,364,090	(7,406,959)
Corporate (Canada)	<u>3,583,847</u>	<u>15,413</u>	<u>(2,234,125)</u>
	<u>30,126,132</u>	<u>8,379,503</u>	<u>(9,641,084)</u>
	<u>2009</u>		
	Identifiable Assets \$	Revenues \$	Net Loss \$
Mineral operations (Mexico)	31,502,155	3,909,543	(9,315,281)
Corporate (Canada)	<u>119,263</u>	<u>54,925</u>	<u>(1,630,780)</u>
	<u>31,621,418</u>	<u>3,964,468</u>	<u>(10,946,061)</u>

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16. SEGMENTED INFORMATION (continued)

The Company sells all of its gold and silver production to two customers in Mexico. The sales to the customers does not constitute economic dependence for the Company as there are other customers in Mexico to whom gold and silver can be sold.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of Financial Assets and Financial Liabilities

Under Canadian GAAP financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The carrying values of the Company's financial instruments, which are the same as their fair values, are classified into the following categories:

Financial Instrument	Category	2010 \$	2009 \$
Cash	Held-for-trading	1,693,382	154,082
Short-term deposits	Held-for-trading	1,950,000	-
Amounts receivable	Loans and receivables	1,450,384	1,253,241
IVA tax receivable	Loans and receivables	241,712	210,774
Accounts payable and accrued liabilities	Other liabilities	(2,229,735)	(3,954,411)
Royalty payable	Other liabilities	(100,000)	(100,000)
Advances	Other liabilities	(424,286)	(1,095,425)
Long-term debt	Other liabilities	(306,443)	(609,729)

The recorded amounts for cash, short-term deposits, amounts receivable, accounts payable and accrued liabilities and royalty payable approximate their fair value due to their short-term nature. The Company's carrying value and fair value of cash and short-term deposits and IVA tax receivable under the fair value hierarchy is measured using Level 1 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to fulfill its payment obligations. The Company's credit risk relates primarily to trade receivables in the ordinary course of business and value added tax and other receivables. As at May 31, 2010 the Company sells its gold and silver to two international organizations where payments of receivables are scheduled and routine and the balance of overdue trade receivables owed to the Company in the ordinary course of business is not significant.

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company believes it is not exposed to significant credit risk overall, and that the Company's credit risk has not changed significantly from the prior year.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. See also Note 1.

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash and short-term deposits either bear floating rates of interest or are redeemable. The interest rate risk on cash and short-term deposits and on the Company's obligations are not considered significant. The Company's long-term debt has a fixed interest rate and therefore, is not subject to interest rate fluctuations.

(b) Foreign Currency Risk

The Company has operations in Canada and Mexico subject to foreign currency fluctuations. The Company's operating expenses are incurred in Canadian Dollars and Mexican Pesos. In addition the Company also has long-term debt denominated in US Dollars. The fluctuation of the Canadian Dollar in relation to these other currencies will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At May 31, 2010, 1 Canadian Dollar was equal to 12.39 Mexican Pesos and 0.96 US Dollar.

Balances are as follows:

	Mexican Pesos	US Dollar	Canadian Dollar Equivalent
Cash	1,117,248	55,455	147,939
Amounts receivable	15,816,622	-	1,276,564
Inventories	9,009,856	-	727,194
Non-current portion of IVA tax receivable	2,994,780	-	241,712
Accounts payable and accrued liabilities	(25,903,353)	(107,451)	(2,202,594)
Advances	-	(405,550)	(424,286)
Long-term debt	<u>(3,796,797)</u>	<u>-</u>	<u>(306,443)</u>
	<u>(761,644)</u>	<u>(457,546)</u>	<u>(539,914)</u>

Based on the net exposures as of May 31, 2010 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Mexican Pesos and US Dollar would result in the Company's net loss being approximately \$51,000 higher (or lower).

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. As a matter of policy the Company does not hedge its gold and silver production. Fluctuations in pricing may be significant.

18. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash activities were conducted by the Company during fiscal 2010 and 2009 as follows:

	2010	2009
	\$	\$
Operating activity		
Increase in accounts payable and accrued liabilities	<u>706,427</u>	<u>2,295,621</u>
Financing activities		
Minority interest's investment in subsidiaries	-	(195,000)
Share issue costs	(552,002)	(215,280)
Contributed surplus	<u>552,002</u>	<u>410,280</u>
	<u>-</u>	<u>-</u>
Investing activities		
Changes in estimate to asset retirement obligation	-	217,975
Property, plant and equipment	(32,694)	(774,393)
Mineral property interests	<u>(673,733)</u>	<u>(1,739,203)</u>
	<u>(706,427)</u>	<u>(2,295,621)</u>
Other supplemental cash flow information:		
	2010	2009
	\$	\$
Interest paid in cash	<u>32,903</u>	<u>20,804</u>
Income taxes paid in cash	<u>-</u>	<u>-</u>

ROCHESTER RESOURCES LTD.
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19. ASSET RETIREMENT OBLIGATION

	2010	2009
	\$	\$
Balance, beginning of year	930,292	640,006
Effect of change in estimates	-	217,975
Accretion	68,973	61,190
Effect of translation of foreign currencies	-	11,121
Balance, end of year	<u>999,265</u>	<u>930,292</u>

During fiscal 2009 the Company reassessed its reclamation obligation at the Mina Real Mine based on updated mine life estimates and rehabilitation and closure plans. The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligation is \$930,292 (US \$1,000,000) which has been discounted using a credit adjusted risk free rate of 6.5% and an inflation rate of 5.5%. The present value of the reclamation liability may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur. The settlement of the obligation is anticipated to occur through to fiscal 2023.

20. MANAGEMENT OF CAPITAL

The Company manages its cash, common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, pursue the development of mineral resource interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

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

In order to facilitate the management of its capital requirements, the Company prepares operating and expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

The Company does not expect its current capital resources will be sufficient to meet all of its future exploration plans, operating requirements and debt retirement obligations and is dependant upon future equity or debt transactions to meet these obligations. See also Note 1.

ROCHESTER RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MAY 31, 2010

The following Management's Discussion and Analysis ("MD&A") of Rochester Resources Ltd. ("Rochester" or the "Company") is prepared as at September 24, 2010 and should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes for the years ended May 31, 2010 and 2009, which are available along with further information on the Company including any news releases and historical reports referred to in this MD&A on the SEDAR website at www.sedar.com. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars.

Cautionary Note Regarding Forward Looking Statements

This MD&A contains certain forward looking statements that involve risks and uncertainties such as statements of the Company's plans, objectives, strategies, expectations, and intentions. The words "may", "would", "could", "will", "intend", "plan", "believe", "estimate", "expect" and similar expressions, as they relate to the Company, or its management, are intended to identify such forward looking statements. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements, including those factors discussed below and in filings made with the Canadian securities regulatory authorities. Should one or more of these risk factors or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Company does not intend, and does not assume any obligation to update these forward looking statements.

Company Overview

The Company is a junior gold and silver producer engaged in the production and the continued exploration and development of its Mina Real and Santa Fe Properties located in the state of Nayarit, Mexico. Nayarit is located in the Sierra Madre Occidental range, the most productive epithermal precious metal region in the world, which hosts the majority of Mexico's gold and silver deposits.

During fiscal 2010, considering results to date, an impairment charge of \$8,300,000 was recorded against the Mina Real carrying value.

The Company is a reporting issuer in British Columbia, Alberta and Saskatchewan and trades on the TSX Venture Exchange ("TSXV") under the symbol "RCT", the Frankfurt Stock Exchange Open Market under the trading Symbol "R5I" and on the Pink OTC Markets ("Pink Sheets") under the symbol "RCTFF".

Property Update

Overview

The Company currently holds an 80% interest in Mina Real Mexico S.A. de C.V. ("Mina Real") which holds a 100% interest in the Mina Real Property, a gold silver property located in the state of Nayarit, Mexico, east of the state capital city of Tepic. Mina Real also owns 70% of Compania Minera Santa Fe S.A. de C.V. ("Compania Minera") which holds a 100% interest in the Santa Fe gold and silver property located immediately east of the Mina Real Property. The Company's indirect interest in Santa Fe is 56%. To fully vest its direct 70% interest in Compania Minera, Mina Real has agreed to scheduled cash payments and work programs. The Mina Real Property is a producing gold and silver mine with significant exploration potential. The Santa Fe Property is a gold and silver exploration property.

Operations

A summary of the operating activities for the fiscal 2010 quarters is as follows:

RESULTS	Q1(Jun-Aug)	Q2(Sep-Nov)	Q3(Dec-Feb)	Q4(Mar-May)	CUMULATIVE
Tonnes Processed	13,686 tonnes	13,233 tonnes	15,433 tonnes	18,298 tonnes	60,649 tonnes
Gold Grade	1.57 g/t	1.13 g/t	1.17 g/t	1.55 g/t	1.37 g/t
Silver Grade	281.07 g/t	285.92 g/t	293.98 g/t	246.52 g/t	274.99 g/t
Gold Recovery	53.04%	78.92%	83.57%	88.30%	76.42%
Silver Recovery	45.28%	74.69%	62.46%	69.41%	63.15%
Gold Produced	367 ounces	381 ounces	486 ounces	804 ounces	2,038 ounces
*Gold Sold	557.18 ounces	372.60 ounces	476.05 ounces	792.14 ounces	2,197.97 ounces
Silver Produced	55,994 ounces	90,853 ounces	91,108 ounces	100,662 ounces	338,617 ounces
*Silver Sold	81,322.05 ounces	87,670.25 ounces	88,128.62 ounces	97,641.71 ounces	354,762.63 ounces
Gold Equivalent Produced	1,212 ounces	1,863 ounces	1,873 ounces	2,364 ounces	7,312 ounces
Developed Metres	2,289 metres	901 metres	991 metres	1,669 metres	5,850 metres
Samples Taken	5,352 samples	5,218 samples	5,195 samples	4,906 samples	20,671 samples
Diamond Drilling Metres	0.0 metres	0.00 metres	436 metres	4,277 metres	4,713 metres
Access Road Kilometres	2.5 kilometres	0.0 kilometres	5.4 kilometres	9.4 kilometres	17.3 kilometres

* Q1 includes sales of 195.5 ounces of gold (Au) and 27,007.6 ounces of silver (Ag) not previously sold and held in inventory from April and May 2009 due to a strike at Peñoles.

18,298 tonnes were milled in Q4 (March-May, 2010), with average grades of 1.55 g Au/t and 246.5 g Ag/t. Both production and sales were 804 oz Au and 100,662 oz Ag. At current prices, this production is equivalent to 2,364 oz Au, an increase of 26.2 % from production of the previous quarter.

Recoveries in Q4 are 88.3% for Au and 69.4% for Ag, showing an improvement of 5.66% and 11.33%, respectively, against the recoveries obtained in the previous quarter.

Total drifting (preparation, exploration and infrastructure) for Q4 was 1,669 m, as shown in the following table:

DRIFTING, metres

AREA	Mar 2010 (metres)	Apr 2010 (metres)	May 2010 (metres)	Mar/10 - May/10 (metres)	%
Tajos Cuates Mine	198	183	272	653	39
Florida NW Project	83	114	64	261	16
Florida SE Project	32	0	0	32	2
Macedo Project	237	215	243	694	42
El Gringo Project	0	30	0	30	2
Total Drifting	549	541	579	1,669	100

Due to difficult ground conditions, drifting was slow at Florida NW with XC 1250. An improvement in productivity is expected, now that shotcreting has started, such that Company objectives can be attained in one to two months. Drifting at Florida NW (Level 1385) and Florida III was reactivated.

Drifting distribution for Q4 is as follows:

DRIFTING, metres

ACTIVITY	Mar 2010 (metres)	Apr 2010 (metres)	May 2010 (metres)	Mar/10 - May/10 (metres)	%
Exploration Drifting	58	135	108	301	18
Preparation Drifting	91	138	189	418	25
Projects & Infrastructure Drifting	400	268	282	950	57
Total Drifting	549	541	579	1,669	100

Total drifting increased 68.4% over the previous quarter results.

Subsequent to year end a significant increase in the level of development work was conducted resulting in the achievement of an increase in the quantity of mineralized material, as follows:

Note that in this report the Company is reporting, in part, assay results from an independent lab and its own in-house lab. Based on the Company's on-going program of confirmatory outside lab check assays, management believes the results from the in-house lab are valid and conform to acceptable industry standards.

Tajos Cuates Mine

1. Development at Hundido level on face 237 NW over vein 696 goes 8.2 m to NW and 10.6 m to SE, reporting average assays of 1.7 g Au/t and 470 g Ag/t with an average width of 0.9 m.
2. Development of CP 172 over Soledad vein, 18.2 m to NW has an average assay of 1.9 g Au/t and 281 g Ag/t with a 0.45 m width, while development on 8.5 m to SE assays 1.8 g Au/t and 782 g Ag/t with a 1.0 m width.
3. Development of 33 m at Chalata level over incline 979-420 (vein 696) produced average grades of 1.7 g Au/t and 298 g Ag/t in an average width of 1.3 m. This proves and extends the body developed at Chalata level.
4. Development on face 1014-380 NW over vein 430 with a 13.95 m length reports assays of 1.1 g Au/t and 446 g Ag/t in a 0.28 m width.
5. Face 185, developed over vein 185 advanced 14.3 m and its assays report 1.6 g Au/t and 458 g Ag/t with a 0.77 m width.
6. Development of raise 300 at Chalata level over the fault system associated to a muddy fault appears to be a segment of a faulted structure. Inconsistent assays were obtained, showing values up to 3.21 g Au/t and 461 g Ag/t in a 0.5 m width; 7.6 g Au/t and 721 g Ag/t in a 0.3 m width; and 2.2 g Au/t and 266 g Ag/t in a 0.65 m width.
7. Development of raise 223 over vein 696 at this Chalata level over a 14.0 m length shows average values of 3.6 g Au/t and 224 g Ag/t in a 0.86 m width, with some rich samples up to 34.5 g Au/t and 3,317 g Ag/t in a 0.10 m width.
8. Raise 315, developed over a structure of the parallel system between veins 696 and reports average assays of 1.2 g Au/t and 373 g Ag/t in a 1.05 m width.

Macedo Mine

1. Development of crosscut 981-2460 at level 981-2460 was initiated. 50.9 m of length were developed to explore a detachment at the hanging wall up to interception with Macedo vein. The detachment is a structure and a quartz gap with oxidation. Last face assays 8.25 g Au/t and 625 g Ag/t in a 0.25 m width.
2. Crosscut 2531, with a 10.0 m length, cuts the detachment at the hanging wall at the SE limit of the ore body. A 10.0 m length development shows average assays of 8.8 g Au/t and 206 g Ag/t with a 1.6 m width. Some higher grade samples show up to 22.3 g Au/t and 250 g Ag/t in a 0.6 m width.
3. Development of raise 2556 over Macedo vein at extreme SE of the stope of 2360 reports average grades on 13.0 m length of 4.2 g Au/t and 166 g Ag/t in a 0.88 m width, with some samples up to 27.1 g Au/t and 660 g Ag/t in a 0.5 m width.
4. Development of raise 2556, but towards NW, shows a width of 1.5 m with average grades of 7.2 g Au/t and 95 g Ag/t. The objective is to explore vertically this block (stope 2360) and provide a communication with level 981.
5. Development of raise 2612 at SE edge of detachment started with a narrow, 30 cm vein. As of today, the vein has a 1.0 m width and shows good grades. Development over a 8.0 m length shows average grades of 11.2 g Au/t and 91 g Ag/t.

El Gringo Mine

1. 37 m were developed at level 1004, from which 10 m assayed 4.3 g Au/t and 221 g Ag/t.

Florida NW Mine

1. Adit 1240 reached the first structure with fault and alterations in Florida NW system. In 1.5 m of total width, assays show grades of up to 0.8 g Au/t and 21 g Ag/t in a 0.3 m width and 0.9 g Au/t and 13 g Ag/t in 0.3 m width.
2. In this same adit, two new structures were cut. From these, the second structure with direction NE20°SW reports assays of 2.46 g Au/t and 481 g Ag/t in 2.25 m width.
3. The third structure, with the same direction, reports assays on the right side, of 3.9 g Au/t and 48 g Ag/t in a 1.0 m width, while on the left side, 1.5 g Au/t and 62 g Ag/t in 1.1 m width.

Regional Exploration

Note that in this report the Company is reporting, in part, assay results from an independent lab and its own in-house lab. Based on the Company's on-going program of confirmatory outside lab check assays, management believes the results from the in-house lab are valid and conform to acceptable industry standards.

Exploration continues in "El Tesoro" and "La Víbora" areas. Assay results (Company lab) for vein "La Finca III" are 1.0 g Au/t and 61 g Ag/t; and for vein "El Títore", 4.0 g Au/t and 220 g Ag/t. In "La Víbora" area, samples with up to 22.3 g Au/t and 175 g Ag/t have been obtained.

Exploration started at "Marina" area (located between "Florida" and "Santa Fe" systems). As of today, two structures have been identified, being "Las Nietas" the one showing better results. Samples assayed in Company's lab show values up to 4.9 g Au/t and 63 g Ag/t in a 0.55 m width.

Evaluation of "Los Tres Plebes" property (close to NE limits of Company's property) was completed. A system of veins was identified, with a direction NNW-SSE, converging to an area of approximately of 150 m long by 20 to 40 m wide, forming a stock work area which can possibly be mined on surface. Preliminary essays show values of 0.3 g Au/t and 72 g Ag/t in a 24.5 m width. Other samples have 0.2 g Au/t and 332 g Ag/t in 1.05 m width; and 0.6 g Au/t and 159 g Ag/t in a 1.1 m width. Other pending assays will determine the project importance.

Due to very difficult ground conditions (fractured) diamond drilling was slow and complex. A summary of drill hole results is as follows:

Hole MA02-10

Along this hole in Macedo vein and El Alto detachment there are three interesting zones. The first of them reports 1.54 m length with grades of 1.77 g Au/t and 40 g Ag/t over the vein and the detachment assays 2.12 g Au/t and 42 g Ag/t in a length of 1.95 m. Another sample, at 247.7 m length assays 1.69 g Au/t and 29 g Ag/t on 0.44 m length over the stock work of the hanging wall.

Hole FNW11-10

Was aborted at 77.5 m due to faulting problems. Just where structure was contacted, the assay reported 1.7 g Au/t and 233 g Ag/t over a length of 2.11 m.

Hole FNW11A-10

Has a length of 111.45 m and intersects the structure approximately 8.0 m below the previous hole. Assays report 0.05 g Au/t and 100.2 g Ag/t over a 3.33 length. Another intersect at 95.76 m shows 1.12 g Au/t and 36 g Ag/t over a length of 1.28 m.

Partial assays of the latest holes show interesting values, such as Hole MA03, with a 1.22 m width, reporting 0.05 g Au/t and 553 g Ag/t; hole MA04, 0.07 m wide with 2.95 g Au/t and hole MA05, 0.15 m wide with 4.15 g Au/t and 7 g Ag/t.

Mine Operations

Mine production during the period was 18,298 tonnes. This production includes prepared stopes and drifting. 54% of the ore was extracted from Tajos Cuates Mine and 46% from Macedo Mine. Grades of ore delivered to the mill were 1.55 g Au/t and 246.52 g Ag/t.

Mill

Changes and improvements in crushing, milling and tailings filtering areas continued. Status as follows:

Crushing

1. Coarse ore bin peripheric chute height was increased one meter by using 1/4" steel plate. This was done to avoid ore spills and to correct an insecure condition.
2. Transfer and load reception chutes were repaired.
3. Safety guards were installed on all equipment.
4. The four foot cone crusher was put in operation.
5. Self-cleaning mesh was installed in the vibrating screen. This change will be of help mainly to operate with wet ore.

Mills

1. Liners of both mills were changed.
2. SLR pumps received a complete maintenance. A preventive maintenance program was put in place and the spare parts inventory was adjusted to the new program.
3. Feed to 6' x 5' and 6' x 12' mills was modified to improve load to the mills.
4. Hydrocyclons, feed chute, covers, vortex and apex were repaired.

Chemical Treatment

1. Torque control to thickener tanks was installed.
2. Agitator tank heights were increased one foot to avoid spills and to maintain the retention time.
3. The plant stopped eliminating cyanide. This will of course save cyanide and avoid spending on chemicals previously required to kill cyanide. This will materially decrease the materials cost at the mill. The small amount of solution left, after filtering the tailings, is being recycled from the tailings impoundment.
4. A stone wall was built to avoid rain water entering the process tanks.

Precipitation

1. The 15 hp Sentinel pump was changed for a 20 hp Goulds pump to improve precipitation efficiency.
2. 30 hp Goulds pumps were installed at the Butter filters to increase flow to presses and precipitation efficiency.
3. More frames were installed at Butter filters to increase the filtering area.
4. 2" piping was changed for 4" piping to increase flow.
5. Rich solution pumps were relocated and pinch valves were installed to avoid air in the system.
6. The de-oxygenation column was changed to improve volume and ensure a good elimination of oxygen.
7. A barometric leg was installed at the vacuum pumps to increase the head and precipitation efficiency.
8. An electromagnetic flow meter was installed to improve control on precipitation feed.
9. Press No. 2 was changed for an anti-dripping 36 frame press. Feed was modified by eliminating some elbows and sterile solution 2" discharge pipe was changed to 4" to avoid wrong pressure readings since the start of the process.
10. A new room was built to install a 9 m³ refractory brick furnace, to dry the precipitate with a canyon type burner. This will improve the drying process, will protect the presses from high temperature and will improve the tidiness of the area.
11. Walls in press room were plastered.

Filtering and Tailing Dams

1. Filter agitator was fixed and drum screen was replaced.
2. Crock return pump plate was adjusted and filter valve was replaced.
3. Plate and scraper in tailings discharge to drum was replaced and aligned.
4. Teuton-720 additive was used to improve filtration and avoid clogging of pores in canvases.
5. Gabions were built through all edge of tailings dam to improve safety.
6. Tailings impoundment slope height was increased in 2 metres.
7. 60 m of Strupack RD-9 12" piping were installed at the two tailing dams to provide for draining.
8. Three 1 m² x 1 m high concrete filters with 2" holes filled with henequen fiber were installed.
9. A 5 m³ tank was installed to receive solution from dam No. 2 and return it to process through a Tsurumi 5 hp pump.
10. A concrete slab with side walls was built to install two 22 m³ tanks, one for solids settlement and other to load the sump of the Goulds 30 hp pump to return solution to process.
11. 300 m of Extrupac piping were installed at dam's slope to discharge pulp, in case of filters mechanic failure.
12. Two 2" hoses with valves were installed to discharge water from dams in case of heavy rains.

Plant - General

1. Wall painting is still in process.
2. Platforms were built to prepare flocculants and sodium cyanide, and to eliminate pumping after chemicals are prepared.
3. All wires and ropes sustaining hoses and piping were replaced by braces.
4. Electric wiring is being replaced.
5. Mechanical shop was relocated to leave space for the new agitator tank.
6. Piping was installed at semi-pregnant solution and sterile solution tanks to permit drain of excess solutions to another tank before returning it to the process.
7. The agitator tank to prepare lime was relocated and its electric installations were relocated into a dry dock, to avoid spills.
8. Piping was signalized with flow direction and a color code, according to the use. The same was done with all electric starters.

Laboratory

1. A 3 m x 3 m room was built to install the atomic absorption equipment and instrumentation.
2. Area of sample preparation was increased to permit separation of geology and plant samples.
3. Walls in this area were plastered.

New Equipment Acquired to Increase Operation Efficiency

1. Two 2 x 3 x 8 30 hp Goulds pumps
2. One NFM 1200 mm of 44" x 44" x 36 frames press
3. One canyon type burner for LP gas (precipitate drying furnace)
4. One 6" cone crusher for Lab
5. One ring pulverizer
6. One gas grill to dry samples
7. One 1 m³ electric dryer for samples
8. One assay electric oven
9. One atomic absorption equipment

Equipment Acquired to Increase Capacity to 300 Tpd

1. One Allis Chalmers 10' x 10' mill
2. Four D-20 Krebs type Hydrocyclons , including materials for classification and cyclone tower
3. Four SRL 5" x 4" Denver type pumps and mill discharge box
4. Piping and connectors
5. Fabrication and installation of one 30 ft diameter, 21 ft height agitator tank

6. Acquisition of five mechanisms for the thickening tanks. The previously existing mechanisms were not adequate to the process requirements.
7. Materials for aisles and bridges.

Subsequent to year end work to increase plant capacity to 300 tpd and modifications to improve several areas continued.

Laboratory

A new room for the atomic absorption equipment was completed. Training of personnel is underway. A new area for sample preparation was completed as well.

Presses

New precipitate drying furnace assembling was completed. The 1,200 mm press bought from Goldcorp (44" x 44" x 37" frames) was installed and is working properly.

Grinding

Foundation for the 10' x 10' mill completed and the mill was installed at its final location and its liners installed. The electric installation is in process and tests will start soon. Cyclone tower assembling and installation was completed. Structure for the mill feed belt was installed.

Chemical Treatment

Construction of the agitator tank No. 4 and its bridge was completed. Mechanism, shaft and propellers were installed. Compressed air distribution line installed. Tank is ready for its hydrostatic testing. Mechanisms for the thickener tanks were purchased. They are being rehabbed. Bases and boxes for the 6" duplex pumps were completed and aisles are being assembled.

Tailings Dam

Construction and hydraulic network to receive solution and return it to process (piping, tanks, etc.) was completed. Gabions continue being installed at the bottom of press No. 2 to avoid spills.

Environmental

As of the end of September, the Tailing Dam's Phases II and III status is as follows:

1. Geotechnics of site concluded.
2. Cross-hole Geoseismic Test concluded.
3. Lab analysis is in process.
4. Tailing dam executive project is delayed, but it is expected to be completed on time.
5. Project for the design of solution recovery sump is delayed, but it is expected to be completed on time.
6. Complementary works for by-pass in process. Hydrological study completed.
7. Climate study is completed.
8. Risk Analysis is completed.
9. Technical justification is in process.
10. Environmental Impact Preventive Report is in process.

Selected Financial Data

The following selected financial information is derived from the audited annual consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

	Fiscal Years Ended May 31,		
	2010 \$	2009 \$	2008 \$
Operations:			
Revenues	8,364,090	3,909,543	9,353,785
Cost of operations	(8,124,707)	(5,805,011)	(7,963,615)
Depletion and amortization	(972,337)	(847,777)	(1,370,051)
Accretion of reclamation obligation	(68,973)	(61,190)	(49,112)
Expenses ⁽¹⁾	(3,020,577)	(2,169,199)	(3,377,871)
Other items	(8,210,673)	(8,006,029)	112,376
Future income tax recovery	2,197,500	1,840,000	201,240
Non-controlling interest	194,593	193,602	Nil
Net loss	(9,641,084)	(10,946,061)	(3,093,248)
Basic and diluted income (loss) per share	(0.10)	(0.28)	(0.10)
Dividends per share	Nil	Nil	Nil
Balance Sheet:			
Working capital (deficit)	2,812,237	(2,418,941)	610,464
Total assets	30,126,132	31,621,418	35,728,415
Total long-term liabilities	Nil	263,957	693,429
Asset retirement obligation	999,265	930,292	640,006
Future income tax liabilities	61,260	2,258,760	4,098,760
Non-controlling interest	2,159,093	2,353,686	Nil

(1) Includes non-cash stock-based compensation of \$1,607,788 (2009 - \$187,657; 2008 - \$1,426,615), the calculation of which is based on using the Black-Scholes option pricing model using estimates and assumptions. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

The following selected financial information is derived from the unaudited interim consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

Three Month Periods Ending	Fiscal 2010				Fiscal 2009			
	May 31/10 \$	Feb 28/10 \$	Nov 30/09 \$	Aug 31/09 \$	May 31/09 \$	Feb 28/09 \$	Nov 30/08 \$	Aug 31/08 \$
Operations:								
Revenues	2,511,651	1,907,094	2,056,927	1,888,418	1,065,543	396,560	739,123	1,708,317
Cost of operations	(2,165,308)	(1,674,059)	(1,692,354)	(2,592,986)	(1,104,047)	(953,775)	(1,548,315)	(2,198,874)
Depletion and amortization	(274,272)	(250,780)	(222,621)	(224,664)	(287,812)	(172,550)	(108,405)	(279,010)
Accretion of reclamation obligation	(16,995)	(17,242)	(17,176)	(17,560)	(16,730)	(15,077)	(20,749)	(8,634)
Expenses	(310,498)	(1,913,470)	(437,490)	(359,119)	(445,374)	(573,257)	(622,507)	(528,061)
Other items	(8,399,327)	(76,835)	(40,527)	306,016	261,973	(2,278,638)	(5,934,050)	(55,314)
Future income tax recovery	2,115,500	30,000	26,000	26,000	(808,760)	550,000	2,060,729	38,031
Non-controlling interest	(10,721)	30,045	1,079	174,190	169,709	23,893	Nil	Nil
Net loss	(6,549,970)	(1,965,247)	(326,162)	(799,705)	(1,165,498)	(3,022,844)	(5,434,174)	(1,323,545)
Basic and diluted loss per share	(0.07)	(0.01)	(0.01)	(0.01)	(0.01)	(0.07)	(0.16)	(0.04)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Balance Sheet:								
Working capital (deficit)	2,812,237	5,107,381	6,362,328	(4,576,634)	(2,418,941)	(1,649,629)	(2,368,730)	(1,096,519)
Total assets	30,126,132	39,636,171	42,021,647	31,655,150	31,621,418	29,322,815	30,362,530	35,776,363
Total long-term liabilities	Nil	98,039	168,025	189,900	263,957	1,434,938	1,614,397	1,182,922
Asset retirement obligation	999,265	982,270	965,028	947,852	930,292	684,466	669,389	648,640
Future income tax liabilities	61,260	2,176,760	2,206,760	2,232,760	2,258,760	1,450,000	2,000,000	4,060,729
Non-controlling interest	2,159,093	2,148,372	2,178,417	2,179,496	2,353,686	2,523,395	Nil	Nil

Results of Operations

Three Months Ended May 31, 2010 Compared to Three Months Ended May 31, 2009

During the three months ended May 31, 2010 (the "2010 Quarter") the Company reported a net loss of \$6,549,970, compared to a net loss of \$1,165,498 for the three months ended May 31, 2009 (the "2009 Quarter"), an increase in

loss of \$5,384,472. The fluctuation is attributed to the \$8,300,000 write-down of mineral property interests in the 2010 Quarter which resulted in a future income tax recovery of \$2,197,500.

Year Ended May 31, 2010 Compared to Year Ended May 31, 2009

During fiscal 2010 the Company recorded a loss of \$9,641,084 (\$0.10 per share) compared to a loss of \$10,946,061 (\$0.28 per share) for fiscal 2009, a decrease in loss of \$1,304,977. The decrease in loss for fiscal 2010 is mainly attributed to a reduced operating loss and partially offset by an increase in expenses in fiscal 2010 compared to fiscal 2009.

The Company recognized net revenue during fiscal 2010 of \$8,364,090 (2009 - \$3,909,543) generated on the sale of 7,312 ounces (2009 - 5,234 ounces) of gold equivalent, for an average of \$1,143 (2009 - \$747) net revenue per ounce (net of royalty and treatment charges).

The cost of operations for fiscal 2010 and 2009 comprise the following:

	2010	2009
	\$	\$
Mine costs	2,245,629	1,937,574
Mill costs	3,670,111	2,173,287
Service department costs	<u>2,208,967</u>	<u>1,694,150</u>
	<u>8,124,707</u>	<u>5,805,011</u>

The service department costs include activities which provide services to both mine and mill departments. Cost of sales for fiscal 2010 averaged \$1,111 per ounce of gold equivalent, compared to \$1,109 per ounce in fiscal 2009.

Depletion and amortization for fiscal 2010 was \$133 per gold equivalent ounce compared to \$162 per ounce for fiscal 2009.

General and administrative expenses for fiscal 2010 and 2009 are as follows:

	2010	2009
	\$	\$
Accounting and administrative	85,095	100,280
Audit	113,855	74,019
Consulting	369,049	528,297
Corporate development	5,360	148,189
Insurance	22,816	21,167
Investor relations	55,806	95,000
Legal	6,169	22,749
Office	150,139	209,068
Regulatory fees	12,014	14,741
Salaries and benefits	483,782	516,647
Shareholder costs	5,595	13,569
Transfer agent fees	8,423	9,740
Travel	65,491	100,382
Recovery of expenses recorded in prior periods	<u>(56,010)</u>	<u>-</u>
	<u>1,327,584</u>	<u>1,853,848</u>

General and administrative expenses of \$1,327,584 were reported for fiscal 2010, a decrease of \$526,264, from \$1,853,848 in fiscal 2009. Specific expenses of note during fiscal 2010 are as follows:

- accounting and administrative fees of \$85,095 (2009 - \$100,280) charged by Chase Management Ltd. (“Chase”) a private corporation owned by Mr. Nick DeMare, a director of the Company;
- consulting fees totalling \$369,049 (2009 - \$528,297) were paid of which \$260,446 (2009 - \$349,647) were paid to current and former directors and officers and \$107,103 (2009 - \$153,937) was paid for consultants in Mexico;
- corporate development expenses of \$5,360 (2009 - \$148,189). During fiscal 2009, the Company had an ongoing market awareness and promotional campaigns in Canada and Europe;

- \$35,000 (2009 - \$95,000) was paid to Empire Communications inc. (“Empire”) to provide investor relations services. During fiscal 2010 the agreement was terminated;
- travel expenses of \$65,491 (2009 - \$100,382) for ongoing mine site visits to Mexico and participation in investment conferences;
- incurred \$22,816 (2009 - \$21,167) for director and officers’ liability insurance;
- office expenses of \$150,139 (2009 - \$209,068) were incurred, of which \$133,164 (2009 - \$189,638) was for costs associated with the mining office in Mexico;
- salaries and benefits expense of \$483,782 (2009 - \$516,647) was paid for the administrative staff in Mexico;
- audit fees of \$113,855 (2009 - \$74,019) for the audit of the Company’s year-end financial statements; and
- incurred legal fees of \$6,169 (2009 - \$22,749). During fiscal 2009 period the Company incurred legal fees on the disposition of the 20% interest in Mina Real.

During fiscal 2010 the Company negotiated settlement of old outstanding invoices and recorded a recovery of \$56,010.

During fiscal 2010 the Company recorded stock-based compensation expense of \$1,607,788 (2009 - \$187,657) on the granting and vesting of stock options.

Interest income is generated from cash held with the Company’s financial institution. During fiscal 2010 the Company reported interest and other income of \$15,413 as compared to \$54,925 during fiscal 2009. The decrease was due to lower rates earned during fiscal 2010.

During fiscal 2010 the Company incurred a total of \$3,665,874 (2009 - \$4,756,651) for additions to mineral property interests, of which \$158,410 (2009 - \$203,871) was attributed to acquisition and deferred exploration activities on the Santa Fe Property and \$3,507,464 (2009 - \$4,552,780) for deferred exploration and development activities on the Mina Real Project. During fiscal 2010 the Company recognized a net \$6,102,500 (2009 - \$4,160,000) write-down, offset by future income tax recoveries on the carrying cost of the Mina Real Project. During fiscal 2009 a loss of \$2,033,041 was recognized on the sale of the 20% interest of Mina Real. Exploration, development and production activities conducted during fiscal 2010 are described in “Exploration Projects” in this MD&A.

During fiscal 2010 the Company incurred a total of \$1,284,205 (2009 - \$1,372,342) for additions to property, plant and equipment of which \$53,960 (2009 - \$413,355) was for the purchase of land and \$1,230,245 (2009 - \$958,987) was for the purchase of plant and equipment for the upgrade of the mine laboratory and modifications of the mill.

Financial Condition / Capital Resources

As at May 31, 2010, the Company had working capital of \$2,812,237. During fiscal 2010 the Company a completed private placement for 82,859,960 units for gross proceeds of \$12,428,994. The Company believes that it will require additional financing to conduct anticipated exploration programs and meet anticipated corporate administration costs for the upcoming twelve month period. In addition, exploration activities may change due to ongoing results and recommendations, or the Company may acquire additional properties, which may entail additional significant funding or exploration commitments. The Company has relied solely on equity financing to raise the requisite financial resources. Additional capital may be sought from existing share holders and creditors and from the sale of additional common shares or other equity or debt instruments. While it has been successful in the past, there can be no assurance that the Company will be successful in raising future financing should the need arise.

Contractual Obligations

The following table summarizes the Company’s contractual obligations as of May 31, 2010:

	Payments Due by Period			Total \$
	Less than 1 year \$	1 to 2 years \$	Greater than 2 years \$	
Contractual Obligations				
Long-term debt	306,443	Nil	Nil	306,443

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Proposed Transactions

The Company has no proposed transactions.

Critical Accounting Estimates

A detailed summary of all the Company's significant accounting policies is included in Note 2 to the May 31, 2010 audited consolidated financial statements.

Changes in Accounting Policies

Adoption of New Accounting Standards

Goodwill and Intangible Assets

The Accounting Standards Board ("AcSB") issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

The adoption of Section 3064 did not have an impact on the Company's financial position and results of operations.

Financial Instruments

During 2009 the CICA amended Section 3862, *Financial Instruments – Disclosures*, to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs that are not based on observable market data.

Effective June 1, 2009 the Company adopted the new recommendations.

Future Accounting Policies

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board adopted a strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted high-quality standards, namely, International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board. The effective implementation date of the conversion from Canadian generally accepted accounting principles (“Canadian GAAP”) to IFRS is January 1, 2011, with an effective transition date of January 1, 2010 for financial statements prepared on a comparative basis. The Company is engaged in an assessment and conversion process which includes consultation with external consulting firms and expects to be ready for the conversion to IFRS in advance of January 1, 2011. As part of the conversion process, the Company has offered IFRS specific training to senior financial reporting personnel and directors.

The Company’s approach to the conversion to IFRS includes three phases.

Phase One: an initial general diagnostic of its accounting policies and Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standards under IFRS, was completed in 2009.

Phase Two: an in depth analysis of the impact of those areas identified under phase one, commenced in 2010.

Phase Three: the implementation of the conversion process, through the preparation of the opening balance sheet as at May 1, 2011, will be carried out in the second half of 2010.

At this point, the Company’s IT accounting and financial reporting systems are not expected to be significantly impacted. Further, the Company has in place internal and disclosure control procedures to ensure continued effectiveness during this transition period.

Based on the review undertaken under Phase One and the work completed to date under Phase Two, the Company believes that IFRS will have limited impact on its current financial position. At the same time, IFRS will likely require more extensive disclosure and analysis of balances and transactions in the notes to the financial statements. The specific accounting areas the Company has focused its analysis on are outlined below together with the more salient issues under each area.

Key Area	Canadian GAAP (as currently applied)	IFRS	Analysis and Preliminary Conclusions
Capital Assets	Capital assets are recorded at historical cost.	Capital assets can be recorded using the cost (on transition to IFRS, the then fair value can be deemed to be the cost) or revaluation models.	Capital assets will likely continue to be recorded at their historical costs due to the complexity and resources required to determine fair values on an annual basis.
	Depreciation is based on their useful lives after due estimation of their residual values.	Depreciation must be based on the useful lives of each significant component within Capital assets.	Based on an analysis of Capital assets’ significant components and their useful lives, it is unlikely that changes to their useful lives and, therefore, depreciation rates and expenses, will be required.
Resource Properties	Exploration, evaluation and development costs directly relating to unproven mineral interests are deferred until the mineral interest in which they relate is placed into production, sold or abandoned	IFRS has limited guidance with respect to these costs and currently allows exploration and evaluation costs to be either capitalized or expensed.	The existing accounting policy is likely to be maintained.

Key Area	Canadian GAAP (as currently applied)	IFRS	Analysis and Preliminary Conclusions
Asset Retirement Obligations	Canadian GAAP limits the definition of ARO's to legal obligations.	IFRS defines ARO's as legal or constructive obligations.	The broadening of this definition is unlikely to cause a significant change in current estimates.
	ARO is calculated using a current credit-adjusted, risk-free rate for upward adjustments, and the original credit-adjusted, risk-free rate for downward revisions. The original liability is not adjusted for changes in current discount rates.	ARO is calculated using a current pre-tax discount rate (which reflects current market assessment of the time value of money and the risk specific to the liability) and is revised every reporting period to reflect changes in assumptions or discount rates.	The change in calculation of ARO and the discounting process will likely generate some changes in the value of ARO on transition.
Impairment of Long Lived Assets	Impairment tests of its long-term assets are considered annually based on indications of impairment.	Impairment tests of "cash generating units" are considered annually in the presence of indications of impairment.	Assets will continue to be grouped under the Company's various mining operations.
	Impairment tests are generally done on the basis of undiscounted future cash flows.	Impairment tests are generally carried out using the discounted future cash flow.	Impairment tests using discounted values could generate a greater likelihood of write downs in the future.
	Write-downs to net realizable values under an impairment test are permanent changes in the carrying value of assets.	Write downs to net realizable values under an impairment test can be reversed if the conditions of impairment cease to exist.	Potential significant volatility in earnings could arise as a result of the difference in the treatment of write-downs.
Stock-Based Compensation	Stock-based compensation is determined using fair value models (e.g. Black-Scholes) for equity-settled awards and the intrinsic model for cash-settled awards.	Stock-based compensation is determined using fair value models for all awards. However, upon settlement, cash-settled awards are adjusted to the value actually realized (intrinsic model).	The determination of the value of stock-based compensation for share appreciation rights and deferred share units, both cash-settled awards, will change and likely be more volatile under a Black-Scholes model until the awards are settled.

Key Area	Canadian GAAP (as currently applied)	IFRS	Analysis and Preliminary Conclusions
Income Taxes	There is no exemption from recognizing a deferred income tax for the initial recognition of an asset or liability in a transaction that is not a business combination. The carrying amount of the asset or liability acquired is adjusted for the amount of the deferred income tax recognized.	A deferred income tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.	The Company does not expect the difference in recognition of deferred income tax to have any significant change in the future.
	All deferred income tax assets are recognized to the extent that it is "more likely than not" that the deferred income tax assets will be realized recognized.	A deferred tax asset is recognized if it is "probable" that it will be realized.	"Probable" in this context is not defined and does not necessarily mean "more likely than not". The Company is in the final stages of quantifying the impact of this difference.

The above comments should not be considered as a complete list of changes that will result from the transition to IFRS as the Company's analysis is still in progress and no final determinations have been made where choices of accounting policies are available. In addition, the accounting bodies responsible for issuing Canadian and IFRS accounting standards have significant ongoing projects that could impact the Company's financial statements as at April 30, 2011 and in subsequent years, including projects regarding income taxes, financial instruments and joint venture accounting. In addition, there is an extractive industries project currently underway that will lead to more definitive guidance on the accounting for exploration and evaluation expenditures, but this is still in the discussion paper stage and may not be completed for some time. The Company is continuing to monitor the development of these projects and will assess their impact in the course of its transition process to IFRS.

Transactions with Related Parties

- (a) During fiscal 2010 and 2009 the Company was charged for various services provided by companies controlled by current and former directors and officers of the Company, as follows:

	2010 \$	2009 \$
Accounting and administration	85,095	100,280
Professional fees	260,446	349,647
	<u>345,541</u>	<u>449,927</u>

As at May 31, 2010, accounts payable and accrued liabilities include \$nil (2009 - \$39,369) due to these related parties. These transactions were measured at the exchanged amount which was the amount of consideration established and agreed to by the related parties.

- (b) Advances of \$1,018,698 were made by directors of the Company and bear interest at a rate of 12% per annum and have no fixed terms of repayment. During fiscal 2010 the Company repaid \$552,425 and recorded \$85,205 of interest expense. As at May 31, 2010 advances totalling \$424,286 and accrued interest payable of \$112,415 remained outstanding.
- (c) The Company had received advances from officers of the Company for ongoing working capital purposes. The advances were non-interest bearing and was due on demand. During fiscal 2010 the Company repaid the advances.
- (d) Certain officers and directors of the Company purchased 9,522,960 units of the private placement.

Risks and Uncertainties

The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral concessions, claims and other interests, as well as for the recruitment and retention of qualified employees.

The Company is in compliance in all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's activities are conducted in Mexico. Consequently, the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry.

Investor Relations Activities

The Company had an arrangement with Empire to provide investor relations services under which the Company paid a monthly fee of \$5,000. During fiscal 2010, the Company paid a total of \$35,000 (2009 - \$95,000) to Empire. During fiscal 2010 the agreement was terminated.

Effective January 26, 2010 the Company has an arrangement with First Canadian Capital Corp. ("First Canadian") to provide investor relation services under which the Company will pay a monthly fee of \$5,000. The arrangement may be terminated with written ten days notice after six months. During fiscal 2010 the Company paid a total of \$20,806 to First Canadian.

The Company maintains a website (www.rochesterresources.com) which is updated on a continuous basis.

Outstanding Share Data

The Company's authorized share capital is unlimited common shares without par value. As at September 24, 2010, there were 136,459,771 issued and outstanding common shares. In addition there were 10,982,500 stock options outstanding at exercise prices ranging from \$0.22 to \$2.30 per share and 91,687,480 warrants outstanding, with exercise prices ranging from \$0.15 to \$0.30 per share.