

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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## Rochester Resources Ltd. (TSX.V: RCT) –Full Scale Production Finally Achieved, Continued Exploration Success at Mina Real and Santa Fe

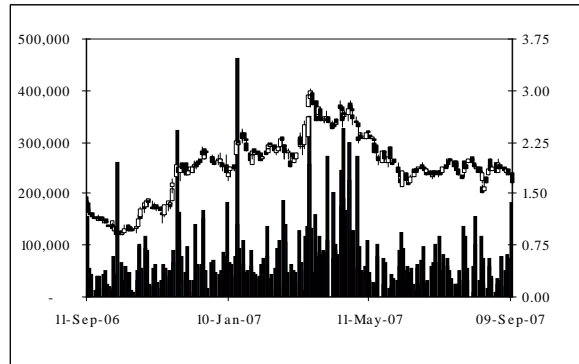
Sector/Industry: Junior Mining

[www.rochesterresourcesltd.com](http://www.rochesterresourcesltd.com)

### Market Data (as of September 11, 2007)

Current Price	C\$1.65
Fair Value	C\$2.75 (↑)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.86 – C\$3.03
Shares O/S	29,665,438
Market Cap	C\$48.95 mm
Current Yield	N/A
P/E	N/A
P/B	2.34
YoY Return	35.2%
YoY TSX	4.3%

\*see back of report for rating and risk definitions



### INVESTMENT HIGHLIGHTS

- In our initial report, we expected the company to be in production in January 2007. The company was delayed in their goal of full-scale production due to processing plant issues, but they are now operating at 200 tonnes/day.
- The company's ramp drifting program highlights the increasingly high grades at depth in the Florida system. 58 underground samples around the 1,100 level averaged 17 g/t gold and 139 g/t silver.
- Drifting on Tajos Cuates and Florida North is expected to add additional ore feed in the near to medium term.
- Rochester has added the Santa Fe property, an early stage exploration property with potential for processing at the Mina Real Mill. The initial exploration results have been very positive.
- We have raised our fair value estimate, from \$2.25 per share to \$2.80 per share. This is a result of a higher resource estimation.

**\*FRC's mining associate and a senior FRC executive have visited RCT's Mina Real Mine in the past twelve months; see the back of this report for additional disclosures**

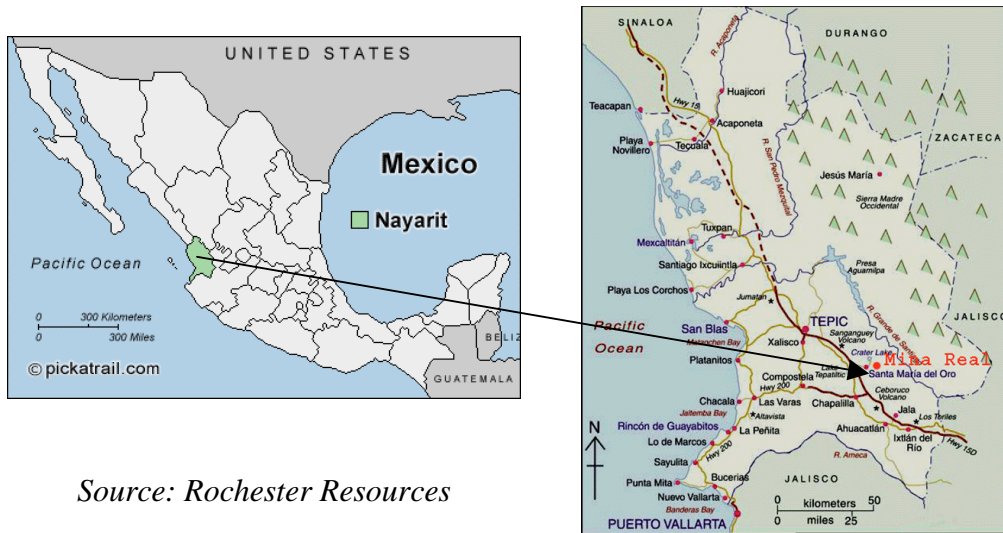
### Key Financial Data (FYE - May 30)

(C \$)	2004	2005	2006	2007 9 mo	2007E	2008E
Revenues	-	-	-	-	-	15,809,997
Cash	528,040	227,589	3,657,676	1,533,184	2,528,430	8,705,467
Working Capital	550,932	245,246	3,536,076	1,227,597	2,375,843	9,418,252
Property, Plant and Equipment	240,049	4,764	1,183,993	20,617,351	22,838,653	25,220,162
Total Assets	872,928	287,316	4,971,556	23,019,599	26,236,147	35,822,828
Net Income	(582,395)	(1,108,987)	(741,255)	(3,083,491)	(3,522,338)	7,549,918
Loss per Share	(0.57)	(0.56)	(0.17)	(0.18)	(0.12)	0.25

*Rochester Resources is an emerging small-scale gold producer in Nayarit, Mexico. They are operating at 200 tpd processing high-grade material from the Florida system, while continuing exploration and development at the Mina Real and Santa Fe properties.*

## Company Overview

In our initial report, dated December 8, 2006, we introduced Rochester Resources, a junior mining company that was fast tracking production on their wholly owned Mina Real property in Nayarit, Mexico. Rochester's corporate strategy is to utilize revenue from the producing Mina Real mine to identify, explore, and bring to production, near-term properties in Mexico. This plan allows Rochester to grow through continued mine development, exploration, raising production capacity, and acquisition of properties with near-term production potential. Although full-scale production has been delayed from previous estimates, we believe the fundamentals of the project are still strong. Production has been delayed by approximately six months, but this is still a much faster start-up time than most mines.



Source: Rochester Resources

In our initial report, we highlighted key factors we believed investors should monitor as production moves forward. In this report, we consider whether these factors have been accomplished.

### Will Rochester meet its goal of 300 tpd milling capacity in 2007?

**Comment:** Rochester has upgraded to 250 tpd, and we expect them to add milling equipment to upgrade to 300 tpd by early 2008. Previously, they had estimated 300 tpd by July 2007 if full-scale production was achieved by January 2007.

### Rochester's estimated operating costs vs. actual operating costs

**Comment:** According to management, the estimated operating cost of \$75/ton is still accurate.

### Recovery rates of gold and silver

**Comment:** The company believes the recovery of gold is running above 90%, in line with expectations. According to management, the company intends to put a sulfide reduction system into the processing plant to improve silver recovery. This is more important when they begin processing material from the Tajos Cuates system, where silver grades are higher.

**Completing a resource estimate in 2007**

**Comment:** The company intended to complete a resource estimate following the achievement of full-scale production. The delay in production has resulted in the delay of a NI 43-101 compliant resource estimate until the middle of 2008.

**Continuing exploration, including drilling and drifting**

**Comment:** At this time, the greatest priority is the development of the Tajos Cuates system. Drifting on the Florida North system is planned. The company has been conducting early stage exploration on their new landholdings in the region, including Santa Fe.

***Mina Real***

**Property Overview:** Since our initial report, the company added 3,981 hectares adjacent to the 3,377 hectares that comprise the original Mina Real property. The company acquired the property to preserve the continuity of the vein systems. This large land package provides great exploration potential.

**Infrastructure:** The property is quite steep and required a significant infrastructure project to construct roads on site. This region of the Sierra Madre Occidental is underexplored due to its geography. Many kilometers of roads have been built to both Tajos Cuates and the Florida workings. These roads are dirt, but are well maintained. They require most of their maintenance during the rainy season.

Rochester chose a mill site based on its access to power, and had to upgrade 15 kilometers of power line to handle the electricity demands for 500+ tonnes/day. However, it appears that power outages are common in this region, and the company has experienced delays in production due to loss of power. Power generators have been purchased to keep the processing plant operational during power outages.

**Geology:** The mineralization on the Mina Real property is contained in east-west trending veins 3-4 kilometers long. Current mapping suggests that the orebody is 1,000 ft (300 m) vertical in height, with the horizon at 1,350 meters above sea level, and the base between 900-950 meters above sea level.

**Metallurgy:** Rochester's mill uses cyanidation, a common method of gold extraction. The cyanidation process converts gold and silver to water-soluble ions that are precipitated with zinc to create a gold-silver powder for smelting. The company recently added a cyanidation destruction circuit to destroy cyanide entering the tailings pond.

**Underground Development:** The Mina Real property currently has two systems under development, the Florida system and the Tajos Cuates system. The Florida system is well developed with many levels and is currently being mined. The mineralization in this system is contained in three nearly vertical (85°) veins, Florida 1, 2, and 3. They are cut by a fault at the lower levels, but Rochester's drifting has picked up these offset veins. The current workings on the Florida system are a 300 m long section with three parallel veins. The Florida system has an average grade of 10 gpt gold and 220 gpt silver over an average width of 1.3 meters. These levels also have an increasing grade with depth trend.

The company believes the orebody continues into Florida North. Rochester has drifted through the intrusive separating Florida, and Florida North, and is planning further exploration this year to complete underground development at Florida North. This area has been sampled on the surface with average grades of 3 gpt gold and 70 gpt silver. This area has a strike length of 800-900 meters, compared to the 300 meters in the main Florida workings.

***Priority for  
Production  
Expansion***

The Tajos Cuates system is located 1 kilometer southwest of the Florida System and is notable for higher silver grades. It has been traced on surface over 1.8 kilometers and is found over at least 200 meters elevation. Drilling in 2006 established a mineralized base at the 900 meter level. One drill hole assayed 4.9 g/t gold, and 310 g/t silver over 1.5 meters. Further exploration in the area has identified two new mineralized systems: Tomas and El Crudo. Surface samples have been encouraging for gold and silver, including 3.7 g/t gold and 137 g/t silver over 2.1 meters from Tomas.

**Resource Estimate:** In our initial report, we reported that Rochester's CEO, Dr. Parra, had made a non NI 43-101 compliant resource estimate of 500,000 tonnes of ore at approximately 10 g/t gold and 220 g/t silver, which is what is contained in existing mine development. With the development of Tajos Cuates and Florida North, we believe the company has added at least 1 million tonnes of ore.

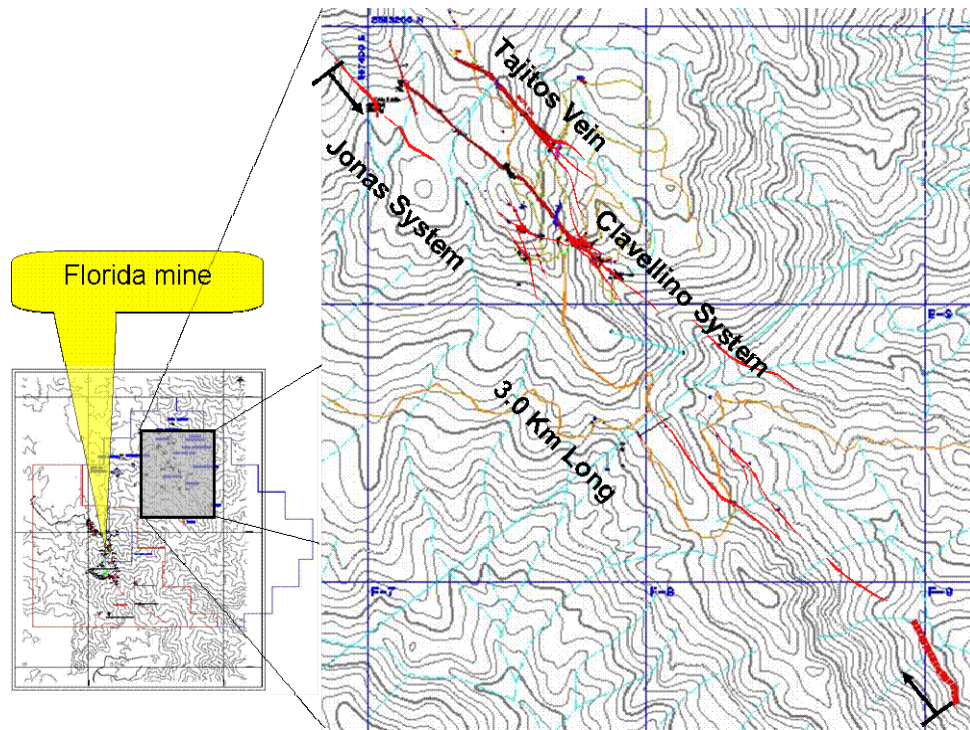
**Current Production:** The company announced the commencement of production in January 2007 and the first shipment of gold in February. In March, the company was forced to suspend operations for approximately three months, while upgrades were made to the mill. These upgrades included new piping and pumping equipment, increased crushing capacity, and the installation of a cyanide destruction unit. Expansion of the tailings pond is planned as well.

In the last production update, dated July 30, 2007, the company reported they were operating at approximately 180 tonnes per day. Regular shipments of gold and silver concentrate have been occurring since early June. The company recently completed mill upgrades to crush 250 tonnes per day. Rochester plans to upgrade the milling capacity to 300 tons per day. We expect the company to complete the mill upgrade by early 2008.



*Photos from operations at Mina Real.*

*Source: Rochester Resources Ltd.*



Source: Rochester Resources Ltd.

### *Santa Fe Property*

**Property Overview:** The 3,800 hectare Santa Fe property lies directly east of Mina Real. The company has uncovered another large mineralized system in Santa Fe that consists of near surface veins over a total strike length of 4 kilometers. Small scale artisanal mining has exploited near surface mineralization, as is common all over Mexico in high grade narrow vein epithermal systems.

**Ownership:** The company has a right to earn a 70% interest but is required to fund 100% of the costs associated with exploration and development. They will also pay \$10,000/month to the minority owners until the property goes into production.

**Geology and Mineralization:** Exploration has defined three sub-parallel mineralized systems, which are (from west to east) Jonas, Clavellino, and Tajitos. It is important to note that the Santa Fe system is found over a wider vertical interval, at between 800 to 1,500 meters elevation. The Mina Real system is found between 900 and 1,350 meters elevation.

The Jonas system incorporates one main and several smaller quartz vein structures. The system is silver rich in veins and altered wallrocks. The assay results are high-grade silver and low-grade gold over narrow widths.

The Clavellino system is the most interesting target at this time, as it has been traced over 3 kilometers along strike. At this stage, exploration suggests that the southern structure is a broad mineralized stock work zone over a width of 30-40 meters. This area incorporates multiple high-grade veins within a lower grade disseminated zone.

The Tajitos system is a narrow vein system that has been traced over 700 meters strike length. One assay produced 4.68 g/t gold and 1.38 kg/t silver over 0.7 meters.

**Potential:** The exploration thus far suggests that the Santa Fe property is a large target, which may be capable of supporting its own processing plant. Further exploration is required, but we believe preliminary exploration is promising.

### ***Management***

Since our initial report, the management and board of directors have undergone several changes. Notably, Dr. Alfredo Parra replaced Doug Good as President and CEO, and Nick DeMare was appointed as Chairman. Doug Good remains with the company as a director. William Lee and Andrew Carter resigned as directors of the company in January 2007. Lindsay Bottomer and Joseph Keane, whose biographies follow, replaced them. In August 2007, the company added another director, Eduardo Luna, with experience at Silver Wheaton and Goldcorp in Mexico. Mr Luna replaced Gil Leathley, consulting director. A CFO with experience in Mexican mining taxation, Jose Manual Silva, was brought in.

Douglas F. Good, Director, Alfredo Parra Davila, President & CEO, and Harvey Lim, Secretary's biographies can be found in our initial report.

#### **Nick DeMare, Chairman**

Mr. DeMare holds a Bachelor of Commerce degree from the University of British Columbia and is a member in good standing of the Institute of Chartered Accountants of British Columbia. Since May, 1991, Mr. DeMare has been the President of Chase Management Ltd., a private company which provides a broad range of administrative, management and financial services to private and public companies engaged in mineral exploration and development, gold and silver production, oil and gas exploration and production and venture capital.

#### **Jose Manual Silva, CFO**

Mr. Silva has a strong background in accounting and taxation in Mexico. He was a Controller with Luismin S.A. from 1979 to 1988 and has held positions of Internal Audit and Budget Manager and Controller with two other Mexican based mining companies from 1988 to 1997. Since 1997 he has been a consultant who has provided accounting services to Canadian public companies operating in Mexico.

#### **Joseph M Keane, Consulting Director**

Mr. Keane is a Registered Professional Metallurgical Engineer and since the mid-1980's has been President of KD Engineering Co. Inc. and Metcon Research Inc., both of Tucson, Arizona. Since mid-2006 he has been a special advisor to Rochester. Mr. Keane has over 40 years experience specializing in process design development, engineering supervision, equipment and instrument selection and has conducted numerous feasibility studies for the mineral processing and pollution abatement industries. He has been a consultant to a unit of the World Bank (International Finance Corporation) for mineral processing projects in Mexico, Peru, Tajikistan, China, Mali, Uzbekistan, Ghana, and Tanzania. Mr. Keane has also directed feasibility studies and/or provided direction for a wide variety of mining projects in Chile, Peru, Indonesia, Mexico, Panama, Mongolia, Canada and the United

States. He is a Co-inventor of US Patent on copper recovery and has developed standardized test methodologies that have been adopted by the mining industry. Mr. Keane recently was a consultant to INCO and has been an expert witness in a number of legal matters regarding base and precious metals projects worldwide. He is currently a director of Norsemont Mining Inc. (TSX-V: NOM).

**Lindsay Bottomer, P. Geo, Director**

Lindsay Bottomer is a Professional Geoscientist with over 30 years experience in mineral exploration and mine development worldwide. He was President and CEO of Southern Rio Resources Ltd. (now Silver Quest Resources Ltd.) from July 2001 to November 2005 and remains a Director. He is a Director of five other public companies and has held senior positions with Prime Explorations (Pezim Group) from 1989-1994, Echo Bay Mines Ltd. From 1994-1997. From 1998-2000 he was President of the BC & Yukon Chamber of Mines, and is currently serving a third two-year term as an elected councilor of the Association of Professional Engineers and Geoscientists of British Columbia. He is currently a Director and Vice President Corporate Development of Entrée Gold Inc. (TSX:ETG).

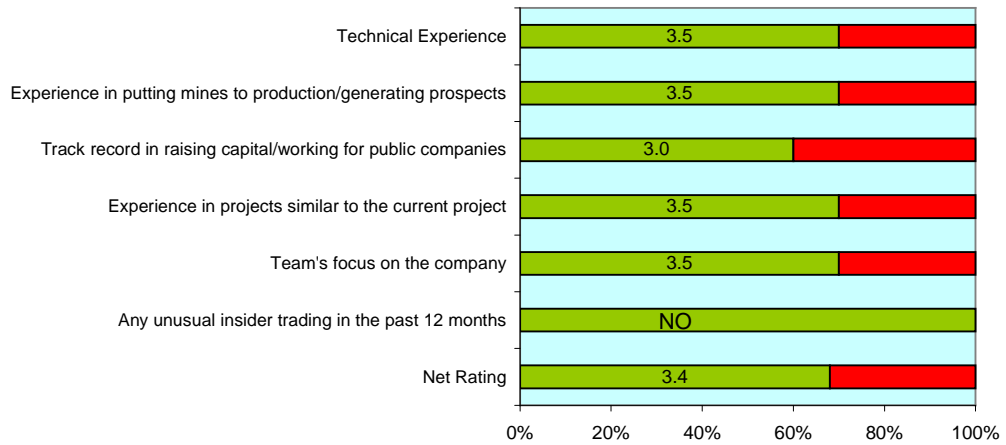
**Eduardo Luna, Consulting Director**

Mr. Luna, is Chairman of Silver Wheaton and recently retired President of Goldcorp's Mexican mining operations. Mr. Luna has an advanced management degree from the Harvard School of Business and seventeen years experience as President of Luismin, S.A. de C.V., one of Mexico's largest producers of gold and silver and now a wholly owned subsidiary of Goldcorp. He serves on the board of other mining companies such as Genco Resources, is President of the Consulting Board for the School of Mines, Universidad de Guanajuato, and a member of the advisory boards of the School of Mines of both Mexico University and Zacatecas University. Mr. Luna has served as President of the Mexican Chamber of Mines on two occasions and as President of The Silver Institute from 2002-2003. He is also a member of the Board of ICME, the International Council on Metals and the Environment.

**Management  
Rating**

We believe that the most important aspect of a junior mining company is its management. Our management rating system is a quantitative way to rate management based on a number of factors, including technical experience, the ability to raise financing, and management's time commitment to the company. We also analyzed trading records to identify for evidence of unusual trading by management. **Our net rating for Rochester Resources is 3.4, which we have rated average.** We believe Rochester's management strengths lie in the technical experience of the Mexican based management team. Their team is highly experienced in epithermal systems in Mexico and in the identification of good prospects for mining. They have a strong financial team in Vancouver that handles the business side of the company.

**Management Rating**

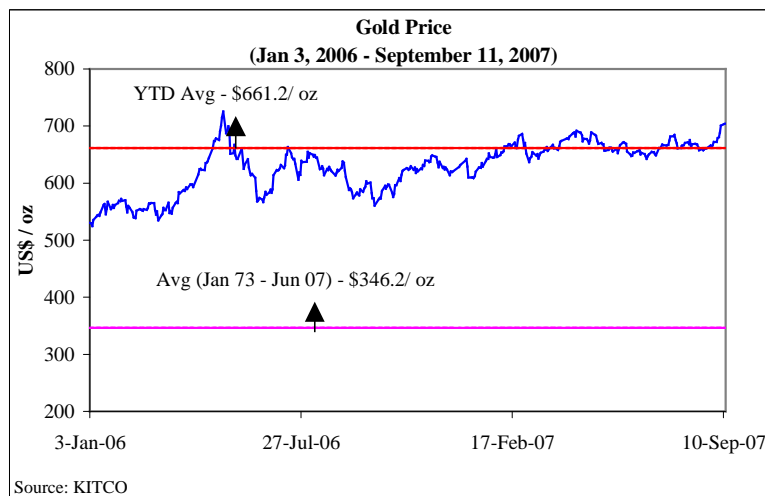


**Strength of Board**

The Toronto Stock Exchange recommends that the Board of Directors of every company include independent or unrelated directors who are free of any relationship or business that could materially interfere with the director’s ability to act in the best interest of the company. An unrelated/independent director can be a shareholder. In this report, we introduce our strength of board rating, which uses information available from the company’s annual “Management Information Circular” to ensure that the company has an independent Board of Directors, Audit Committee, and Compensation Board. This report also identifies any non-arms length transactions and management’s compensation. Rochester’s board has changed significantly since their last management information circular, and we are unable to complete a Strength of Board Section at this time.

**Industry Conditions**

**Outlook on Gold:** We continue to maintain our positive outlook on both the short-term and long-term price of gold. The chart below shows gold prices since January 2006. As of September 11, 2007, gold was trading at US\$704.15/oz, which reflects a YOY increase of 12.9%.





Gold prices have not dropped below their historical average price of US\$346/oz since April 2003. Our outlook on gold prices is positive based on a forecasted depreciation of the U.S. dollar (with respect to other major global currencies), and continued long-term demand for gold as a capital preservation asset. The increase in gold ETF demand and producer de-hedging will also positively impact prices going forward. As of August 15, 2007, total ETG assets held by two major exchanges, the New York Stock Exchange (NYSE: GLD) and the London Stock Exchange (LSE: GBS), were 19.25 million ounces, which reflects a YOY increase of 28.2%. The average forecasts for gold prices are US\$670/oz in 2007, and US\$720/oz in 2008.

### **Financials**

The company started selling produced gold in June 2007. Therefore, its latest financial statements, for the quarter ended February 2007, did not include revenues from gold sales.

In the first nine months of FY2007 (ended February 2007), the company recorded a net loss of \$3.08 million (eps: -\$0.18), compared to a net loss of \$0.48 million (eps: -\$0.16) in the comparable period in the previous year. Net losses increased YOY, primarily due to an increase in stock-based compensation, from \$0.24 million to \$2.29 million. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.56 million per month in the first nine months of FY2007, compared to \$0.11 million per month in FY2006 (12-month period).

**Revenue and EPS forecasts:** Based on sales of 15,698 oz of gold, and 279,068 oz of silver, we expect the company to record revenues of \$15.81 million, and net income of \$7.55 million (eps: \$0.25) in FY2008 (July 2007 – June 2008). Our forecasts are based on an operating cost estimate of \$75/tonne.

The table below shows the company's cash and liquidity position.

	2004	2005	2006	2007 - 9 mo
Working Capital	550,932	245,246	3,536,076	1,227,597
Current Ratio	34.7	8.9	17.5	2.0
LT Debt / Assets	-	-	-	0.04
Burn Rate (including exploration)	(47,812)	(55,474)	(110,589)	(559,213)
Cash from financing activities	918,275	360,000	4,617,895	6,206,330

At the end of Q3-2007 (ended February 2007), the company had cash and working capital of \$1.53 million and \$1.23 million, respectively. Since the end of Q3-2007, the company completed a non-brokered private placement of \$1.75 million, with three non-associated funds managed by Burlingame Asset Management, LLC (based in San Francisco, CA), by issuing 0.7 million units at an unit price of \$2.50. Each unit consists of one common share and one transferable common share purchase warrant (exercise price of \$2.75 per share for a period of 18 months). The three Burlingame funds collectively own 17% of the outstanding shares, and 1,075,000 warrants. Burlingame Asset Management, LLC, also exercised 1.04 million warrants at a unit price of \$1.15. Rochester raised \$1.19 million from the exercise of these warrants.

**Conclusion:** We expect the company to spend another \$3.5 million for the rest of the year. Based on cash at the end of February 2007 (\$1.5 million), and the capital raised (\$2.94 million) since then, we believe the company has sufficient access to capital to fund its exploration and development program for the rest of the year. For FY2008, we believe the company will be able to fund its exploration program through cash flow from operations.

### Valuation

We made the following noteworthy changes to our valuation models.

1. Increased resource estimates – We believe the new development at Tajos Cuates and Florida North have added at least 0.5 million tonnes of ore to our previous estimate. We now use a resource estimate of 1 million tonnes of ore, grading 10 g/t gold and 200 g/t silver. The previous estimate was for 4000,000 tonnes of ore.
2. Capital Costs – Since we had used a resource estimate of only 0.5 million tonnes in our previous model, we expected that the company would not incur any initial capital costs. However, we now expect capital expenditures of \$10 million over the next two years for new development, exploration, and processing plant upgrades.
3. Share Dilution – We have increased our estimate of the number of shares (diluted) outstanding, from 25.42 million to 30.34 million.
4. Convertibility – In our previous model, we had used a convertibility factor of 95%. Based on our increased confidence in the resource estimates, we have increased the convertibility factor to 100% in the revised model.
5. Production Rate - In our valuation model, we have assumed that production will be ramped up gradually to 300 tpd by July 2008.

As a result of all these changes, our DCF valuation on the company increased, from \$2.28 per share to \$2.39 per share.

<b>DCF Valuation</b>	
Mineral Resources (in tonnes)	1,000,000
Gold Grade (g/t)	10
Silver Grade (g/t)	200
Recovery (Ag)	80%
Recovery (Au)	90%
Production	FY2008 - 54,250 tpy FY2009+ - 300 tpd
Mine Life (years)	10
Operating costs (\$/tonne)	\$75.00
Discount rate	12%
Capital Costs	\$10,000,000

Net Asset Value	\$71,160,368
Working Capital	\$2,375,843
Debt	\$864,000
Fair Value	\$72,600,211
No. of Shares (diluted)	30,337,709
<b>Fair Value per Share (diluted)</b>	<b>\$2.39</b>

The table below shows the sensitivity of our fair value estimate to changes in commodity prices and discount rates.

Sensitivity	Commodity Prices	Gold	\$420	\$480	\$540	\$600	\$660	\$720	\$780
	(US\$/oz)	Silver	\$7.00	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
	Discount Rate								
		8%	\$1.60	\$2.02	\$2.45	\$2.88	\$3.31	\$3.74	\$4.17
		10%	\$1.45	\$1.84	\$2.23	\$2.62	\$3.01	\$3.40	\$3.79
		12%	\$1.32	\$1.68	\$2.03	\$2.39	\$2.75	\$3.11	\$3.47
		15%	\$1.15	\$1.47	\$1.79	\$2.10	\$2.42	\$2.74	\$3.05

Our revised real options valuation on the company is \$3.26 per share (up from \$2.24 per share).

Real Options Valuation - Mina Real Project						
	Resources	Category	Grade	Contained Metal	Price(US\$/oz)	Value (C\$)
	(in tonnes)		(g/t)	(in troy oz)		
Silver	1,000,000	non 43-101	200.0	6,430,149	12.00	70,988,848
Gold	1,000,000	non 43-101	10.0	321,507	675.00	224,613,153
Operating Costs (\$/tonne)	\$75.00					
Recovery (Ag)	80%				Total Value (C\$)	\$295,602,002
Recovery (Au)	90%				Operating Costs (C\$)	\$81,393,530
C\$/US\$	1.15				Net Value (C\$)	\$214,208,471
Inputs relating to the underlying asset						
Estd. Mineral Resources (in tonnes)						1,000,000
Estd. Value of Minerals if extracted today						\$200,946,033
Annualized Standard Deviation of Mineral prices						28%
Capital Investment						\$10,000,000
Estd. Mine Life (years)						10.0
Riskfree Rate						4.20%
Output						
Stock Price		\$200,946,033			T. Bond rate	4.20%
Strike Price		\$10,000,000			Variance	0.08
Expiration (in years)		10.0			Annualized div yield	6.6%
d1 =	3.560				Value of Option	\$97,294,077
N(d1) =	1.000				Working Capital	\$2,375,843
d2 =	2.675				Debt	\$864,000
N(d2) =	0.996				No of outstanding shares (diluted)	30,337,709
					<b>Value per share</b>	<b>\$3.26</b>

## Conclusions & Ratings

While Rochester does not have a NI 43-101 compliant resource estimate or a feasibility study, the company is operating and generating revenues from the sale of gold and silver. The Mina Real property has over six kilometers of vein structure identified, and Rochester has developed less than a kilometer. They plan to continue drifting at depth, and to the east, and west, to increase mine capacity organically with milling capacity. Drifting at Tajos Cuates and Florida North will add significant tonnage to future production. Exploration at the newly acquired Santa Fe property suggests potential for production from that property in the long term. We continue to believe the long-term growth potential for Rochester Resources is very good.

**Our average revised valuation increased, from \$2.26 per share to \$2.82 per share. Based on our valuation models, and review of the company's progress at the Mina Real project, we reiterate our BUY rating, and raise our fair value estimate, from \$2.25 per share to \$2.80 per share. Our revised fair value estimate reflects an upside potential of 69.7% from current price levels.**

### ***Risks***

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- Rochester doesn't have a 43-101 compliant resource estimate and hasn't completed a feasibility study.
- The company is in the early stages of production.
- The success of further development, exploration, and expansion are significant factors in Rochester's success.
- Like other junior exploration companies, the value of the company depends heavily on gold and silver prices.

## Appendix

### Rochester Resources Ltd. - Income Statement (in C\$)

	2005	2006	2007E	2008E
<b>Revenues</b>	-	-	-	<b>15,809,997</b>
<b>Expenses</b>				
Operating Costs				3,204,141
General and Administrative	246,612	483,842	664,716	1,068,047
Stock-Based Compensation	138,725	256,159	2,738,000	2,738,000
<b>EBITDA</b>	<b>(385,337)</b>	<b>(740,001)</b>	<b>(3,402,716)</b>	<b>8,799,809</b>
Amortization	5,840	2,149	20,172	1,118,491
<b>EBIT</b>	<b>(391,177)</b>	<b>(742,150)</b>	<b>(3,422,888)</b>	<b>7,681,318</b>
Interest Income	2,362	36,566	(99,450)	(131,400)
Foreign Exchange Gains	(4,809)	(66,651)	-	-
Gain on Sale of Assets, and others	(715,363)	30,980		
Income Taxes			-	-
<b>Net Income (Loss)</b>	<b>(1,108,987)</b>	<b>(741,255)</b>	<b>(3,522,338)</b>	<b>7,549,918</b>
EPS	(0.56)	(0.17)	(0.12)	0.25

**Rochester Resources Ltd. - Balance Sheets**

(in C\$)

	2005	2006	2007E	2008E
<b>Assets</b>				
<b>Current Assets</b>				
Cash	227,589	3,657,676	2,528,430	8,705,467
Accounts Receivables	39,027	80,022	831,321	1,581,000
Prepaid Expenses and Deposits	9,636	12,825	37,743	316,200
	<b>276,252</b>	<b>3,750,523</b>	<b>3,397,494</b>	<b>10,602,666</b>
Property, Plant and Equipment	4,764	1,183,993	22,838,653	25,220,162
Other Assets	6,300	37,040	-	-
	<b>287,316</b>	<b>4,971,556</b>	<b>26,236,147</b>	<b>35,822,828</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts Payable and Accrued Liabilities	31,006	214,447	121,651	320,414
Current Portion of Long-Term Debt		-	900,000	864,000
	<b>31,006</b>	<b>214,447</b>	<b>1,021,651</b>	<b>1,184,414</b>
Long-Term Debt		-	864,000	-
	<b>31,006</b>	<b>214,447</b>	<b>1,885,651</b>	<b>1,184,414</b>
<b>Shareholders' Equity</b>				
Share Capital	70,970,313	75,890,208	96,267,933	96,267,933
Contributed Surplus	286,125	608,284	3,346,284	6,084,284
Deficit	(71,000,128)	(71,741,383)	(75,263,721)	(67,713,803)
	<b>256,310</b>	<b>4,757,109</b>	<b>24,350,496</b>	<b>34,638,414</b>
<b>Total Liabilities and S.E</b>	<b>287,316</b>	<b>4,971,556</b>	<b>26,236,147</b>	<b>35,822,828</b>

**Rochester Resources Ltd. - Cash Flows**

(in C\$)

	2005	2006	2007E	2008E
<b>Operating Activities</b>				
<b>Net Income</b>	<b>(1,108,987)</b>	<b>(741,255)</b>	<b>(3,522,338)</b>	<b>7,549,918</b>
Non-Cash Items:				
Amortization	5,840	2,149	20,172	1,118,491
Stock Based Compensation	138,725	256,159	2,738,000	2,738,000
Gain on Sale of Assets, and Others	687,536	(10,480)		
	<b>(276,886)</b>	<b>(493,427)</b>	<b>(764,166)</b>	<b>11,406,409</b>
<b>Change in Non-Cash Working Capital Items:</b>				
Accounts Receivable	(8,738)	(40,995)	(751,299)	(749,679)
Prepaid Expenses and Deposits	(677)	(3,189)	(24,918)	(278,457)
Accounts Payable and Accrued Liabilities	14,650	183,441	(92,796)	198,763
	<b>5,235</b>	<b>139,257</b>	<b>(869,013)</b>	<b>(829,373)</b>
	<b>(271,651)</b>	<b>(354,170)</b>	<b>(1,633,179)</b>	<b>10,577,037</b>
<b>Financing Activities</b>				
Debt			(450,000)	(900,000)
Equity	360,000	4,617,895	9,389,765	
	<b>360,000</b>	<b>4,617,895</b>	<b>8,939,765</b>	<b>(900,000)</b>
<b>Investing Activities</b>				
Acquisitions				
Mineral Interests Expenditures	(415,255)	(791,152)	(8,435,832)	(3,500,000)
Proceeds from Sale of Assets	26,455	(42,486)		
	<b>(388,800)</b>	<b>(833,638)</b>	<b>(8,435,832)</b>	<b>(3,500,000)</b>
<b>Increase(decrease) in Cash</b>	<b>(300,451)</b>	<b>3,430,087</b>	<b>(1,129,246)</b>	<b>6,177,037</b>
Cash (BOP)	528,040	227,589	3,657,676	2,528,430
<b>Cash (EOP)</b>	<b>227,589</b>	<b>3,657,676</b>	<b>2,528,430</b>	<b>8,705,467</b>

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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