**Date: April 24, 2014**

The following management discussion and analysis ("**MD&A**") of the financial condition and results of the operations of Rio Silver Inc. (the "**Company**" or "**Rio Silver**") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2013. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations and should be read in conjunction with the audited annual financial statements of the Company for the years ended December 31, 2013 and 2012, together with the notes thereto (the "Financial Statements"). Results are reported in Canadian dollars, unless otherwise noted. The Company's financial statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS"). The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Please review the cautionary note regarding forward looking statements at the end of this MD&A. Information contained herein is presented as at April 24, 2013, unless otherwise indicated. All of the scientific and technical information has been prepared or reviewed by Jeffrey Reeder, P.Geo., Chief Executive Officer and President of the Company. Mr. Reeder is a Qualified Person within the meaning of National Instrument 43-101.

Further information about the Company and its operation can be obtained from www.riosilverinc.com.

## DESCRIPTION OF BUSINESS

Rio Silver is a Canadian-based resource company with a mandate to acquire, explore and develop precious and base metal deposits in the Americas and is currently focused on properties in Canada and Peru. The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol "RYO".

## OVERVIEW - MINERAL EXPLORATION EXPENDITURES AND ACTIVITES

The following table summarizes the continuity of expenditures by the Company's on its various mineral property projects during the year ended December 31, 2013 and December 31, 2012:

| | Property | | | |
|---|---|---|---|---|
| **Accumulated costs/expenditures** | **Niñobamba, Peru** | **KAN** | **Gerow Lake** | **Total** |
| Balance January 1, 2012 | $ 1,507,660 | $ 719,631 | $ 799,554 | $ 3,026,845 |
| Acquisition costs | 4,214 | 72,893 | - | 77,107 |
| Exploration expenditures | 976,249 | 1,262,471 | 14,942 | 2,253,662 |
| Québec mining tax credit | - | 117,861 | - | 117,861 |
| Balance December 31, 2012 | $ 2,488,123 | $2,172,856 | $ 814,496 | $ 5,475,475 |
| | | | | |
| Balance January 1, 2013 | $ 2,488,123 | $2,172,856 | $ 814,496 | $ 5,475,475 |
| Acquisition costs | 14,040 | 58,344 | - | 72,384 |
| Exploration expenditures | 449,001 | 291,506 | 30,749 | 771,256 |
| Property option payments | (112,276) | - | - | (112,276) |
| Québec mining tax credit | - | (96,494) | - | (96,494) |
| Balance December 31, 2013 | $ 2,838,888 | $2,462,212 | $ 845,245 | $ 6,110,345 |

The following table provides details of the exploration expenditures for the years ended December 31, 2013 and 2012:

| | Property | | |
|---|---|---|---|
| | **Niñobamba, Peru** | **KAN** | **Gerow Lake** |
| Geological | $ 605,007 | $ 292,290 | $ - |
| Geophysical | | 30,953 | - |
| Survey/topographical | 26,593 | - | - |
| Drilling | | 155,471 | - |
| Analytical | 14,716 | 26,434 | - |
| Supplies, equipment and rental | 42,852 | 29,612 | - |
| Accommodation and food | | 142,297 | - |
| Helicopter | | 403,790 | - |
| Transportation and travel | 12,434 | 102,966 | - |
| Local office | 80,552 | - | - |
| Local community agreement | 101,584 | - | - |
| Consultation | - | - | 14,942 |
| Project management | 92,511 | 78,658 | - |
| Balance, December 31, 2012 | $ 976,249 | $ 1,262,471 | $ 14,942 |
| | | | |
| Geological | $ 218,615 | $ 234,583 | $ - |
| Analytical | 3,974 | - | - |
| Supplies, equipment and rental | 10,477 | - | - |
| Transportation and travel | - | 6,923 | - |
| Local office | 66,935 | - | - |
| Local community agreement | 42,563 | - | - |
| Consultation | - | - | 30,749 |
| Project management | 106,437 | 50,000 | - |
| Balance December 31, 2013 | $ 449,001 | $291,506 | $ 30,749 |

## Niñobamba silver and gold project, Peru

The Company released the results of its successful 2012 trenching program on January 14, 2013 with detailed assays and findings also provided in the Annual MD&A. The Company has closed out the open trenches left from the 2012 program as well as fulfilling its community obligations, employing the community members. Further work is subject to the Company's successful accessing of funding.

**KAN project, Québec**

The KAN property was visited and reviewed in July by the Company's geologists as recommended by geological consultants. The focus of the 2013 work was to upgrade and compliment the exploration database. Soil and rock geochemistry, geophysics and drill hole information from earlier exploration programs was converted to a useful digital format. Compilations of all geophysical results and geological mapping and core logging were prepared to assist in the careful planning of the next phase of exploration. The Company identified several targets of mineralization at the large 35km long property **-** 1) gold hosted in banded iron formation; 2) volcanogenic massive sulphides; and 3) Mississippi Valley type massive sulphides.

Subsequent to the year end, on February 6, 2014, the Company completed an agreement with Virginia Mines Inc. ("Virginia"), Altius Resources Inc. ("Altius"), a wholly-owned subsidiary of Altius Minerals Corporation and Les Resources Tectonic Inc. ("Tectonic") to acquire Rio Silver's KAN property.

Rio Silver transferred 100% interest in the Project in consideration for (i) the issuance by Virginia of 3,571 of its common shares to Rio Silver at a deemed price of $14.00 per share (the **"Virginia Shares"**); (ii) a cash payment equal to $25,000 paid by Virginia; (iii) a cash payment equal to $75,000 paid by Altius' (iv) the issuance by Rio Silver of 400,000 common shares to Tectonic (the **"Rio Silver Shares"**); and (iv) a cash payment of $40,000 paid by Rio Silver to Tectonic.

The Rio Silver Shares issued to Tectonic and cash payment paid by Rio Silver are required under the option agreement (the **"Option Agreement"**) between Rio Silver and Tectonic dated March 2, 2011, pursuant to which Rio Silver had the option to acquire from Tectonic 209 of the mining claims forming part of the KAN property.

As a result of the transaction, Rio Silver is wholly released and forever discharged from the observance and performance of its covenants and agreements in and under the Option Agreement.

The Company does not presently have sufficient financial resources to complete, by itself, the exploration required to develop its properties to an advanced stage. The exploration and development of the Company's properties will therefore depend upon the Company's ability to obtain financing through private placement financing, public financing, the joint venturing of projects, or other means. There is no assurance that the Company will be successful in obtaining the required financing.

## SELECTED ANNUAL FINANCIAL INFORMATION

The following is selected data derived from the audited consolidated financial statements of the Company at December 31, 2013, 2012 and 2011. For the years ended December 31, 2012 and 2011 the Comprehensive loss for the year, Net loss per share, and Total assets have been restated to reflect the Company's change in accounting policy from capitalizing exploration and evaluation expenditures to expensing as incurred.

| **Years Ended December 31,** | **2013** | **2012** | **2011** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Comprehensive loss for the year | 1,234,662 | 2,984,313 | 1,365,855 |
| Net loss per share-basic and diluted | 0.02 | 0.06 | 0.04 |
| Total assets | 128,082 | 531,941 | 1,534,593 |

## SELECTED QUARTERLY INFORMATION

The following table sets out certain financial information for the last twelve quarters:

| For the quarters | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 |
|---|---|---|---|---|---|---|---|---|
| Total Revenue ($) | - | - | - | - | - | - | - | - |
| Comprehensive Loss for the period ($) | 158,311 | 306,641 | 273,536 | 496,174 | 676,286 | 1,310,429 | 697,335 | 300,263 |
| Loss per share ($) | 0.00 | 0.01 | 0.00 | 0.01 | 0.01 | 0.03 | 0.02 | 0.00 |

Basic and diluted loss per share is calculated based on weighted-average number of shares outstanding. Diluted loss per share is the same as basic loss per share as the stock options and warrants outstanding are anti-dilutive. Comprehensive loss for the period and Loss per share have been restated to reflect the Company's change in accounting policy from capitalizing exploration and evaluation expenditures to expensing as incurred.

## DISCUSSION OF OPERATIONS

| | **Three months ended December 31,** | | **Twelve months ended December 31,** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **$** | $ | **$** | $ |
| Expenses | | | | |
| Exploration and evaluation expenditures (recovery) | **(3,653)** | 538,990 | **634,870** | 2,448,630 |
| Management fees and wages | **40,136** | 43,696 | **236,818** | 176,228 |
| Professional fees | **29,052** | 34,363 | **140,042** | 95,742 |
| Transfer agent and filing fees | **1,968** | 3,147 | **17,955** | 17,548 |
| Investor relations | **-** | 12,000 | **10,036** | 48,000 |
| Rent | **18,928** | 12,000 | **54,928** | 40,000 |
| Office | **1,378** | 8,090 | **13,550** | 13,928 |
| Travel | **1,744** | 16,583 | **6,705** | 27,820 |
| Share-based payments | **-** | - | **51,000** | 109,000 |
| Flow-through financing costs | **21,623** | - | **21,623** | - |
| Foreign exchange loss | **47,135** | 7,417 | **47,135** | 7,417 |
| Comprehensive loss | **158,311** | 676,286 | **1,234,662** | 2,984,313 |
| Loss per share, basic and diluted | **0.00** | 0.01 | **0.02** | 0.06 |
| Weighted average number of common shares | **60,717,849** | 44,338,405 | **60,405,756** | 46,040,368 |

*Three months ended December 31, 2013 compared with three months ended December 31, 2012*

The comprehensive loss for the quarter was $158,311 ($0.00 per share) compared to a comprehensive loss of $676,286 ($0.01 per share) for the same quarter in 2012. Exploration and evaluation expenditures in the current period (recovery of $3,653 compared to expense of $538,990 in 2012) were generally lower due to reduced exploration programs in Peru and at the KAN, and 2013 includes property option payments received of $112,276 and Quebec mining tax credits of $96,494. Management fees and wages of $40,136 ($2012 - $43,696) were lower in 2013 due to lower CEO and CFO management fees compared to the prior year period. Investor Relations of $Nil (2012 - $12,000) was lower in 2013 as the Company no longer engages an investor relations firm. Rent expense of $18,928 (2012 - $12,000) was higher due to costs associated with the Company terminating its existing lease obligation at the end of November. Office expense of $1,378 (2012 - $8,090) was lower in the current period due to general spending reductions. Travel of $1,744 (2012 - $16,583) was lower in the current period due to reduced travel to Peru. Flow-through financing costs of $21,623 (2012 – Nil) were a result of the Company not meeting all of its 2013 flow-through expenditure commitments. Foreign exchange loss of $47,135 (2012 - $7,417) are a result of the general strengthening of the Peruvian Sol against the Canadian dollar during the year,

*Twelve months ended December 31, 2013 compared with twelve months ended December 31, 2012*

The comprehensive loss for the twelve months was $1,234,662 ($0.02 per share) compared to a comprehensive loss of $2,984,313 ($0.06 per share) for the same period in 2012. Exploration and evaluation expenditures of $634,870 (2012 - $2,448,630) were lower due to reduce exploration programs in Peru and at the KAN, and 2013 includes property option payments of $112,276 and Quebec mining tax credits of $96,494. Management fees and wages of $236,818 ($2012 - $176,228) were higher in 2013 due to costs associated with the departure of the Company's CEO as of June 30, 2013, partially offset by lower CEO and CFO management fees since July 1, 2013. Professional fees of $140,042 (2012 - $95,742) increased due to an under provision of 2012 audit and tax related costs. Investor Relations of $10,036 (2012 - $48,000) was lower in 2013 as the Company no longer engages an investor relations firm. Rent expense of $54,928 (2012 - $40,000) was higher due to relocation to smaller office space and costs associated with the termination of the Company's existing lease obligation in November 2013. Travel of $6,705 (2012 - $27,820) was lower in the current period due to reduced travel to Peru. Share-based payments were $51,000 (2012 - $109,000) as the Company granted fewer options (2013 – 1,000,000 options granted; 2012 – 2,300,000). Flow-through financing costs of $21,623 (2012 – Nil) were a result of the Company not meeting all of its 2013 flow-through expenditure commitments. Foreign exchange loss of $47,135 (2012 - $7,417) are a result of the general strengthening of the Peruvian Sol against the Canadian dollar during the year,

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2013, the Company had cash of $7,991 ($217,868 – December 31, 2012) and a working capital deficit of $884,717 (Working capital $61,162- December 31, 2012).

During the twelve month period ended December 31, 2013 the Company completed the following financings:

- On February 4, 2013, the Company completed the second tranche of a non-flow-through private placement consisting of 2,346,111 units (the "Units") at $0.09 per Unit for gross proceeds of $211,150. Each Unit consisted of one common share of the Company and one common share purchase warrant exercisable at $0.12 per share until February 4, 2014.

- On February 15, 2013, the Company completed the last tranche of a non-flow through private placement consisting of 300,000 units (the "Units") at $0.09 per Unit for gross proceeds of $27,000. Each Unit consisted of one common share of the Company and one common share purchase warrant exercisable at $0.12 per share until February 15, 2014.

The Company has no long term debt and is not subject to external capital requirements. Trade and other payables are short-term and non-interest bearing.

In March 2014 the Company obtained short-term financing by way of issuing $25,000 in promissory notes. The promissory notes bear interest at 18% per annum and are repayable on demand.

During the twelve months ended December 31, 2013 the Company's average monthly cash burn rate, excluding exploration expenditures and share based payments, was approximately $42,000. The Company expects its monthly burn rate to decrease going forward due to ongoing cost cutting measures, including a reduction in management fees and other operating expenses. The Company has significantly scaled back on exploration work on its Niñobamba project, and sold its interest in the KAN project in February 2014. The Company's future exploration programs will be a function of the Company's ability to raise additional capital.

As a junior exploration stage company, Rio Silver has traditionally relied on equity financings and warrant exercises to fund exploration programs and general working capital requirements of a publicly traded junior resource company. The Company will need additional capital in 2014 to cover its current working capital requirements and fund further exploration work.

The Company's ability to raise additional funds and its future performance are largely tied to the health of the financial markets and investor interest in the junior resource sector. Financial markets are currently volatile, and are likely to remain so throughout 2014, reflecting ongoing concerns about the stability of the global economy, sovereign debt levels, global growth prospects and many other factors that might impact the Company's ability to raise additional funds.

Although the Company has been successful to date in raising capital to fund project exploration programs and meet working capital requirements, there can be no assurance that adequate or sufficient funding will be available in the future on terms that are acceptable to the Company. These circumstances indicate the existence of a material uncertainty which may cast significant doubt as to the ability of the Company to continue as a going concern.

## DISCLOSURE OF OUTSTANDING SHARE DATA

### Common shares

As at the date of this report, the Company had 61,117,849 common shares issued and outstanding. This reflects the issue of 150,000 common shares in April 2013, which were issued in accordance with the terms of the option agreement to acquire the KAN property and 400,000 common shares issued in February 2014 as part of the sale of the KAN property.

### Warrants

There are no warrants outstanding as at the date of this MD&A.

**Stock options**

Stock options outstanding as at the date of this MD&A are as follows:

| Grant Date | Expiry Date | Options Outstanding | Exercise Price |
|---|---|---|---|
| February 23, 2011 | February 23, 2016 | 200,000 | $ 0.25 |
| June 26, 2012 | June 26, 2017 | 2,300,000 | $ 0.10 |
| February 5, 2013 | February 5, 2018 | 1,000,000 | $ 0.10 |
| | | **3,500,000** | **$ 0.11** |

## OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this filing, the Company does not have any off balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

## RELATED PARTY BALANCES AND TRANSACTIONS

Related parties include the board of directors, officers, close family members and enterprises that are controlled by these individuals as well as persons performing similar functions. Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

During the twelve months ended December 31, 2013 the Company's related parties consisted of the following officers and directors:

| | |
|---|---|
| Edward J. Badida | Director |
| Steven Brunelle | Director |
| Thomas John Magee (i) | Chairman and Director (Chief Executive Officer up to July 12, 2013) |
| Jeffrey Reeder (ii) | President and Chief Executive Officer (since July 12, 2013), and Director |
| Jay Sujir | Director |
| Dwight Walker (iii) | Chief Financial Officer (up to July 12, 2013) |
| Dan Hamilton (iv) | Chief Financial Officer (since July 12, 2013) |

(i) Mr. Magee was Chief Executive Officer of the Company until July 12, 2013, after which he was appointed Chairman
(ii) Mr. Reeder was appointed President and Chief Executive Officer of the Company on July 12, 2013. Mr. Reeder provides services to the Company through Single Jack Investments Ltd., a private company owned by Mr. Reeder.
(iii) Mr. Walker was Chief Financial Officer of the Company until July 12, 2013. From July 12, 2013 to December 31, 2013 Mr. Walker was engaged as a consultant to the Company. Mr. Walker's services as Chief Financial Officer were provided through Target Financial Services Inc., a private company owned by Mr. Walker.
(iv) Mr. Hamilton was appointed Chief Financial Officer of the Company on July 12, 2013.

(a) Remuneration of Directors and key management personnel of the company was as follows:

| | **Year ended December 31, 2013** | Year ended December 2012 |
|---|---|---|
| **Management fees and wages** | | |
| Thomas John Magee | $ 168,334 | $ 180,000 |
| Jeffrey Reeder | 12,000 | 13,800 |
| Dwight Walker | 37,500 | 43,750 |
| Edward J. Badida | - | 7,500 |
| Dan Hamilton | 18,000 | - |
| | $ 235,834 | $203,050 |

| | **2013** | 2012 |
|---|---|---|
| **Share-based payments** | | |
| Jeffery Reeder | $ 51,000 | $ 8,348 |
| Thomas John Magee | - | 25,043 |
| Steve Brunelle | - | 12,522 |
| Dwight Walker | - | 12,522 |
| Edward J. Badida | - | 8,348 |
| Jay Sujir | - | 8,348 |

(b) The accounts payable at December 31, 2013 include $200,000 payable to Mr. Magee (2012 - $46,667), earned in his capacity as CEO of the Company up to July 12, 2013 and $31,250 payable to Target Financial Services ( 2012 - $7,063) earned in Mr. Walker's capacity as CFO of the Company up to July 12, 2013.

(c) The accounts payable at December 31, 2013 include $17,085 payable to Single Jack Investments Ltd., $12,000 of which was earned by Mr. Reeder in his capacity as CEO of the Company since July 12, 2013, and $18,000 payable to Mr. Hamilton which was earned in his capacity as CFO of the Company since July 12, 2013.

(d) The accounts payable at December 31, 2013 include $35,422 payable to current directors with no fixed repayment terms (2012 - $20,846).

(e) The accounts payable at December 31, 2013 include $54,686, of which $32,286 was incurred in the current period, payable to a legal firm of which a director is a partner.

## PROPOSED TRANSACTION

### *Letter of Intent for Niñobamba property*

The non-binding letter of intent detailed in the 2012 Annual MD&A was terminated by the optionee, the party to the agreement having indicated that it intends to remain focused on its current exploration financial commitments and not intending to open a Peruvian mining and exploration office at this time. Rio Silver received the US$100,000 non-refundable payment, as required under the terms of the agreement, in May 2013.

## SUBSEQUENT EVENTS

i) Subsequent to the year end, on February 6, 2014, the Company completed an agreement with Virginia Mines Inc. ("Virginia"), Altius Resources Inc. ("Altius"), a wholly-owned subsidiary of Altius Minerals Corporation and Les Resources Tectonic Inc. ("Tectonic") to acquire Rio Silver's KAN property.

Rio Silver transferred 100% interest in the Project in consideration for (i) the issuance by Virginia of 3,571 of its common shares to Rio Silver at a deemed price of $14.00 per share (the **"**Virginia Shares"); (ii) a cash payment equal to $25,000 paid by Virginia; (iii) a cash payment equal to $75,000 paid by Altius' (iv) the issuance by Rio Silver of 400,000 common shares to Tectonic (the "Rio Silver Shares"); and (iv) a cash payment of $40,000 paid by Rio Silver to Tectonic.

The Rio Silver Shares issued to Tectonic and cash payment paid by Rio Silver are required under the option agreement (the "Option Agreement") between Rio Silver and Tectonic dated March 2, 2011, pursuant to which Rio Silver had the option to acquire from Tectonic 209 of the mining claims forming part of the KAN property.

As a result of the transaction, Rio Silver is wholly released and forever discharged from the observance and performance of its covenants and agreements in and under the Option Agreement.

ii) In March 2014 the Company obtained short-term financing by way of issuing $25,000 in promissory notes. The promissory notes bear interest at 18% per annum and are repayable on demand.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

***Critical accounting estimates:***

Significant assumptions about the future, that management has made, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

• the recoverability of accounts receivable that are included in the consolidated statements of financial position;
• the recoverability of exploration and evaluation expenditures incurred on the Company's property interests;
• the inputs used in accounting for share based payment transactions;
• management applied judgment in determining the functional currency of the Company as Canadian Dollars;
• management assumption of no material restoration, rehabilitation and environmental obligation based on the facts and circumstances that existed during the period; and
• management's position that there are no income tax considerations required within the consolidated financial statements.

***Critical accounting judgments:***

The categorization of financial assets and liabilities is an accounting policy that requires management to make judgments or assessments.

## CHANGES IN ACCOUNTING POLICIES

***Recent Accounting Pronouncements***

Certain pronouncements have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for accounting periods beginning on or after January 1, 2014. Some are not applicable or do not have a significant impact to the Corporation and have been excluded from the discussion below.

The following new standards, amendments and interpretations, which have not been early adopted, will or may have an effect on the Company's future results and financial position:

*IFRS 9 Financial Instruments*
IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company has yet to evaluate the impact of the new standard.

***Change in accounting policy***

The Company changed its accounting policy relating to exploration and evaluation expenditures. The new accounting policy is to expense exploration and evaluation expenditures as incurred in mineral properties not commercially viable and financially feasible. Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. The previous policy was to capitalize exploration and evaluation costs as exploration properties on a project-by-project basis pending determination of the technical feasibility and the commercial viability of the project.

The new accounting policy was adopted on December 31, 2013 and has been applied retrospectively. Management believes the change in policy will result in the financial statements providing more reliable and no less relevant information because it eliminates subjectivity inherent in the impairment analysis of exploration stage projects.

## CAPITAL MANAGEMENT

The capital structure of the Company consists of equity attributable to common shareholders and includes share capital of $9,892,990 (December 31, 2012 - $9,747,207), contributed surplus of $2,897,858 (December 31, 2012 - $2,134,858), warrants of $92,000 (December 31, 2012 - $712,000), and deficit of $13,767,565 (December 31, 2012 - $12,532,903).

When managing capital, the Company's objective is to ensure that the Company continues as a going concern, as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the year ended December 31, 2013. The Company is not subject to externally imposed capital requirements.

## FINANCIAL RISK FACTORS

*Fair value*
The Company has designated its cash as fair value through profit and loss, which is measured at fair value. Trade and other payablesare classified for accounting purposes as other financial liabilities, which are measured at amortized cost, which also equals fair value. Fair values for government taxes recoverable and trade and other payables are determined from transaction values which were derived from observable market inputs. Fair values of these financial instruments are based on Level 2 measurements.

As at December 31, 2013, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the short-term nature of the instruments.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

*Credit risk*
Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and government taxes receivable. Cash is held with a reputable Canadian chartered bank, for which management believes the risk of loss to be minimal.

*Liquidity risk*
The Company's approach to managing liquidity risk is to ensure that it will have sufficient cash available to meet liabilities when they become due and payable. As at December 31, 2013, the Company had cash of $7,991 (December 31, 2012 - $217,868) to settle current liabilities of $1,012,799 (December 31, 2012 - $470,779). All of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms. During the period subsequent to year end, the Company continued to raise additional funds through the issuance of promissory notes (See Subsequent Events).

*Market risk*
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices, and liquidity

*Foreign exchange risk*
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional currency, including all subsidiaries, is the Canadian dollar. Some of the operational and other expenses incurred outside of Canada are paid in US dollars or Peruvian Nuevo sol. All assets and liabilities of the Company are recorded in Canadian dollars and as a result, fluctuations in the US dollar or Peruvian Nuevo sol vis-à-vis the Canadian dollar result in foreign exchange gains/losses. The Company currently has no plans for hedging its foreign currency transactions.

| Account | Foreign Currency | Exposure ($Cdn) |
|---|---|---:|
| Cash | United States dollar | 73 |
| Cash | Peruvian new sol | 455 |
| Trade payables | Peruvian new sol | 90,517 |

*Commodity and equity price risk*
The Company is exposed to price risk with respect to commodity prices. 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, particularly as they relate to base and precious metals, individual equity movements, and the stock market in general to determine the appropriate course of action to be taken by the Company.

## OUTLOOK

The capital markets for resource companies, and particularly for those in the junior space, continue to suffer from the European financial crisis and the slowdown in commodity consumption making the environment for financing early stage exploration projects challenging. (See Liquidity and Capital Resources above).

Management is confident about the prospects for its principal projects and believes it is prudent to continue to move them forward, subject to adequate financing being available, through well managed and modest cost exploration programs.

See section titled "Mineral Exploration Expenditures and Activities" for the Company's plans to develop its Niñobamba and KAN properties. There is no guarantee that the Company will discover a viable mineral deposit.

## COMMITMENTS AND CONTINGENCIES

The Company has no contingent assets or liabilities.

Under the terms of an operating lease agreement for office space the Company has annual lease payments of $18,000 expiring on July 30, 2016.

## ENVIRONMENTAL

The Company does not believe that there are any significant environmental obligations requiring material capital outlays in the immediate future and anticipates that such obligations will only arise when full scale development commences. As the Company's project are still in the exploration and development stage and no significant environmental impact has occurred to date, the Company does not currently consider that expenditures required to meet any ongoing environmental obligations at the projects material to its results or to financial condition of the Company at this time. However, these costs may become material in the future and will be reported in the Company's filings at that time.

## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in the sections "Overview - Mineral Exploration Expenditures and Activities", "Liquidity and Capital Resources" and"Outlook" of this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect, "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Information concerning the interpretation of drill results, mineral resource and reserve estimates and capital cost estimates may also be deemed as forward-looking statements as such information constitutes a prediction of what mineralization might be found to be present and how much capital will be required if and when a project is actually developed. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- the supply and demand for, deliveries of, and the level and volatility of prices of copper;
- the availability of financing for the Company's development project on reasonable terms;
- the ability to procure equipment and operating supplies in sufficient quantities and on a timely basis;
- the ability to attract and retain skilled staff;
- market competition;
- the accuracy of our resource estimate (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which it is based; and/or
- tax benefits and tax rates.

These forward-looking statements involve risks and uncertainties relating to, among other things, changes in commodity prices, access to skilled mining development and mill production personnel, results of exploration and development activities, the Company's limited experience with production and development stage mining operations, uninsured risks, regulatory changes, defects in title, availability of materials and equipment, timeliness of government approvals, actual performance of facilities, equipment and processes relative to specifications and expectations and unanticipated environmental impacts on operations. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors incorporated by reference herein. See "Risk Factors". The Company cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Company's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, accept as otherwise required by applicable law. The Company also cautions readers not to place undue reliance on these forward-looking statements. Moreover, these forward-looking statements may not be suitable for establishing strategic priorities and objectives, future strategies or actions, financial objectives and projections other than those mentioned above.