

**Rio Silver Inc.**  
**Management's Discussion and Analysis**  
**For the year ended December 31, 2018**

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**Date: April 24, 2019**

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 years ended December 31, 2018 and 2017. 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, 2018 and 2017, together with the notes thereto. 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, 2019, 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](http://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 (“TSXV”) 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 years ended December 31, 2018 and December 31, 2017:

	<b>Property</b>		
<b>Accumulated costs/expenditures</b>	<b>Niñobamba, Peru</b>	<b>Gerow Lake</b>	<b>Total</b>
Balance January 1, 2017	\$ 2,971,217	\$ 876,633	\$ 3,847,850
Exploration expenditures	31,623	-	31,623
Balance December 31, 2017	\$ 3,002,840	\$ 876,633	\$ 3,879,473
Exploration expenditures	31,390	-	31,390
Annual fees and acquisition costs	41,517	-	41,517
Balance, December 31, 2018	\$ 3,075,747	\$ 876,633	\$ 3,952,380

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The following table provides details of the exploration expenditures for the years ended December 31, 2018 and 2017:

	<b>Property</b>	
	<b>Niñobamba</b>	<b>Gerow Lake</b>
Local office	\$ 19,054	\$ -
Geological	12,659	-
<b>Balance, December 31, 2017</b>	<b>\$ 31,623</b>	<b>\$ -</b>
Local office	\$ 23,367	\$ -
Geological	8,023	-
Annual fees and acquisition costs	41,517	-
<b>Balance, December 31, 2018</b>	<b>\$ 72,907</b>	<b>\$ -</b>

**Niñobamba silver and gold project, Peru**

On October 24, 2016 the Company and Magellan Gold Corporation (“Magellan”) signed a Definitive Agreement (the “Agreement”) whereby Magellan had an option (the “Option”) to earn an undivided 50% interest in the Niñobamba Silver/Gold Project. Pursuant to the Agreement, in order to exercise the Option, Magellan was required to spend US\$2 million over the next 3 years, on qualifying expenditures for the further exploration of the silver/gold mineralization that was outlined at Niñobamba in earlier trenching campaigns. Additionally, Magellan was obligated to subscribe for two Rio Silver Private Placement Unit financings of \$75,000 each. The first Private Placement financing closed on August 23, 2016 and the second Private Placement financing closed on January 19, 2017. On January 5, 2018 the Company announced that it had mutually agreed with Magellan to terminate the Agreement, effective December 31, 2017.

The Company released the results of its successful 2012 trenching program in a news release on January 14, 2013. Highlights from the trenching program at the Niñobamba main zone where the Company discovered a new gold-silver zone include; 56 metres of 1.03 g/t Au and 98.9 g/t Ag in trench TR-01 and 21.77 metres of 1.32 g/t Au and 102.46 g/t Ag in TR-04 ending in mineralization. These results show that the Niñobamba property has a strong gold component, and further exploration is required to determine the precious metal zonation, alteration patterns and widths. The trenches were cut approximately perpendicular to the mineralized structure, and the true width of mineralization cannot be determined at this time. Detailed assays and trenching results can be viewed at the Company’s website <http://www.riosilverinc.com/peru.php>. 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 exploration funding.

In September 2016 the Company acquired 3 concessions from Newmont/Southern Peru Copper Corp. that adjoin to the west of the principal Niñobamba concession. In January 2017 the Company acquired by application, an additional 553 hectare concession immediately west of and adjoining to the Niñobamba property; this concession is pending title confirmation. The acquisition of the 3 concessions acquired in September 2016 included an extensive database with results and reports from a substantial exploration program which also encompassed the 553 hectares acquired by application. The Company is reviewing data that was part of the acquisition and will undertake follow up exploration work as a result of this compilation and the recommendations from this review.

Significant exploration by the previous owners was completed within the new concession that covers extensive alteration believed to be part of the same high-sulphidation silver-gold system identified on the main Niñobamba zone located 6.5 kilometres to the east. Four prospective areas were identified by the previous owners of which a

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zone called Jorimina returned prospective precious metal results.

The Jorimina zone is situated within a collapsed caldera and the rocks are dominantly rhyolite to dacite volcanics. Gold and silver mineralization in the zone is related to north easterly striking, steeply dipping, quartz-galena-pyrite veins and veinlets. Surface work programs completed by Newmont Mining included mapping, 2114 rock samples, and induced polarization geophysics that identified a gold anomalous area of approximately 700 metres by 1000 metres and four strong chargeability anomalies coinciding with gold-silver in rock anomalies. Two of the four chargeability anomalies were defined as 680 metres by 150 metres and 700 metres by 200 metres. Highlights of the surface sampling from channel rock samples from the historic database include 17.4 metres of 3.06 grams per tonne ("g/t") Au and 200 metres of 0.26 g/t Au. The Company has not completed work to verify the results of the historical surface work and diamond drilling.

From 2009 to 2010, Newmont Mining Corp. completed thirteen diamond drill holes totaling 4377 metres at Jorimina testing the 4 chargeability anomalies and limited detailed assays are available from the mineralized drill-hole intercepts in this zone. In highlight from the historic reports available, the better intercept from those holes, show drill-hole JOR-001 returned 72.3 metres of 1.19 grams per tonne ("g/t") Au starting at 53 metre depth. The true widths of mineralization from this drilling are not yet known and the Company is reviewing the historic data in preparation for future work programs.

The Jorimina zone is located 6.5 kilometers west of the main Niñobamba mineralized zones located on the original concessions owned by the Company. Historical diamond drilling results conducted by AngloGold in 2001 on the main Niñobamba zone included DDH-2, which reported assay results of 87 g/t silver over a drilled interval of 130 metres starting from a depth of nine metres, and DDH-4, reporting 54 g/t silver over a drilled interval of 96 metres starting from 23 metres. The true widths of mineralization from this drilling are not yet known.

## **Norsemont II**

Effective October 24, 2018, the Company signed a non-binding letter of intent with Norsemont II Resources Corp. ("Norsemont"), a private Ontario based company. Norsemont owns a 100% interest in the Cochavara Silver-Lead-Zinc Project ("Cochavara") in Northern Peru. Cochavara consists of two concessions totalling 1,979 hectares located in the Department of La Libertad in Northern Peru, approximately 70 kilometres east of the city of Trujillo. On February 22, 2019 the Company and Norsemont mutually agreed to terminate their efforts to combine the assets of the companies as described in the earlier news release of the Company dated October 24, 2018. Following Rio Silver's due diligence review, the Company found a number of irregularities in the title documentation and other inconsistencies with respect to Norsemont's Cochavara properties in Peru. Despite the parties' efforts to correct them, as the timeframe for resolution is unknown, the parties agreed to release each other from the underlying proposal at this time. In light of the circumstances, both parties determined that it would be in the respective parties' best interests to proceed on independent courses of business. Norsemont has acknowledged the efficient due diligence efforts of the Rio Silver team and will be reimbursing the Company for direct expenses incurred on behalf of Norsemont at its Cochavara properties. The companies will remain in contact over future opportunities.

## **Gerow Lake**

The Company has continued its dialogue with the Ontario Ministry of Northern Development and Mines and the local First Nation representatives in an ongoing effort to access the properties and begin exploration work.

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**Summary**

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, 2018, 2017 and 2016.

Years Ended December 31,	2018	2017	2016
	\$	\$	\$
Comprehensive loss for the year	290,698	310,721	304,166
Net loss per share-basic and diluted	0.01	0.01	0.01
Total assets	20,586	9,594	9,367

**SELECTED QUARTERLY INFORMATION**

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

For the quarters	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Total Revenue (\$)	-	-	-	-	-	-	-	-
Comprehensive Loss for the period (\$)	82,982	40,940	99,896	66,880	52,881	111,742	59,254	86,844
Loss per share (\$)	0.00	0.00	0.01	0.00	0.00	0.01	0.00	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.

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**DISCUSSION OF OPERATIONS**

	<b>Three months ended</b>		<b>Twelve months ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	\$	\$	\$	\$
<b>Expenses</b>				
Exploration and evaluation expenditures	<b>15,670</b>	7,869	<b>72,907</b>	31,623
Management fees	<b>21,000</b>	21,000	<b>84,000</b>	84,000
Professional fees	<b>25,115</b>	9,765	<b>60,000</b>	55,082
Office and administration	<b>17,022</b>	11,269	<b>41,034</b>	42,867
Shareholder information and filing fees	<b>368</b>	570	<b>21,300</b>	19,113
Rent	<b>3,000</b>	3,000	<b>12,000</b>	12,000
Foreign exchange loss (gain)	<b>807</b>	(592)	<b>3,469</b>	1,538
Gain on settlement of debt	-	-	<b>(8,579)</b>	-
Share-based payments	-	-	<b>4,567</b>	64,051
Interest expense	-	-	-	447
<b>Comprehensive Loss</b>	<b>82,982</b>	52,881	<b>290,698</b>	310,721
<b>Comprehensive loss per share, basic and diluted</b>	<b>\$ 0.00</b>	\$ 0.00	<b>\$ 0.01</b>	\$ 0.01
<b>Weighted average number of common shares</b>	<b>41,049,885</b>	36,416,115	<b>39,479,540</b>	35,574,609

*Three months ended December 31, 2018 compared with three months ended December 31, 2017*

The comprehensive loss for the three months ended December 31, 2018 was \$82,982 (\$0.00 per share) compared to a comprehensive loss of \$52,881 (\$0.00 per share) for the same quarter in 2017. Management fees of \$21,000 (\$2017 - \$21,000) are comparable to the prior year period. Professional fees of \$25,115 (2017 - \$9,765) are higher in the current year period due to cost associated with the proposed transaction with Norsemont that was terminated after the year-end (see Norsemont II above and Subsequent Events below). Office and administration expense of \$17,022 (2017 - \$11,269) is higher as a result of due diligence costs related to the Norsemont transaction. All other expenses are comparable to the prior year period costs.

*Twelve months ended December 31, 2018 compared with twelve months ended December 31, 2017*

The comprehensive loss for the twelve months ended December 31, 2018 was \$290,698 (\$0.01 per share) compared to a comprehensive loss of \$310,721 (\$0.01 per share) for the same period in 2017. The Company incurred exploration and evaluation expenditures in the amount of \$72,907 (2017 - \$ 31,623), as the current year expense includes the annual concession fees on the Niñobamba property, whereas as the prior year concession payments were made by Magellan as required under the Agreement. Management fees of \$84,000 (2017 - \$84,000) are comparable to the prior year period. Professional fees of \$60,000 (2017 - \$55,082) are higher in the current year period due to cost associated with the proposed Norsemont transaction (see Cochavara project above and Subsequent Events below). Office and administration expense of \$41,034 (2017 - \$42,867) is comparable to the prior year as reduced corporate office costs were offset by Norsemont transaction due diligence costs. Gain on settlement of debt of \$8,579 (2017 - \$Nil) relates to the gain recognized on share-for-debt settlements in July 2018. Stock based compensation of \$4,567 (2017 - \$64,051) reflects 150,000 stock

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options issued in the current year (2017 – 1,700,000 stock options issued). All other expenses are comparable to the prior year costs.

#### **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2018, the Company had cash of \$2,766 (December 31, 2017 - \$3,802) and a working capital deficit of \$344,618 (December 31, 2017 – deficit of \$444,672).

In June 2018 the Company completed a private placement financing consisting of 2,000,000 Units at price of \$0.05 per Unit for gross proceeds to the Company of \$100,000. Each Unit consisted of one common share of the Company and one common share purchase warrant entitling the holder to acquire one common share of the Company at a price of \$0.06 until June 1, 2019 unless the closing price of the common shares of the Company is \$0.10 or higher for twenty (20) consecutive trading days any time after October 2, 2018, in which case the warrants will expire thirty (30) days after notice to warrant holders announcing an earlier expiry date. Finder's fees of \$2,800 in cash were paid in connection with the closing of the financing. Proceeds of the financing were used by the Company to pay the annual concession fees on the Niñobamba concessions, working capital purposes, and meet immediate financial obligations.

In July 2018, the Company settled an aggregate of \$42,894 of indebtedness owed to certain creditors through the issuance of an aggregate of 857,879 common shares at a deemed issuance price of \$0.05 per common share, of which 497,000 common shares were issued to a related party.

During the year ended December 31, 2018 the Company received proceeds of \$45,000 from the exercise of stock options and \$12,000 from the exercise of warrants. Subsequent to the year-end a total of 200,000 warrants were exercised for total proceeds to the Company of \$12,000.

On January 19, 2017 the Company completed with Magellan a private placement financing consisting of 1,250,000 Units at a price of \$0.06 per Unit for gross proceeds to the Company of \$75,000. Each Unit consisted of one common share of the Company and one common share purchase warrant entitling the holder to acquire one common share of the at a price of \$0.06 for a period of eighteen months from date of issue. Subsequent to December 31, 2017 the expiry date of the warrants was extended to January 19, 2020.

During January and February 2017 the Company received gross proceeds of \$188,333 upon the exercise of 2,733,334 outstanding warrants. As at the date of this report the Company has a total of 4,350,000 warrants outstanding, which are currently not “in-the-money”. The Company also has a total of 550,000 stock options outstanding, all of which are currently not “in-the-money”.

In March 2017, the Company settled an aggregate of \$244,774 of indebtedness owed to certain arm's length and non-arm's length creditors through the issuance of an aggregate of 3,059,669 common shares at a deemed issuance price of \$0.08 per common share, of which 1,305,663 common shares were issued to non-arm's length creditors. Included in the shares for debt settlements were all of the outstanding promissory notes balances totaling \$13,333 and interest payable of \$3,721. As at December 31, 2017, principal amount of \$Nil (December 31, 2016 - \$13,333) and interest of \$Nil (December 31, 2016 - \$2,668) was payable on the promissory notes.

During 2017 the Company received proceeds of \$35,000 on the exercise of stock options.

As at December 31, 2018, the Company's long-term debt consists of \$199,060 payable to Mr. Thomas John Magee, and earned in his capacity as CEO of the Company up to July 12, 2013. Payment to Mr. Magee has been deferred until the Company's working capital position has improved (See Related Parties below). The Company is not subject to external capital requirements. Trade and other payables are short-term and non-interest bearing.

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During the year ended December 31, 2018 the Company's average monthly cash burn rate, excluding exploration expenditures, share-based payments, foreign exchange and interest, was approximately \$18,500, compared to approximately \$17,800 per month for the year ended December 31, 2017, with the increase being attributable to Norsemont due diligence costs during 2018 Q4. The Company expects its monthly burn rate to continue to be at a low level going forward due to ongoing monitoring of operating expenses. Due to a lack of available funds the Company has significantly scaled back exploration work on its Niñobamba project. 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 2019 and 2020 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 continue to be volatile, and are likely to remain so throughout 2019 and 2020, 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 has 41,249,884 common shares issued and outstanding.

##### Warrants

Common share purchase warrants outstanding as at the date of this MD&A are as follows:

<u>Grant Date</u>	<u>Expiry Date</u>	<u>Warrants Outstanding</u>	<u>Exercise Price</u>
June 1, 2018	June 1, 2019	1,600,000	\$0.06
August 23, 2016	August 23, 2019	1,500,000	\$0.05
January 19, 2017	January 19, 2020	1,250,000	\$0.06
		<b>4,350,000</b>	<b>\$ 0.057</b>

##### Stock options

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

<u>Grant Date</u>	<u>Expiry Date</u>	<u>Options Outstanding</u>	<u>Exercise Price</u>
August 9, 2017	August 9, 2019	400,000	\$0.05
May 18, 2018	May 18, 2020	150,000	\$0.05
		<b>550,000</b>	<b>\$ 0.05</b>

**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, 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, 2018 and December 31, 2017 the Company's related parties consisted of the following officers and directors:

Edward J. Badida	Director
Steven Brunelle	Chairman and Director
Thomas John Magee	Co-Chairman and Director (resigned effective March 2, 2017)
Jeffrey Reeder (i)	President and Chief Executive Officer, and Director
Richard Mazur	Director
Christopher Verrico	Director
Dan Hamilton	Chief Financial Officer
Ryan Grywul	Vice-President Exploration (up to August 9, 2017)

(i) Mr. Reeder provides services to the Company through Single Jack Research & Exploration Ltd., a private company owned by Mr. Reeder.

(a) Remuneration of the President and Chief Executive Officer, Chief Financial Officer, and Chairman was as follows:

	<b>Twelve Months ended December 31, 2018</b>	Twelve Months ended December 31, 2017
<b>Management fees</b>		
Jeffrey Reeder	\$ 24,000	\$ 24,000
Dan Hamilton	36,000	36,000
Steve Brunelle	24,000	24,000
	<b>\$ 84,000</b>	<b>\$ 84,000</b>

(b) At December 31, 2018, an amount of \$12,000 (December 31, 2017 - \$20,000) was payable to Single Jack Research & Exploration Ltd., which was earned by Mr. Reeder in his capacity as CEO of the Company; \$120,000 (December 31, 2017 - \$84,000) was payable to Mr. Hamilton, and which was earned in his capacity as CFO of the Company; and \$44,000 (December 31, 2017 - \$20,000) was payable to Mr. Brunelle and earned in his capacity as Chairman of the Company.

(c) As at December 31, 2018, a total of \$36,438 (December 31, 2017 - \$21,910) was payable to current and former directors and officers for services provided, advances, and reimbursable expenses incurred on behalf of the Company in the normal course of business. These amounts are unsecured, non-interest bearing and without fixed repayment terms.



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(d) As at December 31, 2018, an amount of \$199,060 was payable to Mr. Magee (December 31, 2017 - \$199,060), earned in his capacity as CEO of the Company up to July 12, 2013. Payment to Mr. Magee has been deferred until the Company's working capital position has improved.

(e) On June 1, 2018, the Company completed a non-brokered private placement financing of 2,000,000 units for gross proceeds of \$100,000. Related parties acquired a total of 500,000 units.

#### **PROPOSED TRANSACTION**

The Company has not entered into any significant transaction, nor is it currently reviewing any such transaction, that has not been discussed within this MD&A.

#### **SUBSEQUENT EVENTS**

Effective February 22, 2019, the Company and Norsemont mutually agreed to terminate their efforts to combine the assets of the companies as previously announced on October 24, 2018.

On February 28, 2019, Mr. Jeffrey Reeder resigned as President and CEO. Mr. Christopher Verrico, a Director of the Company was appointed President and CEO.

On April 18, 2019, the Company settled an aggregate of \$80,503 of indebtedness through the issuance of an aggregate of 1,610,060 common shares at a deemed issuance price of \$0.05 per common share, of which 896,460 common shares were issued to non-arm's length creditors.

Subsequent to the year-end a total of 200,000 warrants were exercised for total proceeds to the Company of \$12,000.

#### **DISCLOSURE OF INTERNAL CONTROLS**

Management has established processes which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements; and (ii) the financial statements fairly present all material respects the financial condition, results of the operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

In contrast to the certificate required under Multilateral Instrument 52-109 Certification of Disclosure in Issuer and Interim Filings (MI 52-109), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109. In particular, the certifying officers filing the Certificate are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's certifying officers are

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responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

**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 Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after January 1, 2019. 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 16 Leases***

IFRS 16 was issued by the IASB on January 13, 2016 and will replace IAS 17, Leases. This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

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The adoption of these amendments will not have a material impact on the Company's consolidated financial statements.

**CAPITAL MANAGEMENT**

The capital structure of the Company as at December 31, 2018 consists of equity attributable to common shareholders and includes share capital of \$11,278,801 (December 31, 2017 - \$11,087,529), warrant reserve of \$98,759 (December 31, 2017 - \$70,087), contributed surplus of \$3,163,749 (December 31, 2017 - \$3,192,001), and deficit of \$15,084,987 (December 31, 2017 - \$14,794,289).

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, 2018. 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 payables are classified for accounting purposes as other financial liabilities, which are measured at amortized cost, which also equals fair value. Fair values for 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, 2018, 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. Cash is held with a reputable Canadian chartered bank, for which management believes the risk of loss to be minimal.

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*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, 2018, the Company had cash of \$2,766 (December 31, 2017 - \$3,802) to settle current liabilities of \$365,204 (December 31, 2017 - \$454,266). Included in current liabilities is \$212,438 (December 31, 2017 - \$344,970) due to related parties. All of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms with the exception of \$199,060 payable to an individual who was a related party at the time of the transaction, which has been deferred until the Company's working capital position has improved.

*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	1,140
Accounts receivable	Peruvian new sol	13,856
Trade payables	Peruvian new sol	24,877

*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 continued 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 exploration 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 \$12,000 expiring on August 30, 2019. As at December 31, 2018 there are lease payments of \$8,000 remaining on this lease obligation.

## **RISKS AND UNCERTAINTIES**

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Only investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment should undertake such investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position.

At the present time, the Company does not hold any interest in a mining property in production. The Company's viability and potential successes lie in its ability to develop, exploit and generate revenue out of mineral deposits. Revenues, profitability and cash flow from any future mining operations involving the Company will be influenced by precious and/or base metal prices and by the relationship of such prices to production costs. Such prices have fluctuated widely and are affected by numerous factors beyond the Company's control.

The Company has limited financial resources and there is no assurance that additional funding will be available to it for further exploration and development of its exploration projects, or to fulfill its obligations under applicable agreements. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of the property interests of the Company, with the possible dilution or loss of such interests.

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by numerous factors which are beyond the control of the Company and which cannot be accurately predicted, such as market fluctuations of metal prices, the proximity and capacity of milling facilities, mineral markets, processing reagents and equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environment protection, the combination of which factors may result in the Company not receiving an adequate return on investment capital.

### *Operating in a Foreign Country Usually Involves Uncertainties Relating to Political and Economic Matters*

Peru, where the Company's principle foreign mineral properties are located is considered by the Company to be a mining friendly country. However, any change of government may result in changes to government legislation and policy, which may include changes that impact the Company's ownership of and its ability to continue exploration and, possibly, the development of its properties. Further, changes in the government may result in political and economic uncertainty, which may cause the Company to delay its exploration and, possibly, its development activities or they may decrease the willingness of investors to provide financing to the Company. Accordingly, changes in legislation and policy could result in increased costs to explore and develop the Company's projects and could require the Company to delay or suspend these activities.

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#### *Exploration and Development Efforts May Not Be Successful*

There is no certainty that the expenditures to be made by the Company in the exploration of its properties as described herein will result in the discovery of mineralized material in commercial quantities. Most exploration projects do not result in the discovery of commercially mineable ore deposits and no assurance can be given that any particular level of recovery of ore reserves will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body which can be legally and economically exploited. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale. Material changes in ore reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project.

#### *Lack of Cash Flow*

None of the Company's properties have advanced to the commercial production stage and the Company has no history of earnings or cash flow from operations. The Company does not expect to generate material revenue from mining operations or to achieve self-sustaining commercial mining operations for several years. The Company has paid no dividends on its shares since inception and does not anticipate doing so in the foreseeable future. Historically, the only source of funds available to the Company is through the sale of its securities. Future additional equity financing would cause dilution to current shareholders.

#### *No Proven Reserves*

The properties in which the Company has an interest or the right to earn an interest are in the exploratory stage only and are without a known body of ore in commercial production.

#### *No Guarantee of Clear Title to Mineral Properties*

While the Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties and properties in which it has the right to acquire or earn an interest are in good standing, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects.

#### *Uncertainty of Obtaining Additional Funding Requirements*

Programs planned by the Company may necessitate additional funding, which could cause a dilution of the value of the investment of the shareholders of the Company. The recuperation value of mining properties indicated in the balance sheet depends on the discovery of mineralization that can be profitably exploited and on the Company's capacity to obtain additional funds in order to realize these programs. The Company's exploration activities can therefore be interrupted at any moment if the Company is incapable of obtaining the necessary funds in order to continue any additional activities that are necessary and that are not described in the exploration programs outlined in the Company's geological report for its properties.

#### *Mineral Prices May Not Support Corporate Profit*

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of same. Factors beyond the control of the Company may affect the marketability of any substances discovered. The price of minerals is volatile over short periods of time, and is affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining techniques.

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#### *Competition*

The mining industry is intensively competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for the recruitment and retention of qualified employees.

#### *Environmental Regulations*

The current and future operations of the Company, including further exploration, development activities and commencement of production on its properties, require permits from various Provincial, Federal and State governmental authorities.

Such operations are subject to various laws governing land use, the protection of the environment, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances mine safety and other matters. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations.

#### *Uncertainty of Reserves and Mineralization Estimates*

There are numerous uncertainties inherent in estimating proven and probable reserves and mineralization, including many factors beyond the control of the Company. The estimation of reserves and mineralization is a subjective process and the accuracy of any such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may justify revision of such estimates. No assurances can be given that the volume and grade of reserves recovered and rates of production will not be less than anticipated. Assumptions about prices are subject to greater uncertainty and metal prices have fluctuated widely in the past. Declines in the market price of base or precious metals also may render reserves or mineralization containing relatively lower grades of ore uneconomic to exploit. Changes in operating and capital costs and other factors including, but not limited to, short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades, may materially and adversely affect reserves.

#### *Operating Hazards and Risks Associated with the Mining Industry*

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Hazards such as unusual or unexpected formations and other conditions are involved. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, damage to or destruction of mines and other producing

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facilities, damage to life and property, environmental damage and possible legal liability for any or all damage. The Company may become subject to liability for cave-ins and other hazards for which it cannot insure or against which it may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration activities.

#### *The Ability to Manage Growth*

Should the Company be successful in its efforts to develop its mineral properties or to raise capital for other mining ventures it will experience significant growth in operations. If this occurs management anticipated that additional expansion will be required in order to continue development. Any expansion of the Company's business would place further demands on its management, operational capacity and financial resources. The failure to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

#### *Lack of Dividend Policy*

The Company does not presently intend to pay cash dividends in the foreseeable future, as any earnings are expected to be retained for use in developing and expanding its business. However, the actual amount of dividends received from the Company will remain subject to the discretion of the Company's Board of Directors and will depend on results of operations, cash requirements and future prospects of the Company and other factors.

#### *Possible Dilution to Present and Prospective Shareholders*

The Company's plan of operation, in part, contemplates the accomplishment of business negotiations by the issuance of cash, securities of the Company, or a combination of the two, and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued common shares, or securities convertible into common shares, would result in dilution, possibly substantial, to present and prospective holders of common shares.

#### *Dependence of Key Personnel*

The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term. As the Company's operations expand, additional general management resources will be required, especially since the Company encounters risks that are inherent in doing business in several countries.

#### *Conflict of Interest*

Certain directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

#### *Lack of Trading*

The lack of trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares.



*Volatility of Share Price*

Market prices for shares of early stage companies are often volatile. Factors such as announcements of mineral discoveries, financial results, and other factors could have a significant effect on the price of the Company's shares.

**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 precious metals;
- 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, except 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

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statements may not be suitable for establishing strategic priorities and objectives, future strategies or actions, financial objectives and projections other than those mentioned above.