# INCA ONE RESOURCES CORP.

MANAGEMENT’S DISCUSSION AND ANALYSIS
Three months ended July 31, 2012 and 2011

Inca One Resources Corp. (the "Company" or "Inca One"), incorporated under the laws of Canada on November 9, 2005, is an exploration stage company engaged in the acquisition, exploration and development of mineral properties. It presently holds or has the right to acquire 100% of the shares of a private Peruvian company which owns a 100% interest in the Las Huaquillas gold-copper property (the "Las Huaquillas Property") located in the Department of Cajamarca in northern Peru. In addition to the Company's ongoing work program on the Property, it continues to actively evaluate new potential projects. The Company is listed for trading on the TSX Venture Exchange ("the Exchange") under the symbol "IO".

This management's discussion and analysis ("MD&A") reports on the operating results and financial condition of the Company for the three months ended July 31, 2012 and is prepared as of September 26, 2012, in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the related notes for the three months ended July 31, 2012 and 2011 and the audited consolidated financial statements for the year ended April 30, 2012 and accompanying annual MD&A, which were prepared in accordance with IFRS.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

## Cautionary Note Regarding Forward-Looking Information

This document may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation.

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its planned exploration activities, the adequacy of its financial resources and statements with respect to the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual consolidated financial statements and management's discussion and analysis of those statements, all of which are filed and available for review under the Company's profile on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

## The Las Huaquillas Property

On March 25, 2011, the Company entered into a definitive letter agreement with Rial Minera SAC ("Rial") and its shareholders (collectively the "Optionors") pursuant to which the Company has been granted an option to acquire all of the issued and outstanding shares of Rial (the "Rial Shares"). Rial is a private Peruvian company that owns a 100% interest in the Las Huaquillas Property located in the Department of Cajamarca in northern Peru. Pursuant to the agreement, the Company can acquire a 100% of the Rial Shares, of which 95% may be acquired by (a) paying an aggregate of US$5,000,000 to the Optionors; (b) issuing 5,000,000 common shares of the Company to the Optionors; and (c) incurring exploration expenditures of US$10,000,000 over a period of four years.

Upon the Company acquiring 95% of Rial Shares, a 1% net smelter royalty shall be payable to the Optionors on all future production. After completion of the cash and share payments and exploration expenditures, the Company may earn a further 5% of Rial Shares by issuing an additional 3,000,000 common shares to one of the Optionors within 15 days of notice of exercise of the option. In addition, the Company shall issue to one of the Optionors as bonus payments one common share of the Company per each new ounce of gold or gold equivalent that is found or determined to exist on the Las Huaquillas Property, in excess of 560,000 ounces of gold or gold equivalent, to be delivered upon public announcement of such discovery.

A finder's fee of $282,500 and 400,000 common shares are payable to an arm's length party over a period of four years, of which US$35,625 was paid and 16,250 common shares were issued as at September 26, 2012.

As at July 31, 2012, the Company incurred acquisition costs of $714,102 and exploration expenditures of $1,033,896 for a total of $1,747,998. Acquisition costs of $714,102 consisted of option payments of US$410,625 and 341,250 common shares at a fair value of $110,512, staking costs of $49,381 and professional and other costs of $145,582.

On January 18, 2012, the Company signed an amended agreement with the Optionors ("Amended Agreement") whereby if by June 27, 2012, Minera Huaquillas SAC ("Minera") has not received the permits required to carry out exploration activities in the Las Huaquillas Property ("drill permits"), all options payments due starting from July 26, 2012 were to be deferred until the drill permits have been obtained.

### *About the Las Huaquillas Property:*

The Las Huaquillas Property is located in the Department of Cajamarca in northern Peru. It is easily accessible by road and is situated at a relatively low elevation of between 1000 to 1800 meters. It consists of 9 mineral concessions and is 3700 hectares in size.

Peru, a mineral rich country, is the largest gold producer in South America (6$^{th}$ worldwide), the world's largest producer of silver and the 2$^{nd}$ largest producer of copper worldwide as of 2009. **[1]** "The Cajamarca mining district, located in northern Peru, has one of the largest gold inventories in South America with the economic high-sulphidation Yanacocha Au mine, plus several smaller Au epithermal and porphyry Cu-Au deposits." [2]

Several gold targets and two porphyry copper-gold systems have been identified on the Las Huaquillas Property to date:

a) Gold targets include the 2.2 km long Los Socavones Zone, including the El Huabo and Las Huaquillas showings and the Porvenir-Guabo Alto high-sulphidation epithermal zone.
b) Porphyry Cu-Au: The Cementerio and San Antonio Cu- Au porphyry systems.

Previous exploration on the Las Huaquillas Property by Cooperacion Minero Peruano - Alemana (1988-1992) and Sulliden Gold Corporation Ltd. (TSX: SUE, "Sulliden") (1996 - 1999) consisted of surface geological, geochemical, and geophysical studies, 26 drill holes and 1200 meters of underground workings.

In 1998, Sulliden estimated that a 500 meter section of the 2.2 km long **Los Socavones Zone hosts a geological resource of 6.57 million tonnes grading 2.09 g/t Au and 25.2 g/t Ag, equivalent to 443,000 ounces of gold and 5.3 million ounces of silver.** This has been calculated at a cutoff of 1.5 g/t gold, and remains open at depth and along strike. This historic resource, based on 10 drill holes and 20 mineralized intercepts, was estimated by Sulliden to a depth of 200 meters.[3]

The historic resource was calculated in 1998 and the Company has not completed the work necessary to have the historical estimate verified by a Qualified Person. The Company is not treating the estimate as a current NI 43-101 defined resource and the historical estimate should not be relied upon. The Las Huaquillas Property will require considerable future exploration which the Company intends to carry out in due course.

The average true width encountered to date of the Los Socavones gold mineralization is 20+ meters, with some intercepts more than 75 meters in true width. Only a quarter of the length of the Los Socavones Zone has been drill tested in some detail. Table 1 below summarizes some highlighted mineralized intercepts of the Los Socavones Zone. [3]

**Table 1: Highlighted mineralized intercepts of the Los Socavones Zone.** [3]

| DDH | From (m) | To (m) | Length (m) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|
| LH97-08 | 0 | 78.0 | 78.0 | 2.71 | 19.0 |
| LH97-13 | 181.75 | 195.25 | 13.50 | 2.86 | 57.0 |
| LH97-07 | 28.5 | 70.5 | 42.0 | 2.05 | 24.6 |
| PD-1 | 100.25 | 134.65 | 34.4 | 2.71 | 38.63 |
| PD-2 | 66.15 | 80.15 | 14.0 | 8.41 | 105.93 |
| PD-4 | 39.25 | 59.45 | 20.2 | 2.79 | 42.77 |

Sulliden drilled exploratory holes in the Cementario and San Antonio copper-gold-porphyry systems (each system is more than 1 kilometer across) based on soil, rock, and IP anomalies. The best hole at Cementario (LH97-04) intersected 99.5 meters of 0.47% Cu and 0.11g/t Au.[2][3] The Company has filed a technical report relating to the Las Huaquillas Property prepared in accordance with National Instrument 43-101 on Sedar and it is also available on the Company's website www.incaone.com.

*(1) Source: US Geological Survey (2009 Minerals Yearbook - Peru, February 2011)*

*(2) Source: Tectonic, Magmatic and Metallogenic Evolution of The Cajamarca Mining District, Northern Peru. PHD Thesis; Richard Charles Idris Davies. December 2002.*

*(3) Source: Sulliden Annual Report filed August 12, 1998, available on www.sedar.com*

The technical information above has been prepared in accordance with the Canadian regulatory requirements set out in NI 43-101 and reviewed on behalf of the Company by Thomas A. Henricksen, PhD, a Qualified Person under NI 43-101.

**Update on the Property:**

The Company continues to develop community partnerships as it works to complete the public participation workshop required for approval of mining projects by Peru's Ministry of Energy and Mines. Seven DIA presentations regarding proposed exploration activities at Las Huaquillas property were delivered to the area's surface landholders and coffee farmers between July 14 and August 19, 2012. The DIA is an environmental impact statement outlining a plan for advanced exploration activities on Peruvian mineral exploration projects.

These presentations to inform local community members further ran smoothly and attendees expressed interest and enthusiasm for the project. A larger public participation workshop followed on September 9, 2012. In a repeat of the first scheduled workshop to meet the formal ministry requirement before a mining exploration program can be commenced, the meeting was again interrupted by an outspoken local individual. While the workshop was suspended, the Company reached an agreement with the individual regarding the need to provide additional information to the communities involved.

**Outlook:**

The Company is moving forward in its plan to explore and develop the Las Huaquillas property. It is working to complete the public participation workshop and obtain the drill permit necessary to commence exploration work on the property. The Company continues to enhance relationships and partnerships with the communities and will hold another official workshop and other follow-up meetings. Its immediate goal is to receive minutes of the workshop signed by a local official, the Director Regional de Energia Minas.

**Risk Factors**

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties. Due to the nature of the Company's business and the present stage of exploration of its resource property (which is primarily early stage exploration property with no known resources or reserves that have not been explored by modern methods), the following risk factors, among others, will apply:

***Mining Industry is Intensely Competitive:*** The Company's business of the acquisition, exploration and development of mineral properties is intensely competitive. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

***Resource Exploration and Development is Generally a Speculative Business:*** Resource exploration and development is a speculative business and involves a high degree of risk, 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 size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. There is no known resource, and there are no known reserves, on the Company's Property. The vast majority of exploration projects do not result in the discovery of commercially mineable deposits of ore. Substantial expenditures are required to establish ore reserves through drilling and metallurgical and other testing techniques, determine metal content and metallurgical recovery processes to extract metal from the ore, and construct, renovate or expand mining and processing facilities. No assurance can be given that any level of recovery of ore reserves will be realized or that any identified mineral deposit, even it is established to contain an estimated resource, will ever qualify as a commercial mineable ore body which can be legally and economically exploited. The great majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.

***Fluctuation of Metal Prices:*** Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of various metals have experienced significant movement over short periods of time, and are 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 and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any mineral deposit will be such that its mineral property could be mined at a profit.

***Permits and Licenses:*** The operations of the Company will require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects, on reasonable terms or at all. Delays or a failure to obtain such licenses and permits or a failure to comply with the terms of any such licenses and permits that the Company does obtain, could have a material adverse effect on the Company.

***No Assurance of Profitability:*** The Company has no history of earnings and, due to the nature of its proposed business, there can be no assurance that the Company will ever be profitable. The Company has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Company is from the sale of its common shares or, possibly, the sale or optioning of a portion of its interest in its mineral property. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through further equity offerings or through the sale or possible syndication of its property, there can be no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

***Uninsured or Uninsurable Risks:*** Exploration, development and mining operations involve various hazards, including environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structural cave-ins or slides, flooding, fires, metal losses and periodic interruptions due to inclement or hazardous weather conditions. These risks could result in damage to or destruction of mineral properties, facilities or other property, personal injury, environmental damage, delays in operations, increased cost of operations, monetary losses and possible legal liability. The Company may not be able to obtain insurance to cover these risks at economically feasible premiums or at all. The Company 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 and production activities.

***Government Regulation:*** Any exploration, development or mining operations carried on by the Company will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In addition, the profitability of any mining prospect is affected by the market for precious and/or base metals which is influenced by many factors including changing production costs, the supply and demand for metals, the rate of inflation, the inventory of metal producing corporations, the political environment and changes in international investment patterns.

***Environmental Restrictions:*** The activities of the Company are subject to environmental regulations promulgated by government agencies in different countries from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

***Dependence Upon Others and Key Personnel:*** The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability to design and carry out appropriate exploration programs on its mineral property; (ii) the ability to produce minerals from any mineral deposits that may be located; (iii) the ability to attract and retain additional key personnel in exploration, marketing, mine development and finance; and (iv) the ability and the operating resources to develop and maintain the property held by the Company. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Company and its consultants and employees. There can be no assurance of success with any or all of these factors on which the Company's operations will depend, or that the Company will be successful in finding and retaining the necessary employees, personnel and/or consultants in order to be able to successfully carry out such activities. This is especially true as the competition for qualified geological, technical and mining personnel and consultants is particularly intense in the current marketplace.

***Share Price Volatility:*** In recent years, worldwide securities markets, particularly those in the United States and Canada, have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced unprecedented declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Most significantly, the share prices of junior natural resource companies have experienced an unprecedented decline in value and there has been a significant decline in the number of buyers willing to purchase such securities. In addition, significantly higher redemptions by holders of mutual funds has forced many of such funds (including those holding the Company's securities) to sell such securities at any price. As a consequence, despite the Company's past success in securing equity financings, market forces may render it difficult or impossible for the Company to secure placees to purchase new share issues at a price which will not lead to severe dilution to existing shareholders, or at all. Therefore, there can be no assurance that significant fluctuations in the trading price of the Company's common shares will not occur, or that such fluctuations will not materially adversely impact on the Company's ability to raise equity funding without significant dilution to its existing shareholders, or at all.

***Financing Risks***: The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its project or to fulfil its obligations under any 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 it 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 its project with the possible loss of such property.

***Insufficient Financial Resources:*** The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of all of its planned exploration and development programs. Future property acquisitions and the development of the Company's property will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public financing, short or long-term borrowings or other means. There is no assurance that the Company will be successful in obtaining the required financing. Failure to raise the required funds could result in the Company losing, or being required to dispose of, its interest in its property. In particular, failure by the Company to raise the funding necessary to maintain in good standing its option agreement could result in the loss of its rights to such property.

***Dilution to the Company's existing shareholders:*** The Company will require additional equity financing be raised in the future. The Company may issue securities on less than favourable terms to raise sufficient capital to fund its business plan. Any transaction involving the issuance of equity securities or securities convertible into common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

***Currency Fluctuations:*** The Company maintains its accounts in Canadian dollars. The Company's operations in Peru and its exploration expenditures are denominated in U.S. dollars and Peruvian New Sol, making it subject to foreign currency fluctuations. Such fluctuations are out of its control and may materially adversely affect the Company's financial position and results.

***Surface Rights and Access:*** Although the Company acquires the rights to some or all of the minerals in the ground subject to the tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights can be costly and time consuming. In areas where there are no existing surface rights holders, this does not usually cause a problem, as there are no impediments to surface access. However, in areas where there are local populations or land owners, it is necessary, as a practical matter, to negotiate surface access. There can be no guarantee that, despite having the right at law to access the surface and carry on mining activities, the Company will be able to negotiate a satisfactory agreement with any such existing landowners/occupiers for such access, and therefore it may be unable to carry out mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdictions.

***Title:*** Although the Company has taken steps to verify the title to the mineral property in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such property, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

***Acquisition of Mineral Concessions under Agreements:*** The agreement pursuant to which the Company has the right to acquire its property provides that the Company must make a series of cash payments and/or share issuances over certain time periods, expend certain minimum amounts on the exploration of the property or contribute its share of ongoing expenditures. The Company does not presently have the financial resources required to complete all expenditure obligations under its property option agreement over their full term. Failure by the Company to make such payments, issue such shares or make such expenditures in a timely fashion may result in the Company losing its interest in such property. There can be no assurance that the Company will have, or be able to obtain, the necessary financial resources to be able to maintain its property agreement in good standing, or to be able to comply with all of its obligations thereunder, with the result that the Company could forfeit its interest in its exploration and evaluation asset.

**<u>Summary of Quarterly Information</u>**

The following table sets out selected quarterly financial results, except per share amounts:

| Quarter ended | Interest Income | Loss | Loss per share |
|---|---|---|---|
| | $ | $ | $ |
| July 31, 2012 | 940 | (179,463) | (0.01) |
| April 30, 2012 | 1,449 | (330,455) | (0.01) |
| January 31, 2012 | 3,745 | (216,339) | (0.01) |
| October 31, 2011 | 4,049 | (243,038) | (0.01) |
| July 31, 2011 | 1,089 | (389,707) | (0.02) |
| April 30, 2011 | 326 | (230,578) | (0.02) |
| January 31, 2011 | 479 | (140,893) | (0.01) |
| October 31, 2010 | 182 | (71,596) | (0.01) |

There are no general trends regarding the Company's quarterly results. Quarterly results can vary significantly depending on whether the Company has abandoned any properties, granted any stock options, or carried out marketing campaigns and these are the factors that account for material variations in the Company's recent quarterly net losses, none of which are predictable. The impairment of exploration and evaluation assets can have a material effect on quarterly results as and when they occur (as, for example in the quarter ended April 30, 2011). One major factor which can cause a material variation in net loss on a quarterly basis is the grant of stock options due to the resulting share-based payments charges which can be significant when they arise. This can be seen in the quarters ended July 31, 2011 and October 31, 2011.

Another factor which caused a material variation in net loss was the Company's change of business. Prior to the year ended July 31, 2010, the Company's operations were restricted to sustaining its listing on the NEX and seeking new business opportunities. In September 2010, the Company completed its property acquisition and its listing was transferred to the Exchange as a Tier 2 mining issuer and as a result, general operating costs started to increase. This accounted for the variation in the Company's net losses for the quarters ended October 31, 2010 and January 31, 2011. In March 2011, the Company entered into a fundamental property acquisition of the Las Huaquillas Property in Peru. This accounted for the further increase in general operating costs and the variation in the Company's net losses for the quarters ended April 30, 2011 and onwards.

Administrative costs other than the items note above tend to be quite similar from period to period. The variation in finance income is related solely to the interest earned on funds held by the Company, which is dependent upon the success of the Company in raising the required financing for its activities which will vary with overall market conditions, and is therefore difficult to predict.

**Results of Operations**

Three months ended July 31, 2012 compared with the three months ended July 31, 2011

During the three months ended July 31, 2012, the Company reported a net loss of $179,463 compared to a net loss of $389,707 during the three months ended July 31, 2011, representing a decrease in loss of $210,244. The decrease in loss was primarily attributable to the decrease in share-based compensation of $200,689.

During the three months ended July 31, 2011, the Company recorded share-based compensation of $221,244 for stock options granted to directors, officers, employees and consultants of the Company to purchase 376,000 shares at $0.50 per share for a period of ten years expiring May 13, 2021 and 820,000 shares at $0.43 per share for a period of ten years expiring July 11, 2021. During the three months ended July 31, 2012, the Company recorded share-based compensation of $20,555 for stock options vested during the period.

Office, rent and administration increased by $17,880 as a result of an increase in finance and administrative staff to support the growing requirements of the Company and its offices in Peru. The monthly fee charged by a related company for the finance and administrative support was increased from $2,000 to $9,700 per month.

During the three months ended July 31, 2012, consulting and management fees increased by $19,610 as the Company retained consultants to perform corporate communications, marketing and other public relations services.

**Liquidity and Capital Resources**

The Company has no revenue generating operations from which it can internally generate funds. The Company has financed its operations and met its capital requirements primarily through the issuance of capital stock by way of private placements and the exercise of share purchase warrants previously issued, and from loans from related parties. As at July 31, 2012, the Company had cash and cash equivalents of $132,660 representing a decrease of $410,370 compared with cash and cash equivalents of $543,030 at April 30, 2012. The decrease in cash resulted mainly from net outflows of $53,439 for operations, $354,090 for exploration and evaluation expenditures and $2,841 for the purchase of equipment.

The Company reported working capital of $97,723 at July 31, 2012 as compared to working capital of $616,545 as at April 30, 2012, representing a decrease in working capital by $518,822.

During the year ended April 30, 2012, the Company completed a private placement of 5,000,000 units at $0.40 per unit for gross proceeds of $2,000,000. The Company paid $136,790 and issued 87,750 common shares at a fair value of $35,100 as finders' fees and incurred $11,691 regulatory expenses on this private placement.

As at the date of this MD&A, the other source of funds currently potentially available to the Company are through the exercise of its outstanding exercisable options and share purchase warrants (See Summary of Outstanding Share Data – (a) options, (b) warrants). However, there can be no assurance that these outstanding convertible securities will be exercised, particularly if the trading price of the common shares on the Exchange does not exceed, by a material amount and for a reasonable period, the exercise price of such convertible securities at some time prior to their expiry dates.

The Company has not entered into any long-term lease commitments. However, the Company is subject to mineral property commitments as outlined in Note 5 to its condensed interim consolidated financial statements for the three months ended July 31, 2012. During the year ended April 30, 2012, the Company entered into an amended agreement related to its Las Huaquillas Property whereby all option payments due starting July 26, 2012 were to be deferred until the drill permits are obtained. Consequently, the Company expects that it has sufficient liquidity and immediate funds will be available through short-term loans to meet its obligations for fiscal 2013. Subsequent to July 31, 2012, the Company received subscriptions of approximately $70,000 pursuant to the proposed private placement (See "Subsequent Event").

The Company will be required to raise additional capital in order to make option payments as they become due, incur expenditures to maintain its option to acquire an interest in the Las Huaquillas Property and to fund working capital requirements in the long term. Although the Company has previously been successful in raising the funds required for its operations, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations, exploration and development activities. These material uncertainties cast significant doubt on the entity's ability to continue as a going concern.

The Company's overall success will be affected by its current or future business activities. The Company is in the process of acquiring and exploring its interest in the Las Huaquillas Property and has not yet determined whether the property contains mineral deposits that are economically recoverable. The recoverability of expenditures incurred to earn an interest in this resource property are dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the property, obtaining necessary financing to explore and develop the property, and upon future profitable production or proceeds from disposition of its resource property. See "*Risk Factors*".

## Transactions with Related Parties

The Company has entered into certain transactions with related parties during the three months ended July 31, 2012.

A description of the related party transactions is as follows:

| Name and Relationship to Company | Purpose of Transaction | Three months ended July 31, 2012 $ | Three months ended July 31, 2011 $ |
|---|---|---|---|
| Ekelly Investments Ltd., a company controlled by Edward Kelly, a Director and CEO of the Company | Management fees | 24,000 | 18,000 |
| James L. Harris Law Corporation, a company controlled by James Harris, corporate secretary of the Company | Legal fees | 2,000 | 13,682 |
| Remstar Resources Ltd., a company with a common CFO. | Office, rent and administration (1) | 30,800 | 8,100 |
| Ultra Lithium Inc., a company with a common CFO. | Rent (2) | 1,800 | 1,800 |
| JLHLC Holding Inc., a company controlled by an officer of the Company | Interest on loan (3) | - | 493 |

(1) The Company entered into a month-to-month arrangement with Remstar Resources Ltd. whereby Remstar provides for office premises and support related to accounting, administration and financial reporting. Of the monthly fees paid to Remstar, $2,500 is allocated to the services of Nilda Rivera, CFO of the Company.

(2) The Company entered into a month-to-month arrangement for the rental of office premises.

(3) The Company received a short-term loan from JLHLC Holdings Inc. pursuant to a loan agreement dated August 16, 2010. The loan has a term of one year maturing August 31, 2011 and bears interest at 12% per annum. The loan was fully repaid during the year ended April 30, 2012.

Included in prepaid expenses were rent deposits and prepaid rent of $12,200 (April 30, 2012 - $1,200) paid to companies having an officer in common.

Included in accounts payable and accrued liabilities was an expense reimbursement of $6,714 (April 30, 2012 - $13,264) payable to a director and officer of the Company.

## Subsequent Event

Subsequent to July 31, 2012, the Company announced a non-brokered private placement of up to 10,000,000 units at $0.10 per unit for gross proceeds of up to $1,000,000. Each unit will consist of one common share and one-half of one common share purchase warrant. Each warrant will entitle the holder to acquire one additional common share of the Company at $0.20 per share for a period of twelve months from the date of closing, subject to an acceleration provision under certain circumstances. A finder's fee may be payable in connection with this private placement. Closing of the private placement is subject to acceptance for filing by the Exchange.

The net proceeds from the offering will be used to further develop community relations at the Company's Las Huaquillas property and for general working capital.

## Critical Accounting Estimates

The preparation of the Company's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Areas requiring a significant degree of estimation and judgment relate to going concern assessments, functional currency, the impairment of exploration and evaluation assets and share-based payments. Due to the inherent uncertainty involved with making such estimates, actual results reported in future years may differ from these estimates.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

(i) Economic recoverability and probability of future economic benefits of mineral property interests

Management has determined the exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities and the evaluation of permitting and environmental issues and local support for the project.

(ii) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

(iii) Value of share-based compensation

The Company uses the Black-Scholes option pricing model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimates and the Company's earnings and equity reserves.

(iv) Deferred tax assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

## Financial Instruments

As at July 31, 2012, the Company's financial instruments consist of cash and cash equivalents, other receivables and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values because of their short term nature and/or the existence of market related interest rates on the instruments. The Company has no financial instrument assets or liabilities recorded in the statements of financial position at fair value.

Cash and cash equivalents are held as cash deposits or investments in guaranteed investment certificates ("GICS") at banks within Canada. The GICs are immediately redeemable and their fixed terms do not exceed one year. The Company also holds cash at highly rated Peruvian banks. The Company does not invest in asset-backed commercial paper and does not expect any credit losses.

A portion of the Company's financial assets and liabilities is denominated in foreign currencies giving rise to risks from changes in foreign exchange rates. The Company holds cash in Canadian, United States and Peruvian currencies in line with forecasted expenditures. The Company's main risk is associated with the fluctuations in the US dollar and the Peruvian New Sol ("Sol"). The Company has determined that an effect of a 10% increase or decrease in the US dollar and Sol against the Canadian dollar as at July 31, 2012 would result in an insignificant change to the comprehensive loss for the three months ended July 31, 2012. At July 31, 2012, the Company had no hedging agreements in place with respect to foreign exchange rates.

## Summary of Outstanding Share Data

As at the date of this MD&A, the Company had 22,772,374 common shares issued and the following options and warrants outstanding:

(a) Stock options:

| Number of options | Exercise price | Expiry date | Exercisable |
|---|---|---|---|
| 311,000 (1) | $0.135 | February 18, 2015 | 311,000 |
| 480,000 (1) | $0.125 | April 7, 2015 | 480,000 |
| 124,000 | $0.220 | September 23, 2020 | 124,000 |
| 376,000 | $0.500 | May 13, 2021 | 329,000 |
| 820,000 | $0.430 | July 11, 2021 | 652,500 |
| 150,000 | $0.250 | February 9, 2017 | 150,000 |
| 2,261,000 | | | 2,046,500 |

(1) Of these options, 54,000 and 63,000 are held in escrow respectively.

(b) Warrants:

| Number of warrants | Exercise price | Expiry date |
|---|---|---|
| 343,686 | $1.000 | December 12, 2012 |
| 2,500,000 | $0.750 | June 30, 2013 |
| 2,843,686 | | |

## Additional Disclosures

Additional disclosures pertaining to the Company's news releases and other information are available on the SEDAR website at www.sedar.com.