# LATIN AMERICAN MINERALS INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2014

**(Expressed in Canadian Dollars Except As Otherwise Indicated)**

# INTRODUCTION

This management's discussion and analysis of the financial condition and results of operation ("MD&A") of Latin American Minerals Inc. ("Latin" or the "Company") should be read in conjunction with Latin's unaudited condensed interim consolidated financial statements ("interim consolidated statements") and notes thereto as at and for the three and six months ended June 30, 2014.The same accounting policies and methods of computation were followed in the preparation of the interim consolidated statements as were followed in the preparation and described in note 3 of the audited annual consolidated financial statements as at and for the year ended December 31, 2013, except for those described under the "Changes in Accounting Policies" section elsewhere in this MD&A.

Except as otherwise indicated, all financial data in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

All dollar amounts in this MD&A are reported in Canadian dollars, except as otherwise stated.

The Company had a working capital of $181,994 and had reported a net loss of $485,571 for the six months ended June 30, 2014, and has yet to achieve profitable operations and has an accumulated deficit of $17,530,660. These continuing losses indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. The Company's ability to continue as a going concern is dependent upon the ability to obtain additional financing, to collect the sales tax receivable and to achieve profitable operations from the sale of gold derived from bulk sampling and ultimately to achieve and maintain profitable operations. Should profitable operations not be achieved, the Company will be required to obtain additional funding. The ability of the Company to achieve these objectives cannot be predicted at this time and accordingly, these matters may cast significant doubt about the Company's ability to continue as a going concern. The Company's unaudited condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate, in which case adjustments that could be material to the carrying values of the assets and liabilities, the reported expenses and the statement of financial position reclassifications would be necessary.

Further information about the company, its operations and other continuous disclosure documents, including the Company's press releases and interim quarterly reports are available through its filings with the securities regulatory authorities in Canada at www.sedar.com and are also available on the Company's website www.latinamericanminerals.com.

# FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward looking statements.

| Forward-looking information | Assumptions | Risk factors |
|---|---|---|
| The Company's anticipated plans, costs, timing and capital for future development of its properties in Paraguay. | Financing will be available for future development of the Company's properties in Paraguay; the actual results of the Company's development and production activities will be favourable; operating, development and production costs will not exceed the Company's expectations; the Company will be able to attract and retain skilled staff; all requisite regulatory and governmental approvals for development projects and other operations will be received on a timely basis upon terms acceptable to the Company, and applicable political and economic conditions will be favourable to the Company; the price of gold and/or other applicable minerals and applicable interest and exchange rates will be favourable to the Company or at least under management's expectations; no title disputes will exist with respect to the Company's properties. | Gold price volatility; uncertainties involved in interpreting geological data and confirming title to acquired properties; the possibility that future development and production results will not be consistent with the Company's expectations; availability of financing for and actual results of the Company's development and production activities; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic, political and regulatory conditions; the Company's ability to attract and retain skilled staff. |

| | | |
|---|---|---|
| The Company's ability to meet its working capital needs at the current level for the twelve-month period. | The operating and development activities of the Company for the twelve-month period, and the costs associated therewith, will be consistent with the Company's current expectations; debt and equity markets, exchange and interest rates and other applicable economic conditions will be favourable to the Company; the Company will increase its production and sales of gold doré from its Paso Yobai project. | Changes in debt and equity markets; timing and availability of external financing on acceptable terms; increases in costs; fluctuation in the commodity and currency markets; changes in environmental, regulatory and other local compliance; interest rate fluctuations; and changes in economic conditions affecting the Company's performance. |
| The Company's ability to carry out anticipated exploration on its property interests. | The exploration activities of the Company for the twelve-month period and the costs associated therewith will be consistent with the Company's current expectations; debt and equity markets, exchange and interest rates and other applicable economic conditions will be favourable to the Company; the Company will increase its production and sales of gold doré from its Paso Yobai project. | Changes in debt and equity markets; timing and availability of external financing on acceptable terms; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic conditions; receipt of applicable permits; and acts of nature. |
| Management's outlook regarding future trends. | Financing will be available for the Company's exploration, development and operating activities; the price of gold and/or other applicable minerals will be favourable to the Company. | Gold price volatility; changes in debt and equity markets; interest rate and exchange rate fluctuations; changes in economic and political conditions. |
| Asset values for the current quarter. | Management's belief that no write-down is required for its plant and equipment and mineral properties due to the Company's anticipated financing (debt or equity, or a combination of both) to implement planned work programs on the Company's projects. | If the Company does not obtain equity or debt financing on terms favourable to the Company or at all, a decline in asset values that could be deemed to be other than temporary may result in impairment losses. |

| | | |
|---|---|---|
| Sensitivity analysis of financial instruments. | Foreign exchange rates against the Canadian dollar will not be subject to change in excess of plus or minus 10%. | Changes in debt and equity markets; interest rate and exchange rate fluctuations. |

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. Please also make reference to those risk factors referenced in the "Risk Factors" section below. Readers are cautioned that the preceding table does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. 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.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

## CORPORATE OVERVIEW

Latin American Minerals Inc. (the "Company") is a mineral exploration corporation focused on the discovery, acquisition and development of potential mineral deposits in Latin America. The Paso Yobai and Repatriación gold projects, the Itapoty diamond project and the Chiriguelo niobium/rare earth element (REE) project are located in Paraguay and are undergoing phased exploration steps. The Company's Tendal zinc-copper project is located in La Rioja Province, Argentina.

The Company is listed on the TSX Venture Exchange (the "Exchange" or "TSX-V") where it trades under the symbol "LAT", and on the OTCQX market in the United States where it trades under the symbol LATNF.

## OUTLOOK FOR THE REMAINDER OF 2014

- Given the ongoing volatility of the global financial and commodity markets, the Company continues to explore its properties at a much reduced rate, with the focus on the primary gold project, in order to efficiently use its reduced cash resources.
- The focus in 2014 is on Paso Yobai gold project. Due to the encouraging gold recoveries achieved in column and heap testing, the Company expects to implement a low-grade heap leach facility in the second half of the year that will run parallel to the current high-grade focused bulk sampling facility. The Company is financing this expansion with a USD$700,000 loan from a Paraguay-based bank.
- Exploration at the Paso Yobai gold project has identified seven priority target areas from correlation of geological, geochemical and geophysical information. These data are consistent with Management's expectation for a large, mineralized epithermal system. Currently, financial resources are not available to initiate a drill program.
- Joint-venture partners are sought for the Itapoty diamond project, the Chiriguelo niobium/REE project in Paraguay, and the Tendal zinc/copper project in Argentina.

## HIGHLIGHTS

The Company finished the second quarter of 2014 with $425,150 in cash and cash equivalents.

During the six months ended June 30, 2014, the Company's gold sales totalled 456 ounces of gold and 117 ounces of silver resulting in pre-commercial production net proceeds of $592,225 compared with same period in 2013 production of 670 ounces of gold and 186 ounces of silver for net proceeds of $911,273. These gold sales originate from the Company's bulk sampling activities at the Paso Yobai gold project.

On February 6 2014, the Company received an expanded environmental permit authorizing heap leach gold recovery at Independencia Mine, part of the Paso Yobai project located in Paraguay. Management intends to implement a 28,000 tonne, re-usable pad facility to process stockpiled mineralization grading between 0.6 to 0.8 gpt of gold. The anticipated heap leach facility will operate concurrently with the high-grade bulk sampling concentrator plant and the expected additional gold sales will augment existing cash flow. Management believes this expansion will generate sufficient cash flow by Q1 2015 to cover all operating costs of the Company at its currently reduced spending levels.

On April 24, 2014, the Company completed a non-brokered private placement financing for gross proceeds of $422,000. Pursuant to the private placement, the Company issued a total of 5,275,000 units at a price of $0.08 per unit. Each unit consists of one common share of the Company, along with one common share purchase warrant. Each whole warrant may be exercised for one additional common share at a price of $0.12 per common share until April 24, 2016. No commission or finders' fees were paid in connection with the private placement. The units issued are subject to a hold period until August 25, 2014.

On May 21, 2014, the Company repaid in full the notes payable and accrued interest in the aggregate of $173,432. These notes payable were due on September 5, 2014 after the agreed extension of March 5, 2014 with an aggregate principal amount of $169,150 and bore an interest rate of 12% per annum.

On June 19, 2014, the Company announced the receipt of a USD$ 700,000 bank loan to proceed with the heap leach plant expansion at Independencia Mine, part of the Company's Paso Yobai gold project located in Paraguay. The bank loan consists of a secured 6 year loan of USD$ 600,000 and revolving line of credit of USD$ 100,000, provided by the Banco Bilbao Vizcaya Argentaria (BBVA) in Paraguay. The Company is allowed to prepay the loan, and expects to do so from operating cash flow earlier than the 6 year term. The loan is secured by the pilot plant machinery and certain real estate in Paraguay.

On July 11, 2014, the Company issued 10,000,000 common shares to Pinetree Capital Ltd. ("Pinetree") at a deemed price of $0.10 per share for a transaction value of $1,000,000 in exchange for 2,000,000 common shares of Pinetree at a deemed price of $0.50 per share. The Company's and Pinetree shares are subject to a four-month hold period. No commissions or finder's fees were paid in relation to the transaction.

# MINERAL EXPLORATION PROPERTIES

### *Paso Yobai Gold Project, Paraguay*

The Paso Yobai gold project area consists of 15,020 hectares of mineral rights located near the town of Paso Yobai in the Department of Guairá, Paraguay, approximately 160 km east of the capital city of Asuncion. The project is comprised of two concession groups: the 'Independencia Mine', which is a permitted mining concession 99% owned by the Company (6,596 hectares), and the 100% owned prospecting licence claims (8,424 hectares) over the 'X-Mile Trend' geologic feature.

The project is an advanced exploration prospect held through a wholly-owned subsidiary, defined by: 18,690 soil samples; 28 extensive mechanical exploration trenches, 1,000 m of continuous bulk-sampling excavation, and extensive geophysical data including comprehensive airborne electromagnetic and magnetometer surveys, 1,100 line-km of detailed ground magnetometer surveys, 106 line-km of CSAMT surveys, and 55 line-km of induced polarization/resistivity surveys, in addition to 11,300 m of diamond drilling.

Discovery Trend

The Company has delineated an extensive vein-like structure denoted the Discovery Trend, where gold values occur from surface to greater than 100 m depth, and extend over 2,750 m length within the fully permitted Independencia Mine concession. The trend features extensive mafic dykes with elongate zones of disseminated gold mineralization, frequently interspersed with high-grade shoots notable for abundant coarse gold. The bounding sandstones are often altered and may host low-grade mineralization.

The Discovery Trend remains open to the northwest and to depth. The Company is also investigating additional gold occurrences proximal to the trend, within the permitted mining concession.

Independencia Mine

In February 2012, the Company commenced large scale mineral extraction and open pit bulk-sampling over the Discovery Trend corridor. The ongoing bulk-sampling operation is intended to evaluate the grades, continuity and characteristics of the gold mineralization, and to produce gold doré from sampling to generate positive cash flow from the exploration program. To date, the processing operations have been limited to higher grade vein mineralization, milled and processed using centrifugal and gravitational methods, followed by smelting of doré.

In June, 2014, the Company commenced construction of a heap leach facility to expand the processing operations to lower grade and disseminated mineralization. The Company received an expanded environmental permit for heap leach operation on February 6, 2014. Four reusable leach pads with a total capacity of 28,000 tonnes (per cycle) are now being constructed along with an on-site desorption plant. To accelerate gold recovery, mineralization will be agglomerated with cement prior to being loaded on pads. The Company anticipates that each leach pad can be cycled seven times per year. The first year of heap leach operation is expected to be fed primarily from existing stock piles of assayed material. Ongoing bulk-sampling activities are expected to replenish stockpiles.

To date, bulk-sampling has proceeded over 1,000 m of the Discovery Zone, excavated to as much as 25 m depth. Current development work includes continued lengthening and deepening of the open pit to expose and test new mineralization. Mine-scale mapping, channel-sampling and gold assays are conducted at regular intervals along each 3 m deep mine bench level. Channel sample assays are completed primarily at the Company's onsite fire-assay lab, with control assays repeated by an external certified laboratory.

Results of the bulk sampling program show that mineralization consists of narrow veinlets with coarse gold, though a significant volume of low-grade disseminated gold mineral has also been identified that was not prominent in exploratory drilling. The coarse gold veins typically occur as 2 m to 10 m long, 5 cm to 1 m wide shoots of high-grade mineralization (> 3 gpt average but individual shoots can exceed 100 gpt) surrounded by a lower grade halo (0.5 -1 gpt). The ratio of low-grade to high-grade tonnage is approximately 10 to 1, signifying that the halo could significantly increase the resource potential of the trend. Bulk sample testing also demonstrates that mineralization is more continuous than reflected in exploratory drilling, and that although the shoots are typically narrow with pinching and swelling character, they demonstrate continuity along the trend. Compilation of bulk-sample and drill data indicates that gold grades tend to improve with depth in the first 100 m from surface.

X-Mile Trend

The X-Mile Trend is a gold geochemistry feature extending 14.8 km in length, located 3.5 km northeast of the Discovery Trend. X-Mile Trend mineral targets do not appear to be confined to linear, steeply-dipping, altered mafic dikes within bounding sandstones, thus differing in configuration from the Discovery Trend. Airborne magnetic data indicate abundant magnetic mafic rock below the full extent of the X-Mile Trend, suggestive of large formations of intrusive host rock that could be receptive to high-grade gold emplacement. Due to the extent and prominence of the gold targets located along the trend, this area is the focus of the Company's current exploration efforts.

Drilling and trenching have confirmed the Tacurú Block is an important gold discovery on the X-Mile Trend: Trench TRT-1 averaged 3.8 gpt gold over 30.55, twelve diamond drill holes totaling 1,712 m have been completed to a maximum depth of 115 m and all intersected gold mineralization.

Extensive geophysical imaging was completed in 2013 in which 106 line-kilometres of Controlled Source Audio-frequency Magneto Telluric surveys ("CSAMT") and 55 line-kilometres of gradient-array Induced Polarization (IP) surveys were completed. Geophysical targets correlating to high gold geochemistry values were detected at the Moroti, Tacurú, Cresta, Ycua Pora and Kaaguy prospects located along the X-Mile Trend, and at the Sudetia Target and Discovery Zones, located along the Discovery Trend. The Company will continue to investigate these targets through modelling and ground-follow-up, prior to finalizing a drill program.

### *Repatriación Gold Project, Paraguay*

Through regional sampling, the Company identified and claimed a new gold prospect area of 9000 ha located 20 kilometers north of Paso Yobai. The Company will begin basic exploration when resources become available.

### *Itapoty Diamond Project, Paraguay*

The Itapoty diamond project is located in Paraguay approximately 150 km northeast of Asuncion. Geologically, this area corresponds to the diamond-rich Alto Paranaiba Igneous Province extending south from Brazil. The project consists of two 100%-owned exploration property claims, totalling 155,800 hectares. The property has been explored primarily with ground magnetometer surveys and stream-sediment and soil sampling. Approximately 80 macro diamonds and a number of kimberlite indicator mineral (KIM) specimens have been recovered in this work. No diamond sources or host rocks have yet been identified. The Company is seeking a joint venture partner to advance the project.

### *Chiriguelo Niobium / Rare Earth Project, Paraguay*

The Chiriguelo Project consists of a 25,500 hectare prospect that is 100% owned by the Company, located approximately 330 km northeast of Asuncion. The Chiriguelo Carbonatite Complex represents a prime exploration target for niobium and rare earth elements. The niobium ore 'pyrochlore' has been found in abundance at Chiriguelo, both at surface and in historic drilling. Worldwide production of niobium is limited, with the main production occurring in Brazil at deposits geologically similar to Chiriguelo.

Work at the project has been suspended due to market conditions. The Company is seeking a joint venture partner to advance the project.

### *Tendal Zinc - Copper Property, Argentina*

The Company holds a 100% interest in the 32 Tendal mineral concessions and claims, comprising a contiguous land parcel totalling 84,500 hectares, located in the province of La Rioja in northwestern Argentina. Massive sulphides outcrop on surface over a 2 km length in the Espinal Formation, and in the Rio Bonete Formation with a smaller footprint on the surface, extending 400 m in length along two zones that are 8 m wide. Copper-mineralized porphyry has been sampled and drilled at the Salto de Albi target and other porphyry intrusives have been mapped on the project. Work at the project has been suspended due to market conditions. The Company is seeking a joint venture partner to advance the project.

## SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

| Three Months Ended | Net Loss ($000's) | Comprehensive Income (Loss) ($000's) | Basic and diluted loss per share |
|---|---|---|---|
| **2014 – June 30** | **$ (214)** | **$ (1,019)** | **$ (0.00)** |
| 2014 – March 31 | (272) | 985 | (0.00) |
| 2013 – December 31 | (841) | (830) | (0.01) |
| 2013 – September 30 | (318) | (163) | (0.00) |
| 2013 – June 30 | (480) | (1,848) | (0.01) |
| 2013 – March 31 | (515) | 821 | (0.01) |
| 2012 – December 31 | (413) | 230 | (0.00) |
| 2012 – September 30 | (773) | (1,259) | (0.01) |

Results of operations can vary significantly as a result of a number of factors. The Company's level of activity and expenditures during a specific quarter are influenced by the level of working capital, the availability of external financing, the time required to gather, analyze and report on geological data related to its properties and the nature of activity required to advance each individual project. The granting of stock options to officers, directors and consultants gives rise to non-cash stock-based compensation expense.

## RESULTS OF OPERATIONS

<u>Three months ended June 30, 2014, and 2013:</u>

For the three months ended June 30, 2014, the Company's net loss was $214,079 ($0.00 per share), compared to a net loss of $480,608 ($0.01 per share) for the three months ended June 30, 2013.

The decrease of $266,529 in net loss for the period is mainly as result of the following:

- The Company expensed share based payments of $22,273, for the three months ended June 30, 2014 (June 30, 2013 - $184,928), as a result of the April 30 and December 12, 2013 option grant.

- The Company incurred professional fees of $50,678 for the three months ended June 30, 2014 (June 30, 2013 - $56,237); the decrease of $5,559 was as a result of a reduction in legal services used by the Canadian corporate office and the Paraguayan subsidiaries.

- The Company registered a loss on foreign exchange of $8,357 during the three months ended June 30, 2014 compared to a gain of $46,579 during same period in 2013. The difference of $54,936 is attributed to a weaker Canadian dollar against the US dollar in the second quarter of 2014 compared to the same period in 2013.

- Administrative expenses were lower by $152,863 for the three months ended June 30, 2014 compared with same period 2013. This decrease is detailed as follows:

| Three Months ended June 30, | | **2014** | | 2013 | | Change |
|---|---|---|---|---|---|---|
| Salaries and benefits (1) | **$** | **39,882** | $ | 82,096 | $ | (42,214) |
| Director fees | | **30,400** | | 30,400 | | (-) |
| Evaluation and exploration costs (2) | | **13,132** | | 32,969 | | (19,837) |
| Investor relations (3) | | **11,089** | | 76,962 | | (65,873) |
| Depreciation | | **2,118** | | 2,516 | | (398) |
| General and administrative (4) | | **38,751** | | 63,292 | | (24,541) |
| | | **$135,372** | $ | 288,235 | $ | (152,863) |

1. Salaries and benefits decreased by $42,214 as compared to the three months ended June 30, 2013. This decrease was a result of cost cutting measures, reduced personnel in Paraguay and in Canada, and temporary salary reductions for senior management.

2. Evaluation and exploration costs decreased by $19,837 as compared to the three months ended June 30, 2013. This is mainly attributable to a decrease in exploration activities in Paraguay as well as reduced activities at the non-core mineral property Tendal, which has previously been fully written down.

3. Investor relations decreased by $65,873 as compared to the three months ended June 30, 2013. This is mainly attributable to a decrease in marketing activities during the quarter in an effort to reduce the Company's cash expenditures. During the three months ended June 30, 2014, the Company's management conducted all the investor relations activities.

4. General and administrative expenses decreased by $24,541 as compared to the three months ended June 30, 2013, the decrease is attributable to broad cost saving measures in Canada and Paraguay during the three months ended June 30, 2014.

For the three months ended June 30, 2014, the Company had an exchange loss on translation of foreign operation of $804,760 as compared to a loss of $1,367,442 for the three months ended June 30, 2013. The aforementioned change was attributed to a reduced devaluation of the

Paraguayan Guarani in the second quarter of 2013 compared to the same period in 2014 versus the Canadian dollar.

As a result total comprehensive loss, for the three months ended June 30, 2014, was $1,018,839 as compared to a loss of $1,848,050 for the three months ended June 30, 2013.

Six months ended June 30, 2014, and 2013:

For the six months ended June 30, 2014, the Company's net loss was $485,571 ($0.01 per share), compared to a net loss of $996,514 ($0.01 per share) for the six months ended June 30, 2013.

The decrease of $510,943 in net loss for the period is mainly as result of the following:

- The Company registered a warrant modification expense of $Nil for the six months ended June 30, 2014 (June 30, 2013 - $323,956).

- The Company expensed share based payments of $90,778, for the six months ended June 30, 2014 (June 30, 2013 - $184,928), as a result of the April 30 and December 12, 2013 option grant.

- The Company incurred professional fees of $121,151 for the six months ended June 30, 2014 (June 30, 2013 - $131,009); the decrease of $9,858 was as a result of a reduction in legal services used by the Canadian corporate office and the Paraguayan subsidiaries.

- The Company registered a loss on foreign exchange of $14,580 during the six months ended June 30, 2014 compared to a gain of $182,653 during same period in 2013. The difference of $197,233 is attributed to a weaker Canadian dollar against the US dollar in the first six months of 2014 compared to the same period in 2013.

- Administrative expenses were lower by $286,132 for the six months ended June 30, 2014 compared with same period 2013. This decrease is detailed as follows:

| Six Months ended June 30, | | **2014** | | 2013 | | Change |
|---|---|---|---|---|---|---|
| Salaries and benefits (1) | **$** | **75,018** | $ | 165,272 | $ | (90,254) |
| Director fees | | **56,400** | | 57,600 | | (1,200) |
| Evaluation and exploration costs (2) | | **18,845** | | 71,754 | | (52,909) |
| Investor relations (3) | | **20,508** | | 115,652 | | (95,144) |
| Depreciation | | **4,355** | | 4,958 | | (603) |
| General and administrative (4) | | **81,689** | | 127,711 | | (46,022) |
| | **$** | **256,815** | $ | 542,947 | $ | (286,132) |

5. Salaries and benefits decreased by $90,254 as compared to the six months ended June 30, 2013. This decrease was a result of cost cutting measures, reduced personnel in Paraguay and in Canada, and temporary salary reductions for senior management.

6. Evaluation and exploration costs decreased by $52,909 as compared to the six months ended June 30, 2013. This is mainly attributable to a decrease in exploration activities in Paraguay as well as reduced activities at the non-core mineral property Tendal, which has previously been fully written down.

7. Investor relations decreased by $95,144 as compared to the six months ended June 30, 2013. This is mainly attributable to a decrease in marketing activities during the quarter in an effort to reduce the Company's cash expenditures. During the six months ended June 30, 2014, the Company's management conducted all the investor relations activities.

8. General and administrative expenses decreased by $46,022 as compared to the six months ended June 30, 2013, the decrease is attributable to broad cost saving measures in Canada and Paraguay during the six months ended June 30, 2014.

For the six months ended June 30, 2014, the Company had an exchange gain on translation of foreign operation of $451,314 as compared to a loss of $30,070 for the six months ended June 30, 2013. The aforementioned change was attributed to the increased appreciation of the Paraguayan Guarani for the six months of 2014 compared to the same period in 2013 versus the Canadian dollar.

As a result total comprehensive loss, for the six months ended June 30, 2014, was $34,257 as compared to a loss of $1,026,584 for the six months ended June 30, 2013.

## LIQUIDITY AND CAPITAL RESOURCES

The activities of the Company, which consist of the acquisition and exploration of mineral properties, are financed through the completion of equity offerings, cash flow generated from pre-production gold sales and the exercise of stock options and warrants.

During the six months ended June 30, 2014, the Company had cash of $425,150 compared to $189,933 at December 31, 2013. The Company had a working capital of $181,994 at June 30, 2014, compared to working capital deficit of $236,434 at December 31, 2013. The Company sold gold and silver for net proceeds of $592,225 for the period ended June 30, 2014 compared to $911,273 for the same period in 2013. The drop in production was due to a prolonged rainy season during the months of May and June, 2014, impacting the extraction capacity at the Independencia Mine.

The prior negative working capital situation has been contained by the successful execution of the plan announced in Q3-Q4 2013 MD&A to improve the Company's financial stability:

| 2014 Action Plan | Current Status |
|---|---|
| The Company received its heap leach permit on February 6, 2014 from the Paraguayan environmental authority. The company is planning to implement a 28,000 tonne heap leach facility. In order to finance this expansion, the Company is in the approval process for a bank loan for an estimated USD$700,000 from a Paraguay-based bank.<br><br>Management's expectation is that this plant, combined with the current gravity concentration facility will generate enough cash flow to cover all Company's operating costs, at its reduced spending levels, starting in Q1 2015. | On June 19, 2014, the Company announced the receipt of a US$ 700,000 ($758,520) loan provided by the Banco Bilbao Vizcaya Argentaria (BBVA) in Paraguay, which is divided in two parts. The first is a secured 6 year loan ("term loan") of US$600,000 ($650,160) including a year grace period on capital, bearing an annual interest rate of 10%. Subject to a penalty of 4% over the balance outstanding, the Company is allowed to prepay the term loan. The second is a revolving line of credit of US$100,000 ($108,360) bearing an interest rate of 8.5% for the applicable interest period.<br><br>The company is currently deploying the proceeds of the term loan and the revolving line of credit in the construction of the heap leach facility as well as general working capital purposes associated with the Paso Yobai gold project. Construction is expected to be completed by Q4 2014. |
| The Company has sales tax credits totalling $566,952 that are expected to be received in installments during 2014 and 2015.<br><br>Aside from these recoverable sales tax credits, the Company intends to apply for the long-term sales tax credits capitalized under Mineral Properties. These credits are related to deferred exploration and expenditures on PP&E. Per local tax regulations, the Company requires sales income to claim these credits. With the ongoing doré sales from its bulk sampling facility, the Company can apply for these credits. Currently, the Company is employing a local tax advisor to facilitate the processing of these sales tax credit claims. As the final amount has not been defined, the Company is cautious in forecasting the total amount that could be recovered as well as the envisaged timeframe. Management's | On March 25, 2014, the Company received notification that the first installment of recovered sales tax, totalling $40,243, was approved by the Paraguayan tax authority.<br><br>The Company solicited three additional claims totaling $95,640 and upon receiving approval will subsequently continue with additional claims of similar dollar value. Management expects to receive the amount specified from September to October 2014.<br><br>During June 2014, Management re-classed from Mineral Properties Paso Yobai Gold Project to Sales Tax Recoverable a total of $424,214 after the external tax auditor in Paraguay validated the claims. As a result of this Management split the $424,214 in $206,266 as current and $217,948 as non-current.<br><br>There is no assurance that the Paraguayan tax authority will pay these values in that time or approve the entire amount. The tax authority has |

| | |
|---|---|
| expectation is that the final total claim values could be in the range of $400,000 to $500,000 and that all claims could be received within two years. | the right to challenge the items that comprise each sales tax credit claim. As a result, there may be delays in the process or significant reductions in the credit values recovered. Significant judgement is required by Management on measurement and classification of Paraguayan recoverable sales tax. |
| Cost-reductions have been implemented including senior management salary reductions, staff layoffs, deferred payment of directors' fees and overhead reductions in Canada and Paraguay. These measures will have no impact on the production levels or gold sales in Paraguay. | Executed - refer to Results of Operations in this MD&A.<br><br>Temporary cost containment measures remain in place, among others, the Company is deferring Directors' fees and Management is working with reduced compensation. In April 2014, the Company succeeded in subleasing its Toronto office space for the same terms as the head lease. |
| Exploration activities have been reduced with an ongoing focus on gold production from the bulk sampling activities, which generate cash flow. | The company implemented a program to focus on high grade areas in an effort to increase the value of its gold extraction operation.<br><br>No further basic exploration activities are planned at this time for the remainder of the properties due to current cash constraints. |
| Financing activities - Management is actively seeking additional financing to secure the Company's financial stability. | On April 24, 2014, the Company completed a non-brokered private placement financing for gross proceeds of $422,000.<br><br>On July 11, 2014, the Company issued 10,000,000 common shares to Pinetree Capital Ltd. ("Pinetree") at a deemed price of $0.10 per share for a transaction value of $1,000,000 in exchange for 2,000,000 common shares of Pinetree at a deemed price of $0.50 per share. The Company's and the Pinetree shares are subject to a four-month hold period.<br><br>These amounts will be used to further develop the Paso Yobai gold project. |

The Company's working capital deficiency had been corrected by the successful implementation of the previously mentioned action plan. The future gold sales of the 28,000 tonne re-usable heap-leach facility combined with future gold sales from the mill and concentrator plant are expected to generate positive cash flows starting in Q1 2015. Management expects that with the sale of 10,000,000 common shares to Pinetree Capital Ltd. (acquired on July 11, 2014), the future recoveries of sales tax credits and the expected proceeds from the bulk sampling facilities, the Company will not require further injection of capital in fiscal 2015, based on current operating levels. The Company will continue the cost containment measurements during the remainder of 2014.

There is no assurance that the Company will be successful in achieving the implementation of the 28,000 tonne heap leach facility or the recovery of the sales tax credits from the Paraguayan government. Spending levels may change depending on the results of the Company's bulk sampling program and there is no certainty of success in its operations, or that the Company will be able to continue without additional financing. The Company may require additional funds in the near future, should production from the bulk sampling activities be less than expected. Furthermore, there is no assurance the Company will be in a position to repay the USD$ 600,000 secured term loan or the USD$100,000 revolving line of credit, as repayment will be contingent on the positive cash flow generated from the bulk sampling activities as well as from any new equity or debt financing.

Total assets were $18,164,874 at June 30, 2014, compared to the December 31, 2013, balance of $16,745,584. Cash and cash equivalents increased to $235,217 from $189,933 with the property rights, and evaluation and exploration costs increasing to $15,397,174 at June 30, 2014, from $14,764,421 at December 31, 2013. Property plant and equipment was $1,367,257 at June 30, 2014, an decrease from $1,518,520 at December 31, 2013. These changes were primarily due to further exploration activities focused on the Discovery Trend, in particular the heap leach facility implementation performed at the Paso Yobai gold project and physical improvements at the bulk sampling facility. These capitalized expenditures were primarily funded by the extension of the notes payable from March 5, 2014 of $169,150 to directors of the Company, the private placement of $422,000 from April 24, 2014, the Paraguayan bank loans of USD$700,000 and by the sale of gold and silver yielding a net amount of $592,225 during the six month period ended June 30, 2014.

Amounts payable and accrued liabilities increased from $533,329 at December 31, 2013, to $893,801 as at June 30, 2014. The increase of $360,472 refers to unpaid expenditures associated with the geophysical survey, technical consultants at Paso Yobai, legal fees, director's fees, the bulk sampling facility's suppliers and the implementation of the heap leach facility.

On June 19, 2014, the company announced the receipt of a USD$ 700,000 ($ 758,520) loan provided by the Banco Bilbao Vizcaya Argentaria (BBVA) in Paraguay, which is divided in two parts. The first is a secured 6 year loan ("term loan") of USD$ 600,000 ($ 650,160) including a year grace period on capital, bearing an annual interest rate of 10%. Subject to a penalty of 4% over the balance outstanding, the Company is allowed to prepay the term loan. The second is a revolving line of credit of USD$ 100,000 ($108,360) bearing an interest rate of 8.5% for the applicable interest period.

Both, the term loan and the revolving line of credit are secured by the pilot plant machinery and certain real estate in Paraguay, but the security does not affect the heap leach operations, any surface rights of the X-Mile Trend or Discovery Trend or any other of the Company's mineral properties.

On September 5, 2013, the Company issued notes payable in the aggregate principal amount of $169,150 to certain directors of the Company. These notes, with a maturity of March 5, 2014, were issued at a purchase price of 94% of the principal amount, generating net proceeds of $159,000, and include a general security interest over the assets of the Company. On March 5, 2014, the notes payable were extended for six months until September 5, 2014. Under the new terms, the notes payable bear an interest rate of 12% per annum with no gold incentive. During the three and six months ended June 30, 2014, the Company recorded interest expense of 2,837 and $7,685, respectively (three and six months ended June 30, 2013 - $nil). On May 21, 2014, the Company repaid in full the notes payable and accrued interest in the aggregate of $173,433.

On March 19, 2014, the Company agreed to sublease the head office premises located at Suite 604 – 357 Bay Street, Toronto, Canada, commencing May 1, 2014 and expiring June 29, 2017. The terms of the sublease are the same as the head lease agreement, signed May 29, 2012; started June 21, 2012 with annual payments of approximately $34,564 ($2,880 monthly), until June 20, 2014 and then approximately $35,346 ($2,946 monthly) until June 30, 2017.

There were no stock options granted during the six months ended June 30, 2014 (six months ended June 30, 2013 - 4,075,000).

As of June 30, 2014, and to the date of this MD&A, the cash resources of the Company are held with select financial institutions in Canada, Paraguay and Argentina.

The Company manages capital based on project requirements being fundable from ongoing working capital and considering additional financings required to provide sufficient funds to maximise investment within exploration and development activities. Such additional financings are contemplated within the context of minimizing share dilution.

## CASH FLOW

Six months ended June 30, 2014, and 2013:

During the six months ended June 30, 2014, the Company used $685,131 of cash in its operations as compared to $900,795 of cash used for the six months ended June 30, 2013. The aforementioned reduction of $215,664 in the usage of cash reflects the cost cutting measurements currently in place. During the current period, amounts receivable increased by $292,075 due to an increase in sales tax recoverable from Paraguay. Prepaid expenses increased by $1,235 due to an increase in expenses associated with Paraguay operations and corporate overhead. Accounts payable and accrued liabilities increased by $206,069 as a result of expenditures incurred during the period associated with Paraguay operations and corporate overhead.

During the six months ended June 30, 2014, the Company used $136,750 of cash in its investing activities as compared to cash used of $91,255 for the six months ended June 30, 2013. During the current period, the Company spent $737,804 on purchase of property rights, evaluation and exploration costs as compared to $968,194 for the six months ended June 30, 2013, reflecting a reduction in the Company's exploration activities in Paraguay even though the certain expenditures increased with the implementation of the heap leach facility. The net proceeds from bulk sampling activities were $592,225 as compared to net cash generated of $911,273 for the six months ended June 30, 2013, this lower production was as a result of unexpected and prolonged rainy season during May and June 2014. The company spent $2,525 on purchase of property, plant and equipment compared to $34,334 for the six months ended June 30, 2013; resulting from reduced requirements for capital expenditure at the mill and concentrator plant.

During the six months ended June 30, 2014, the Company generated $997,099 of cash from its financing activities, as compared to cash generated of $493,740 for the six months ended June 30, 2013. During the six months ended June 30, 2014, the Company received net proceeds of $418,420 for the shares and warrants issued in the private placement completed on April 24, 2014. On February 6, 2013, the Company completed a non-brokered private placement of 5,000,000 common shares resulting net proceeds to the Company of $493,740. On June 19, 2014, the Company announced the receipt of a US$ 700,000 ($758,520) in loans provided by the Banco Bilbao Vizcaya Argentaria (BBVA) in Paraguay. On May 21, 2014, the Company repaid in full the notes payable, issued on September 5 2013, and the accrued interest in the aggregate of $173,433.

During the six months ended June 30, 2014, the Company had a net increase in cash and cash equivalents of $175,218 as compared to a net decrease in cash and cash equivalents of $498,310 for the six months ended June 30, 2013. For the six months ended June 30, 2014, the Company also had a foreign exchange gain of $59,999 leaving cash and cash equivalents balance of $425,150 as at June 30, 2014 as compared to a foreign exchange loss of $33,515, leaving a cash and cash equivalents balance of $365,644 as at June 30, 2013.

## RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2014, the Company incurred the following related party transactions:

(a) $18,000 and $36,204, respectively (three and six months ended June 30, 2013 - $40,353 and $80,472, respectively) in fees paid to the Chief Executive Officer of the Company pursuant to an employment contract

(b) $16,200 and $33,132, respectively (three and six months ended June 30, 2013 - $36,000 and $72,000, respectively) in fees paid to the Chief Financial Officer of the Company pursuant to an employment contract.

(c) $30,400 and $56,400, respectively (three and six months ended June 30, 2013 - $30,400 and $57,000, respectively) in director fees. As at June 30, 2014, $117,400 director fees remained payable along with director's expenses of $nil (December 31, 2013 - $61,000 director fees and $22,382 directors' expenses).

(d) $5,145 and $16,372, respectively (three and six months ended June 30, 2013 - $22,010 and $38,348, respectively) in legal fees to a law firm, Gowling Lafleur Henderson LLP, of which a partner is a director of the Company. As at June 30, 2014, the amount of $48,777 (December 31, 2013 - $30,282) remained payable.

(e) $9,812 and $26,366, respectively (three and six months ended June 30, 2013 - $15,354 and $30,474, respectively) to a director of the Company pursuant to a service contract for geological services. As of June 30, 2014, $500 (December 31, 2013 - $nil) was owed to the director.

(f) Please refer to note 9 in the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2014, for notes payable issued and repaid to certain directors of the Company.

**Key management compensation:**

The compensation expense for key management is as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2014** | **June 30, 2013** | **June 30, 2014** | **June 30, 2013** |
| Directors (i) | **$ 30,400** | $ 30,400 | **$ 56,400** | $ 57,600 |
| Officers | **$ 38,778** | $ 76,353 | **$ 69,336** | $ 152,472 |
| Share-based payments | **$ 19,796** | $ 139,439 | **$ 77,152** | $ 139,439 |

(i) As part of the Company's cost containment measures, director fees are accrued and not paid.

## OFF-BALANCE-SHEET ARRANGEMENTS

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.

## SEGMENTED INFORMATION

Operating segments were identified on the basis of internal reporting reviews performed by Management. Three segments were identified based on the geographical areas and the reporting structure. The accounting policies of the reportable segments are the same as the Company's accounting policies. The Company operates in two geographical operating segments based in Argentina and Paraguay, in addition to its corporate activities in Canada. The Company analyses the performance of operating segments based on loss before taxes. Segmented information is presented in the following table:

| | Canada | Paraguay | Argentina | Total |
|---|---|---|---|---|
| **As at June 30, 2014** | | | | |
| Current assets | **$ 112,290** | **$ 1,040,684** | **$ 29,521** | **$ 1,182,495** |
| Property, plant and equipment | **1,570** | **1,365,687** | **-** | **1,367,257** |
| Property rights, evaluation and exploration costs | **-** | **15,397,173** | **1** | **15,397,174** |
| Total liabilities | **366,921** | **1,451,526** | **684** | **1,819,131** |
| **For the six months ended June 30, 2014** | | | | |
| Net foreign exchange gain (loss) | **199** | **(14,779)** | **-** | **(14,580)** |
| Depreciation | **(1,085)** | **(3,270)** | **-** | **(4,355)** |
| Net loss | **(320,316)** | **(149,364)** | **(15,891)** | **(485,571)** |
| **For the three months ended June 30, 2014** | | | | |
| Net foreign exchange gains | **199** | **(8,556)** | **-** | **(8,357)** |
| Depreciation | **(542)** | **(1,576)** | **-** | **(2,118)** |
| Net loss | **(131,417)** | **(66,771)** | **(15,891)** | **(214,079)** |

| | Canada | Paraguay | Argentina | Total |
|---|---|---|---|---|
| **As at December 31, 2013** | | | | |
| Current assets | $ 122,832 | $ 301,927 | $ 37,884 | $ 462,643 |
| Property, plant and equipment | 2,655 | 1,515,865 | - | 1,518,520 |
| Property rights, evaluation and exploration costs | - | 14,764,420 | 1 | 14,764,421 |
| Total liabilities | 429,829 | 444,886 | 67 | 874,782 |
| **For the six months ended June 30, 2013** | | | | |
| Interest and royalty income | 1,926 | - | 1,747 | 3,673 |
| Net foreign exchange gains (losses) | 271,159 | (89,957) | 1,451 | 182,653 |
| Depreciation | (921) | (4,037) | - | (4,958) |
| Net loss | (747,016) | (194,237) | (55,261) | (996,514) |
| **For the three months ended June 30, 2013** | | | | |
| Interest and royalty income | 524 | - | 1,689 | 2,213 |
| Net foreign exchange gains (losses) | 56,316 | 875 | (10,612) | 46,579 |
| Depreciation | (483) | (2,033) | - | (2,516) |
| Net loss | (409,994) | (44,178) | (26,436) | (480,608) |

# CRITICAL ACCOUNTING ESTIMATES

The Company prepares its consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS"). The preparation of the Company's consolidated financial statements requires Management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company lists its significant accounting policies in Note 3 of its consolidated financial statements, dated December 31, 2013.

As of August 21, 2014 and for the three months ended June 30, 2014, there have been no changes on the Company's accounting policies, apart from the one mentioned below.

Critical Accounting Estimates: Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of recoverable value on its mineral properties as well as the value of stock-based compensation. Both of these estimates involve considerable judgment and are, or could be, affected by factors beyond the Company's control. The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is beyond the Company's control and will depend upon a variety of factors including the market value of Company shares and financial objectives of the holders of the options. The Company has used historical data to determine volatility in accordance with Black-Scholes modeling, however the future volatility is inherently uncertain and the model has limitations. While these estimates can have a material impact on the stock-based compensation and hence results of operations, there is no impact on the Company's financial condition.

The Company's recorded values of its mineral properties are based on historical costs that are expected to be recovered in the future. The Company's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale.

The Company operates in an industry that is exposed to risks and uncertainties, including exploration risk, development risk, commodity price risk, operating risk, ownership and political risk, funding and currency risk, as well as environmental risk. Bearing these risks in mind, the Company has assumed recent world commodity prices will be achievable, as will costs used in studies for potential construction and mining operations. Accordingly, there remains the potential for a material adjustment to the value assigned to mineral properties.

## NEWLY ADOPTED ACCOUNTING POLICIES

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Company's consolidated financial statements and notes thereto for the year ended December 31, 2013, except for any new accounting pronouncements which have been adopted.

The Company has adopted the following accounting policy and amended standard during the period:

Borrowing costs - borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized as they accrue, in profit or loss using the effective interest method.

IAS 32 – Financial Instruments. Presentation was amended to clarify that the right of offset must be available on the current date and cannot be contingent on a future date. As of January 1, 2014, the Company adopted this amendment and there was no impact on the Company's unaudited condensed interim consolidated financial statements for the six months ended June 30, 2014.

# FINANCIAL INSTRUMENTS

The Company's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

The Company uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks.

Market Risk

Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company primarily operates in Argentina and Paraguay. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency. The Company's risk management policy is to review its exposure to non-Canadian dollar forecast operating costs on a case-by-case basis. The majority of the Company's forecast operating costs are in Paraguayan Guaranies and Canadian dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities in Canadian dollars as at June 30, 2014, is as follows:

| | | Assets | | Liabilities |
|---|---|---|---|---|
| Argentina Pesos | $ | 1,270 | $ | - |
| Paraguayan Guaranies | | 772,232 | | 526,194 |
| United States Dollars | | 558 | | 1,040,434 |
| | **$** | **774,060** | **$** | **1,566,628** |

Sensitivity Analysis

Based on the financial instruments held at June 30, 2014, had the Canadian dollar weakened/strengthened by 10% against these foreign currencies with all other variables held constant, the Company's post-tax loss for the period would have been $79,257 lower/higher as a result of foreign exchange gains/losses on translation of non-Canadian dollar denominated financial instruments as detailed above. The Company's deficit would have been $79,257 lower/higher had the Canadian dollar weakened/strengthened by 10% as a result of foreign exchange gains/losses on translation of non-Canadian dollar denominated financial instruments.
Cash Flow Fair Value Interest Rate Risk

The Company does not have any variable interest-bearing borrowings for which general rate fluctuations apply. The Company is exposed to interest rate risk to the extent of the funds invested in the Company's bank accounts.

Credit Risk

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial instrument. Credit risk arises from cash and cash equivalents with banks and financial institutions as well as credit exposures to outstanding receivables. It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties. Thus the credit risk associated with amounts receivable is also considered to be negligible.

Liquidity Risk

Prudent liquidity risk management implies maintaining at all times sufficient cash, liquid investments and committed credit facilities to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short- or long-term financing of its operations (See note 1 on the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2014).

As at June 30, 2014, the Company had a working capital of $181,994 (December 31, 2013 - $236,434), and anticipates that until the envisaged heap-leach plant is in operation, the bulk-sampling facility at current gold prices will not provide sufficient funds to cover all corporate expenditures for the next 12 month. Cash constraints have caused the company consider financing alternatives while contemplating minimal shareholder dilution.

The Company's expected sources of cash flow in the upcoming year will be from proceeds of doré sales from its bulk sampling facility combined with the envisaged production from the heap leach facility under construction at the Paso Yobai gold project, Paraguayan sales tax recoveries, possible equity financings, loans, lease financing and entering into joint venture agreements; or any combination thereof. See also Liquidity and Capital Resources section in this MD&A.

Commodity 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 mineral prices to determine its appropriate course of action. Commodity price risk may affect the proceeds generated from bulk sampling and also the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations. A decline in the market prices for these minerals could negatively impact the Company's future operations. The Company has not hedged any of its gold sales.

Fair Value Estimation

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies, however considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, or for disclosure purposes. The carrying values of cash and cash equivalents, amounts receivable, accounts payable, accrued liabilities and notes payable are assumed to approximate their fair values due to their short-term nature.

## CAPITAL MANAGEMENT

The Company includes the following items in its managed capital:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Capital stock | **$ 21,405,874** | $ 21,229,836 |
| Warrants | **2,529,273** | 2,286,891 |
| Contributed surplus | **9,064,701** | 8,973,923 |
| Accumulated other comprehensive income | **876,555** | 425,241 |
| Deficit | **(17,530,660)** | (17,045,089) |
| | **$ 16,345,743** | $ 15,870,802 |

The Company manages and adjusts its capital structure in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company manages capital through its financial and operational forecasting processes, and reviews its working capital and cash flow forecasts based on operating expenditures and other investing and financing activities. Forecasts are updated based on activities related to its mineral properties. Selected information is provided to the board of directors of the Company. There were no changes to the Company's objectives in managing and maintaining capital during the three and six months ended June 30, 2014.
The Company's objectives when managing capital are:

(a) to allow the Company to respond to changes in economic and/or marketplace conditions by maintaining its ability to purchase new investments;
(b) to produce sustained growth in shareholder value by increasing shareholders' equity; and
(c) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

The Company maintains or adjusts its capital level to enable it to meet its objectives by:

(a) realizing proceeds from the sale of doré produce by bulk sampling; and
(b) raising capital through equity and debt financings.

The Company is not subject to any capital requirements imposed by a lending institution.

## ENVIRONMENTAL CONTINGENCY

The Company's operations may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that means standards are stricter, 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. The Company intends to comply fully with all environmental regulations.

The Company assumed the liability for mine closure and certain other environmental disturbances related to the Paso Yobai project. The Company's obligation consists of costs related to two distinct activities; the remediation of the land and decommissioning of the mineral property and related assets after its expected closure.

Management has determined that the bulk sampling facility at Paso Yobai will require certain site restoration and decommissioning expenditures in the future. The Company has estimated that future cash flows required to settle obligations of the bulk sampling program are expected to occur in 2022. The provision was calculated using a discount rate of 7% and inflation rate of 4.6% (December 31, 2013 – discount rate of 7% and inflation rate of 4.6%) in the amount of $178,430 (December 31, 2013 – $175,705). During the three and six months ended June 30, 2014, the accretion of the provision was $1,114 and $2,223, respectively (three and six months ended June 30, 2013 - $2,292 and $4,517, respectively) which has been recorded in the property rights and evaluation and exploration costs. During the three and six months ended June 30, 2014, the foreign exchange gain on the provision was $6,423 and $501, respectively (three and six months ended June 30, 2013 - foreign exchange loss of $5,529 and $8,721, respectively) which have been recorded in the condensed interim consolidated statements of loss and comprehensive income for the three and six months ended June 30, 2014.

The reclamation obligation may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements.

## RISKS AND UNCERTAINTIES

The Company is in the mineral exploration and development business and as such is exposed to a number of risks and uncertainties common to other companies in the same business.

Some of the possible risks include the following:

***Global Financial and Mining Industry Conditions***

The mining industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates. Currently, the Company's portfolio of exploration properties is exposed predominantly to variations in the values of gold, silver, diamonds, niobium, rare earth elements, zinc and copper. The prices of these commodities may greatly affect the value of the Company and the potential value of its properties and investments. This, in turn, greatly affects its ability to form joint ventures and the structure of any joint ventures formed. This is due, at least in part, to the underlying value of the Company's assets at different metals prices.

***Financing***

The only source of future funding presently available to the Company is the sale of equity capital, the offering by the Company of an interest in its properties to be earned by a third party carrying out further exploration development, or debt. Management has been successful in accessing the equity markets in the past, but there is no assurance that such sources will be available on acceptable terms in the future. Additionally, any future equity financings by the Company for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders.

***Environmental Regulations***

The Company must comply with environmental regulations governing air and water quality and land disturbance and provide for mine reclamation and closure costs. The Company seeks to operate within environmental protection standards that meet or exceed existing requirements in the countries in which the Company operates. Present or future laws and regulations however may affect the Company's operations. Future environmental costs may increase due to changing requirements or costs associated with exploration, development, operation and closure of mines. Programs may also be delayed or prohibited in some areas.

***Management Expertise***

The Company's business and operations are dependent on retaining the services of a small number of key employees. The success of the Company is, and will continue to be, dependent on the expertise and experience of these employees. The loss of one or more of these employees could have a materially adverse effect on the Company. The Company does not maintain insurance on any of its key employees.

***Commodity 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 mineral prices to determine the appropriate course of action to be taken. Commodity price risk may affect the proceeds generated from bulk sampling and also the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations. A decline in the market prices for these precious metals could negatively impact the Company's future operations. The Company has not hedged any of its gold sales or against the gold incentive component from the notes payable.

### *Tax Uncertainty*

Mining tax regimes in foreign jurisdictions are subject to differing interpretations and may be subject to change and may include fiscal stability guarantees. Looking forward, the Company plans to generate positive cash flows from the proceeds received from the incidental sale of gold samples processed through the bulk sampling facility located in Paso Yobai, Paraguay. Currently those proceeds may be exposed to different interpretations of the Paraguayan tax legislation. As a result, transactions may be challenged by tax authorities and the Company's operations may be assessed, which could result in significant additional taxes, penalties and interest.

### *Political Climate*

The Company's international assets and operations are subject to various political, economic and other uncertainties, including risk of political instability and changing political conditions, labour and civil unrest, acts of terrorism, expropriation, nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts; adverse changes in mining, taxation or other laws and policies and foreign exchange and repatriation restrictions; restrictions on foreign investment in, or ownership of, resources; and trade barriers or restrictions. The Company also may be hindered or prevented from claiming against or enforcing its rights with respect to a government's action because of the doctrine of sovereign immunity. It is not possible for the Company to accurately predict political or social conditions or developments or changes in laws or policy or to what extent, if any, such conditions, developments or changes may have a material adverse effect on the Company's operations. Moreover, it is possible that deterioration in economic conditions or other factors could result in a change in government policies respecting the presently unrestricted repatriation of capital investments and earnings.

Acquiring title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed or impugned. Although the Company has investigated its title to the mineral properties for which it holds concessions or mineral leases or licenses, there can be no assurance that the Company has valid title to such mineral properties or that its title thereto will not be challenged or impugned. For example, mineral properties sometimes contain claims or transfer histories that examiners cannot verify. The Company does not carry title insurance with respect to its mineral properties. A successful challenge to a Company claim could cause the Company to lose its rights to mine that property, perhaps without compensation for its prior expenditures relating to the property. In addition, surface access to mineral properties can sometimes be difficult and may require negotiation with the surface owner or reliance on legal processes, both of which can be time consuming and expensive.

Informal miners have illegally entered onto the Company's properties in the past and the Company can provide no assurance that similar issues will not arise in the future. From time to time it is possible that there could be clashes between the informal miners, and the Company's security staff or law enforcement personnel. Given the nature of the current and future operations, any presence of informal miners may create a safety issue for both the informal miners and Company personnel, and may cause disruptions. The Company has followed a strategy of containment and regular reporting of illegal activities to the authorities. The Company has not directly confronted small illegal miners on its concession in the past, but in accordance with the laws of Paraguay, and in support of the local police, the Company does not permit encroachment onto its properties. There remains a risk that from time to time confrontations from attempted encroachments may arise, resulting in violence and/or damage to the property.

The Company has prepaid for various surface agreements that make up the Company's exploration projects. While these agreements are in place, there can be no guarantee that the counterparties to these agreements will allow the Company to renew these agreements upon expiration. In such a case, the Company may be unable to access the lands on which the Company currently operates.

***Risk Associated with an Emerging and Developing Market***

The Company actively operates in Paraguay, which is considered an emerging market. Paraguay is described as a stable democratic country for the past two decades. Government bond rating was increased to Ba2 from Ba3, on February 4, 2014, by credit rating agency Moody's. On August 4, 2014, Paraguay sold $1 billion dollar in 30 year bonds with a yield of 6.1%, compared with an average yield of 6.29% for similar maturity notes from countries that share Paraguay's BB rating from Standard & Poor's, according to data compiled by Bloomberg. During June 2014, Standard & Poor's raised two steps below the investment grade Paraguay's credit rating, "as the measures from the current government will fuel growth". The country has the fastest growing economy in South America and through the years it has made a reputation among emerging market investors as a profitable and stable jurisdiction. Currently, there is no legal or practical restriction to transfer funds in or out of the country.

The lack of familiarity within the investor community regarding Paraguay affects the availability of credit to the Company. Moreover, the levels of investor confidence in Paraguay may impact market and investor's confidence. Cases including a decrease in credit ratings, state or central bank intervention in one market, corruption, labour and aboriginal relations, nationalization of resources by the government, terrorist activity and security could affect the share price, availability of funding, financial condition and results of operations for entities within any of these markets.

Current volatility in the international and domestic capital markets has led to reduced liquidity and increased credit risk premiums for certain market participants, and have resulted in a reduction of available financing. The Company may be subject to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in experiencing financial difficulty.
Legal frameworks are developing in accordance with international standards and the requirements of a market economy. Though, laws relating to foreign investment, subsurface

use, licensing, usage of chemicals for mineral extraction, companies, taxes, customs, currency, capital markets, pensions, insurance, banking and competition have been enacted or are still developing. Consequently, certain areas of judicial practice are not yet fully developed are often difficult to predict and can result in arbitrary rulings.

Government authorities in emerging market countries often have a high degree of discretion and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may not be in full accordance with the law or that may be influenced by political or commercial considerations. Unlawful, selective or arbitrary governmental actions could include denial or withdrawal of licences, sudden and unexpected tax audits, forced liquidation, criminal prosecutions and civil actions. Although unlawful, selective or arbitrary government action may be challenged in court, such action, if directed at the Company or its shareholders, could have a material adverse effect on the Company's business, results of operations, financial condition and future prospects.

Companies operating in emerging markets are subject from time to time to the illegal activities of others, corruption or claims of illegal activities. Often in these markets the bribery of officials remains common, relative to developed markets. Social instability caused by criminal activity and corruption could increase support for renewed central authority, nationalism or violence and thus materially adversely affect the Company's ability to conduct its business effectively. Such activities have not had a significant effect on the Company's operations; however, there can be no assurance that they will not in the future, in which case they could restrict the Company's operations, business, financial condition, results of operations and future prospects and the value of the Company could be adversely affected by illegal activities by others, corruption or by claims, even if groundless, implicating the Company in illegal activities.

Investors in emerging markets should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, fiscal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved in an investment in the Company and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging and developing markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved.

### *Legal Contingencies*

There is always a risk that the Company could be involved in various claims and litigations arising from the Company's normal course of business, such as surface agreements, employment and service contractor disputes. Currently management, while consulting with the Company's legal advisers, have found the probability remote of an adverse decision being made in any pending or threatened proceedings related to these and other matters, or in any other matters where an amount that would be required to paid for any reason, would have a material impact on the Company's financial position, results of operations, or cash flows. However, there can be no assurances that such matters will be resolved in the Company's favour over time; thus making these matters highly uncertain.

## ADDITIONAL INFORMATION

On July 11, 2014, the Company issued 10,000,000 common shares to Pinetree Capital Ltd. ("Pinetree") at a deemed price of $0.10 per share for a transaction value of $1,000,000 in exchange for 2,000,000 common shares of Pinetree at a deemed price of $0.50 per share. The Company's and Pinetree shares are subject to a four-month hold period.

## SHARE CAPITAL

As of August 21, 2014, the Company had 108,678,504 issued and outstanding common shares. In addition, the Company had 9,112,000 stock options and 19,958,000 warrants outstanding. Therefore, the Company had 137,748,504 common shares outstanding on a fully diluted basis. See also note 10 to the unaudited financial statements for the three months and six months ended June 30, 2014.