RAE WALLACE MINING COMPANY
Management's Discussion and Analysis
of Financial Condition and Results of Operation
March 31, 2013

Management's discussion and analysis (MD&A) is current to May 27, 2013 and is management's assessment of the operations and the financial results together with future prospects of Rae-Wallace Mining Company ("Rae Wallace" or the "Company"). This MD&A should be read in conjunction with our unaudited interim consolidated financial statements and related notes for the three month periods ended March 31, 2013 and 2013 and our audited consolidated financial statements and related notes for the years ended December 31, 2012 and 2011 prepared in accordance with International Financial Reporting Standards. All figures are in U.S. dollars unless stated otherwise. This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to Rae Wallace's future results as there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward looking statements. The Company has adopted National Instrument 51-102F1 as the guideline in presenting the MD&A. Additional information relevant to Rae Wallace's activities, including Rae Wallace's Press Releases can be found on SEDAR at www.sedar.com.

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1. Description of Business

Rae-Wallace Mining Company was incorporated under the laws of the State of Idaho in 1916. After several decades of dormancy, the Company reorganized in 1997 as an exploration stage company focused on evaluating, acquiring and exploring mineral prospects with potential for economic deposits of gold and silver.

In 1998, the investor group controlling Rae-Wallace sold their entire interest to Silver Trend Mining Company for 1,500,000 shares of Silver Trend common stock. In 1999, Silver Trend sold the Company to a private investment group, which subsequently conveyed proportional interests to individual investors. In January 2007, the Company underwent a change of control with a new management group joining the Company. On June 30, 2011, the Company's changed its fiscal year end to December 31 from June 30.

The profitability and operating cash flow of the Company is affected by various factors, including the market price of gold and silver and other commodities, operating costs, political risk, interest rates, regulatory and environmental compliance, general and administrative costs, the level of exploration and development expenditures and other discretionary costs. While Rae Wallace seeks to manage the level of risk associated with its business, many of the factors affecting these risks are beyond the Company's control.

As at May 27, 2013, the directors and officers of the Company were:

George Cole	Chief Executive Officer, Director
Andres Tinajero	Chief Financial Officer
Steve Friberg	Vice President, Exploration
Chris Irwin	Corporation Secretary
Bryan Morris	Director
Randal Hardy	Director
Gary Nordin	Director
Greg Gibson	Director

2. Developments during and subsequent to March 31, 2013

Financing Developments

Effective April 3, 2013 Rae-Wallace Mining Company completed the sale of its wholly owned subsidiary, Rae Wallace Peru S.A.C. (the "Rae Peru"). The subsidiary was sold to an arm's length private company for the purchase price of USD$700,000. The proceeds from the sale of Rae Peru will be used by the company to pay certain creditors and to settle outstanding debts of the Company, with the balance retained for future opportunities.

On January 17th, 2013, the Company received a USD $10,000 loan from the arm's length private company who purchased Rae Peru which was repaid upon closing of the sale of Rae Peru.

On June 7, 2011, the Company issued an aggregate of 289,300 common shares to the holders of the liquidity entitlements in accordance with the terms of the December 2010 private placement and the certificates evidencing the liquidity entitlements. The Company was to complete a "liquidity event" by June 7, 2011, pursuant to the liquidity entitlement attached to each unit on the December 2010 private placement with each liquidity entitlement entitling the holder to one additional common share for each 10 units purchased under the December 2010 private placement if, by June 7, 2011, the Company did not complete a Liquidity Event.

On June 3, 2011, the Company completed a private placement of 390,000 units at $0.25 per unit for proceeds of $92,500. Each unit consists of one common share and one full purchase warrant. Each warrant is exercisable into one common share of the Company at $0.35 expiring in thirty six months after a going public transaction.

On May 20, 2011, the Company completed a private placement of 2,970,000 units at $0.25 per unit for proceeds of $742,500. Each unit consists of one common share and one full purchase warrant. Each warrant is exercisable into one common share of the Company at $0.35 expiring in thirty six months after a going public transaction.

Exploration Development

On July 22, 2011 – The Company entered into an acquisition agreement with Nicholas Goyak ("NG") to sell the right to its 100% owned interest in the ES Lode Mining Claims. Pursuant to the terms of the agreement, in order to earn a 100% interest in the Properties, NG is required to:

1) Pay Rae Wallace US$10,000 on signing of the agreement (payment delivered July 22, 2011);

2) Incur exploration expenditures of $150,000 prior to April 1, 2014;

3) Assign the property to a Company listed on the TSX or TSX-V prior to April 1, 2014.

4) Pay Rae Wallace $1,000,000, deliver 500,000 shares of the Company NG will assign the rights to the property to, and grant a 2% NSR prior to September 30, 2014

If NG fails to make the payment of $1,000,000 and deliver the 500,000 shares as described in (4), Rae Wallace will have the right to enter into a joint venture with NG whereas Rae Wallace will have 20% interest and NG the remaining 80%.

NG may acquire up to 75% of the 2% precious metals NSR granted to Rae Wallace for $500,000 for the first 25%, $500,000 for the second 25% and $1,000,000 for the third 25%.

On July 22, 2011 – The Company entered into an acquisition agreement with Nicholas Goyak ("NG") to sell the right to its 100% owned interest in the EZ Lode Mining Claims. Pursuant to the terms of the agreement, in order to earn a 100% interest in the Properties, NG is required to:

1) Pay Rae Wallace US$10,000 on signing of the agreement;

2) Incur exploration expenditures of $150,000 prior to April 1, 2014;

3) Assign the property to a Company listed on the TSX or TSX-V prior to April 1, 2014.

4) Pay Rae Wallace $1,000,000, deliver 500,000 shares of the Company NG will assign the rights to the property to, and grant a 2% NSR prior to September 30, 2014

If NG fails to make the payment of $1,000,000 and deliver the 500,000 shares as described in (4), Rae Wallace will have the right to enter into a joint venture with NG whereas Rae Wallace will have 20% interest and NG the remaining 80%.

NG may acquire up to 75% of the 2% precious metals NSR granted to Rae Wallace for $500,000 for the first 25%, $500,000 for the second 25% and $1,000,000 for the third 25%.

On March 25, 2010 – The Company entered into a letter of intent agreement with Geologix Explorations Inc. to acquire the right to earn a 100% interest in eight Peruvian properties. The option agreement covers the Liscay, Largatija, Lachoc, Mirko, San Felipe, Sura, Toro Blanco and Cayhua properties (the "Properties") which are currently owned 100% by the Company. Portions of the Liscay, Largatija, Lachoc, and Mirko properties are subject to a 2% precious metals NSR and a 1% base metals NSR payable to Newmont Peru S.A. Pursuant to the terms of the option agreement, in order to earn a 100% interest in the Properties, the Company was required to:

1) Pay Geologix US$30,000 on signing of the Letter of Intent ("LOI") (payment delivered March 8, 2010);

2) Pay Geologix US$67,500 on or before May 31, 2010. Geologix further agrees to use this payment to renew the Properties' concessions for 2010 (paid June 8, 2010);

3) Deliver to Geologix, shares of the Company valued at US$250,000, distributed, as follows:

   (i) 500,000 common shares of the Company to be delivered on or before May 31, 2010, with each share to be accompanied by a half warrant, with each full warrant entitling Geologix the right to purchase one additional common share of the Company for a period of two years from the date the shares are issued; (delivered)

   (ii) An additional payment by the Company of shares and warrants as described in (i) above, was to be delivered within 10 days after the Company completed a private placement or public financing, but no later than September 30, 2010, such that the total value of shares delivered totals US$250,000 (delivered)

Upon completion of the above exchanges and payments, the Company would own the Properties, and Geologix would execute whatever documents were required to transfer title in the Properties to the Company.

If the Company or any of its affiliates should sell, lease, transfer, convey or otherwise dispose of any of the properties or enter into an option or agreement to do any of the same, or if it were to grant a royalty on the properties, or any portion thereof, to a third party before March 8, 2011, the Company would pay Geologix 20% of the proceeds when received from such transaction.
The Company is not obligated to any work commitment on the properties.

Note: Rae-Wallace has completed all option requirements and owns the properties 100%.
On July 22, 2010 the Company entered into an option agreement with Fronteer Gold under which Fronteer Gold can earn a 51% interest in any two of the Peru projects held by the Company by incurring expenditures on the properties of the greater of $150,000 or three times the previous expenditures on the projects. On April 6, 2011, Fronteer Gold assigned all of its interest in this option agreement to Pilot Gold. Pilot Gold is a newly listed gold exploration company spun out of Fronteer as part of Newmont Mining Corporations acquisition of Fronteer Gold.

On July 18, 2012, the Company entered into an agreement with Pilot Gold Inc. whereby Pilot Gold agreed to terminate its option to acquire a 51% in any two of the Company`s Peruvian properties upon the closing of a transaction that results in the listing of the Company`s common shares on a recognized stock exchange, in consideration for: (a) the issuance to Pilot Gold of 1,985,100 common shares of the Company; (b) the issuance to Pilot Gold of additional Common shares of the Company to maintain Pilot Gold 15.8% shareholdings of the Company; (c) the extension of the expiry date of the 1,000,000 ordinary share purchase warrants of the Company currently held by Pilot Gold to the date that is the later of: (i) July 23, 2014; and (ii) 24 months following the closing of the Company`s initial public offering (or other transaction resulting in the listing of the Company`s common shares on a recognized stock exchange); (d) the issuance to Pilot Gold of additional ordinary share purchase warrants, which if such warrants were exercised, would constitute 9.99% of the common shares of the Company after giving effect to the IPO; (e) the grant by Rae-Wallace to Pilot Gold of a 2% net smelter returns royalty; and (f) the grant by Rae-Wallace to Pilot Gold of a right of first offer in the event that the Company wishes to explore/develop any of the optioned projects with a third party.

In contemplation of the sale of Rae Peru, on January 30, 2013 the Company entered into an amending agreement with Pilot Gold Inc. which amended the terms of the July 18, 2012 termination agreement as described above to, among other things, clarify the rights and obligations of the parties, including: (i) providing a waiver from Pilot Gold Inc. to the Company with respect to its rights of first refusal on the sale of Rae Peru (the “Sale Transaction”); (ii) terminate the option agreement between the parties on completion of the Sale Transaction; and (iii) confirm the existing 2% royalty granted in favour of Pilot Gold Inc. on certain properties held by Rae Peru.

Toro Blanco Project:

The Toro Blanco project in southwest Peru is the Company's top exploration priority. Although an early-stage prospect, Toro Blanco hosts high-sulphidation, epithermal-style, gold mineralization and exhibits characteristics of well-known epithermal deposits.

Reconnaissance-scale geological and alteration mapping, along with rock and soil sampling programs, led to exploration focus on a 2-kilometer by 1.5-kilometre zone where 293 rock samples yielded gold values up to 0.976 grams per tonne (g/t), averaging 0.051 g/t. In 2010, Rae Wallace collected an additional 176 rock samples from the same area and did a 19 line-kilometer IP-Resistivity geophysical survey which produced a significant anomaly suggestive of a large mineral system.

Like most of Peru's epithermal gold camps (such as Yanacocha and Pierina), Toro Blanco is underlain by Tertiary-aged volcanics and related coeval intrusions. Alteration assemblages (intermediate to advanced argillic alteration), elemental associations (Mo, Cu and Pb anomalies) and geophysical responses (chargeability anomalies associated with resistivity anomalies) also support the epithermal target model. Furthermore, the large IP anomaly is coincident with strong geochemical anomalies and provides the Company with compelling drill targets.

Liscay Project:

The Liscay project in southwest Peru is the Company's second exploration priority. Liscay is a large property (11,800 hectares) that contains several veins indicative of low-sulphidation, epithermal-style, gold-silver mineralization.

Recent work done at Liscay includes reconnaissance-level geological and alteration mapping, soil-sampling surveys (190 samples), and an orientation-scale geophysical survey (13.5 line-kilometers of IP-Resistivity). About 6-percent of 2,484 property-wide rock samples contained economically significant precious-metal concentrations (greater than 50 g/t silver or 0.5 g/t gold).

A shallow orientation drilling program (1,500 meters in 12 holes) focused primarily on the Liscay North claims, returning intercepts as wide as 4.67 meters, true-width (67.3 g/t silver, 0.416 g/t gold) and as high-grade as 192 g/t silver and 2.33 g/t gold (0.17 meters true-width). All ten Liscay North drill holes have precious metal intercepts corresponding to the down-dip extension of known mineralized zones on surface (to maximum depth of 60 meters).

This reconnaissance-level exploration has demonstrated that there is a wide-spread distribution of quartz veins and silicified zones at Liscay, identifying more than 9 kilometers of vein strike length in at least five separate systems. Alteration assemblages (silicification-sericitization), elemental associations (Pb, Hg, Sb, Bi, Cu, Mo), and the geological context (Tertiary-age volcanic host rocks) support the epithermal target model at Liscay.

Cayhua Project:

The Cayhua property is a 400-hectare concession adjacent to Minera IRL Limited's Corihuarmi Gold Mine in southwest Peru, approximately 160km southeast of Lima.. Minera IRL has reported that the Corihuarmi open pit produced approximately 33,000 ounces of gold in 2009 and nearly 24,000 ounces in the first nine months of 2010, at cash operating costs of just $341 and $390 per ounce, respectively.

Minera IRL has also reported that an updated ore reserve is expected to extend the Corihuarmi mine life into 2013. Geophysical surveys indicate that ore zones along the eastern margin of the Corihuarmi pit plunge onto Rae Wallace's Cayhua property.

3. Overall Performance

For the three month period ended March 31, 2013, the Company's cash position decreased by $4,679 to $3,370 from $8,049 at December 31, 2011. This decrease is due to exploration expenditures and general and administrative costs.

The Company is engaged in the business of preliminary or early stage mineral exploration and mine development. The Company holds no interests in producing or commercial ore deposits. The Company has no production or other revenue. There is no operating history upon which investors may rely. Commercial development of any kind will only occur in the event that sufficient quantities of ore containing economic concentrations of gold or other mineral resources are discovered. If in the future a discovery is made, substantial financial resources will be required to establish ore reserves. Additional substantial financial resources will be required to develop mining and processing for any ore reserves that may be discovered. If the Company is unable to finance the establishment of ore reserves or the development of mining and processing facilities it will be required to sell all or a portion of its interest in such property to one or more parties capable of financing such development.

Results of Operations

Selected Annual Information

	Three months Ended March 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
	$	$	$
Loss before income taxes	64,730	1,026,228	1,471,532
Net Loss	64,730	1,026,228	1,471,532
Loss per weighted average share – basic and fully diluted	$0.00	$0.04	$0.07
Total Assets	60,860	69,468	368,563

Three months ended March 31, 2013 vs. March 31, 2012

The Company incurred a net loss of $64,730 or $0.00 a share for the three month period ended March 31, 2013, compared with a net loss of $280,795 or $0.01 a share for the same period ended March 31, 2012.

Total salaries and benefits decreased in the three month period ended March 31, 2013 by $43,100 to $nil from $43,100 in 2012. Salaries and benefits decreased due to the fact that the CEO and the VP of Exploration no longer took a salary after Q2 2012.

For the three month period ended March 31, 2013, consulting fees decreased by $10,020 to $4,989 from $15,009 in the same period in 2012. Consulting fees decreased as the Company relied less on consultants due to its cash position.

Total exploration and evaluation expenditures decreased in the three month period ended March 31, 2013, by $56,000 to $nil from $56,000 in 2012. The decrease is due to the fact the Company did not conduct any work on its properties during the first quarter of 2013 as it looked to sell its subsidiary which contains the Company's properties.

The Company incurred share based payments expense for the three month period ended March 31, 2013 of $nil compared to $4,000 for the same period in 2012. The decrease is due to the fact that graded vesting of stock options results in higher expense recorded in the earlier stages of the life of the options. No options were issued in the first quarter of fiscal 2013.

Total promotion and travel costs decreased in the three month period ended March 31, 2013, by $8,870 to $nil from $8,870 in 2012. The decrease is mainly due to the fact that the Company has decreased its operations in an effort to conserve cash.

Professional fees decreased by $11,837 to $36,582 during the three month period ended March 31, 2013 compared to $48,419 in the same period in 2012. The decrease is mainly due to the fact that the Company has decreased its operations in an effort to conserve cash.

Total office and general costs decreased in the three month period ended March 31, 2013, by $17,345 to $5,103 from $22,448 in 2012. The decrease is mainly due to the fact that the Company has decreased its operations in an effort to conserve cash.

4. Summary of Quarterly Results

Selected financial information for the eight quarters as follows:

	March 31, 2013 $	**December 31, 2012** $	**September 30, 2012** $	**June 30, 2012** $
Total revenue	-	-	-	-
Net loss	64,730	94,909	354,005	296,519
Loss per share – basic and diluted	$0.00	$0.00	$0.02	$0.01

	March 31, 2012 $	**December 31, 2011** $	**September 30, 2011** $	**June 30, 2011** $
Total revenue	-	-	-	-
Net loss	280,795	345,048	359,837	488,345
Loss per share– basic and diluted	$0.01	$0.02	$0.02	$0.02

Working Capital

As at March 31, 2013, the Company had net working capital deficiency of $693,348 compared to a working capital of $634,221 as at December 31, 2012.

A summary of the Company's cash position and changes in cash for the three month periods ended March 31, 2013 and 2012 are provided below:

	Three months ended March 31,	Three months ended March 31,
	2013	2012
Cash used in operating activities – net	**(26,948)**	(97,074)
Cash provided by financing activities	**4,213**	-
Cash provided by (used in) discontinued operations	**18,056**	(33,141)
Decrease in cash	**(4,679)**	(130,215)
Cash, beginning of period	**8,049**	308,315
Cash, end of period	**3,370**	178,100

Liquidity Outlook

Rae Wallace had cash of $3,370 available at March 31, 2013, a decrease of $4,679 from the balance at December 31, 2012 of $8,049. The decrease in cash is mainly due to operating activities in the amount of $26,948 during the year mainly spent on exploration and salaries and consulting fees offset by cash from discontinued operations of $18,056.

As noted above, the Company's working capital decreased by $59,127 to a working capital deficiency of $693,348 as at March 31, 2013 from a working capital deficiency of $634,221 at December 31, 2012.

The Company believes that between its current cash balances and its future financing arrangements, it has the necessary funds available to meet its operating, investing and financing obligations and execute its current business plans.

5. Related-party Transactions

During the three month period ended March 31, 2013, $5,000 (2012 - $15,000) was charged for services by the Chief Financial Officer.

These expenses have been measured at their exchange amount, being the amounts negotiated and agreed to by the parties to the transactions. As at March 31, 2013, $112,668 (December 31, 2012 - $108,414) of amounts due to related parties is included in accounts payable and accrued liabilities.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Remuneration of Directors and key management personnel, other than consulting fees, of the Company was as follows:

Three months ended March 31,		**2013**		2012
	Salaries and benefits	**Share based payments**	Salaries and benefits	Share based payments
George Cole, CEO	**-**	**-**	21,000	-
Steve Friberg, VP Exploration	**-**	**-**	21,000	-
Total	**-**	**-**	42,000	-

As of March 31, 2013 the Company has received various installment loans totaling CDN$105,185 through the issuance of a promissory note to Irwin Professional Corporation, a corporation controlled by the corporate secretary of the Company. The promissory note carries an interest rate of prime plus 6% calculated based on the Bank of Canada prime rate and is repayable on demand.

As of March 31, 2013, the Company received a loan totaling USD$25,000 through the issuance of a promissory note to George Cole, the Company’s CEO. The promissory note carries an interest rate 10% and is repayable on demand.

Disclosure of Outstanding Share Data May 27, 2013

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited Common Shares	25,222,900 Common Shares
Securities convertible or exercisable into voting or equity shares		a) Options to acquire up to 2,460,000 common shares b) 7,279,000 Warrants exercisable to acquire common shares of the Company.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Dividends

The Corporation has neither declared nor paid any dividends on its Common Shares. The Corporation intends to retain its earnings, if any, to finance growth and expand its operation and does not anticipate paying any dividends on its Common Shares in the foreseeable future.

Assessment of Recoverability of Mineral Property Costs

The Company's recorded value of its exploration properties is based on historical costs that expect 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.

Assessment of Recoverability of Deferred Tax Assets

In preparing the consolidated financial statements, the Company is required to estimate its income tax obligations. This process involves estimating the actual tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. The Company assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and, to the extent that recovery cannot be considered "more likely than not," a valuation allowance is established. If the valuation allowance is changed in a period, an expense or benefit must be included within the tax provision on the consolidated income statement.

Estimate of Stock Based Compensation and Associated Assumptions

The Company recorded stock-based compensation based on an estimate of the fair value on the grant date of stock options issued. This accounting required estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model. See note 6 of the March 31, 2013 and 2012 unaudited interim condensed consolidated financial statements for a full disclosure.

Assessment of Recoverability of Receivables

The carrying amount of accounts receivables, are considered representative of their respective values. The Company assesses the likelihood that these receivables will be recovered and, to the extent that recovery is considered doubtful a provision for doubtful accounts is recorded.

Critical Accounting Policies

Basis of consolidation
The unaudited interim consolidated financial statements include the financial statements of the Company and its 100% owned subsidiaries Rae Wallace Peru S.A.C. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-Company transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of their interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses.

Mineral properties
All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment ("PPE"). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write-off the cost of PPE, less their estimated residual value, using the declining balance method or unit-of-production method over the useful life.

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

Decommissioning, restoration and similar liabilities ("Asset retirement obligation" or "ARO")

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at March 31, 2013, no liability for asset retirement obligation is present.

Share based payments

Share based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share based payment.

Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until

the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. During the three months ended March 31, 2013 and 2012, all the outstanding stock options and warrants were antidilutive.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company does not have any assets classified as available-for-sale.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities
All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables, promissory notes payable and current and long-term portions of long-term debt are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At March 31, 2013 the Company has not classified any financial liabilities as FVTPL.

Impairment of financial assets
The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's

original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Impairment of financial assets

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale
If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

Impairment of non-financial assets
At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Cash
Cash in the statement of financial position comprises cash at banks and on hand.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Related party transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

Significant accounting judgments and estimates
The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations; property, plant and equipment, recoverability of trade and other receivables, valuation of deferred income tax amounts, impairment testing and the calculation of share based payments. The most significant judgements relate to recognition of deferred tax assets and liabilities, determination of the commencement of commercial production and the determination of the economic viability of a project.

Foreign currency transactions

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional

currency"). The functional currency of the Company is the CDN Dollar ("CDN"), and the presentation of the subsidiaries in the Group is the Peruvian Nuevo Sole ("PER"). The consolidated financial statements are presented in U.S. Dollars which is the Group's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

6. Financial Instruments and other Instruments

Net Fair Value of Financial Assets and Liabilities

The Company's financial instruments comprise cash, accounts receivable, accounts payable and accrued liabilities.

Cash has been designated as held-for-trading, which is measured at fair value. Accounts receivable is classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and are classified as other financial liabilities, which are measured at amortized cost. The Company has no available for sale instruments.

Additional Capital
The exploration activities of the Company may require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration and development of any of the Company's properties. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financings will be favorable to the Company. In addition, low commodity prices may affect the

Company's ability to obtain financing.

Environmental and Permitting
All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations, among other things, mandate the maintenance of air and water quality standards, land reclamation, transportation, storage and disposal of hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Acquisition
The Company uses its best judgment to acquire mining properties for exploration and development in pursuit of such opportunities, the Company may fail to select appropriate acquisition candidates or negotiate acceptable agreements, including arrangements to finance the acquisitions and development, or integrate such opportunity and their personnel with the Company. The Company can not assure that it can complete any acquisition that it pursues or is currently pursuing, on favorable terms, or that any acquisition completed will ultimately benefit the Company.

Competition
The mining industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself. Competition in the mining business could adversely affect the Company's ability to acquire suitable producing properties or prospectus for mineral exploration in the future.

Financial Risk Factors

Fair Value
The carrying amount of cash, accounts payable and accrued liabilities approximate fair value due to the relatively short term maturity of these financial instruments. The fair value of loans receivable, contingent liabilities and due to related parties cannot be determined with sufficient reliability as there are no fixed terms of repayment. The carrying value of loans and interest payable approximate the fair value based on discounted cash flows. Fair value represents the amount that would be exchanged in the arm's length transaction between willing parties and is best evidenced by a quoted market price if one exist.

Credit Risk
Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and loans payable. The Company has no significant concentration of credit risk arising from operations. Cash is held with reputable U.S. and Peruvian chartered banks which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments included in cash and loans receivable is minimal.

Liquidity Risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2013, the Company had current assets of $60,860 (December 31, 2012 - $69,468) and current liabilities of $754,208 (December 31, 2012 - $703,689). All of the Company's financial liabilities and receivables have contractual maturities of less than 90 days and are subject to normal trade terms. Current working capital deficiency of the Company is $693,348 (December 31, 2012 - $634,221 working capital deficiency).

Market Risks

a) Interest Rate Risk
The Company has cash balances and no variable interest bearing debt. The Company has fixed rates on its debt changes in interest rates could result in fair value risk on the Company's fixed rate debt.

b) Foreign Currency Risk
The Company's functional currency is the U.S. dollar. The Company operates in the United States and Peru, giving rise to market risks from changes in foreign exchange rates. The Company believes that the results of the operations and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its Peruvian soles denominated obligations.

Other Risk Factors

a) Property Risk
The Company's significant mineral properties are described in Note 5. Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon its existing property interests. If no additional major properties are acquired by the Company, any adverse development affecting the Company's properties would have a materially adverse effect on the Company's financial condition and results of operations.

b) Commodity Price Risk
Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of precious metals. These metal prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of these metals may be produced in the future, a profitable market will exist for them. As of March 31, 2013, the Company was not a producing entity. As a result, commodity price risk may affect 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.

c) Foreign Political Risk
The Company's material properties are currently located in Peru and, as such, are exposed to various degrees of political, economic and other risks and uncertainties. The Company's operations and investments may be affected by local political and economic developments, including expropriation, nationalization, invalidation of government orders, permits or agreements pertaining to property rights, political unrest, labour disputes, limitations on repatriation of earnings, limitations on mineral exports, limitations on foreign ownership, inability to obtain or delays in obtaining necessary mining permits, opposition to mining from local, environmental or other non-governmental organizations, government

participation, royalties, duties, rates of exchange, high rates of inflation, price controls, exchange controls, currency fluctuations, taxation and changes in laws, regulations or policies as well as by laws and policies of Canada affecting foreign trade, investment and taxation.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period:

(i) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts payable, due to related parties, and loans payable in Peruvian soles. As at March 31, 2012, had the U.S. dollar weakened/strengthened by 10% against the Peruvian Sole dollar with all other variables held constant, the Company's loss for the three month period ended March 31, 2013 would have been less than $1,000 higher/lower respectively as a result of foreign exchange losses/gains on translation of US dollar denominated financial instruments.

Internal Control over Financial Reporting

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

During the most recent year end there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Proposed Transactions

In the normal course of business, as an ongoing part of the exploration process, the Company investigates mineral properties which are submitted to the Board of Directors for consideration.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Corporation's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the year covered by this management's discussion and analysis, management of the Corporation, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Corporation's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Corporation's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities

laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Corporation, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

7. Cautionary Note Regarding Forward Looking Statements

This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the mining industry (including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of the Company to obtain all permits, consents or authorizations required for its operations and activities; and health safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the ability of Rae Wallace to fund the capital and operating expenses necessary to achieve the business objectives of Rae Wallace, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by the Company. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

8. Management's Responsibility for Financial Information

Management is responsible for all information contained in this report. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the unaudited interim condensed consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate and assets are safeguarded.

The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements with management. The Board of Directors has approved the unaudited interim condensed consolidated financial statements on the recommendation of the Audit Committee

May 27, 2013

George Cole
Chief Executive Officer