

**ESPERANZA SILVER CORPORATION**  
**(An Exploration-Stage Company)**

**Management's Discussion and Analysis**

**Year Ended December 31, 2009**

**GENERAL**

This discussion and analysis of financial position and results of operations is prepared as at April 14, 2010 and should be read in conjunction with the audited consolidated financial statements of Esperanza Silver Corporation (the "Company" or "Esperanza") for the years ended December 31, 2009 and 2008 and the related notes thereto. Those consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These documents and other information relevant to the Company's activities are available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com). All dollar amounts included therein and in the following management discussion and analysis ("MD&A") are in Canadian dollars except where noted.

**FORWARD-LOOKING INFORMATION**

This MD&A may contain "forward looking statements" that reflect the Company's current expectations and projections about its future results. When used in this MD&A, words such as "estimate", "intend", "expect", "anticipate" and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause Esperanza's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties identified elsewhere in this MD&A, actual results may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**DESCRIPTION OF BUSINESS**

Esperanza is a mineral exploration company dedicated to the future development of its two advanced-stage projects: Cerro Jumil and San Luis. It has entered into a joint-venture on its San Luis project in Peru and continues to hold 100% of the Cerro Jumil project in Mexico. The Company continues to identify and explore new precious metal projects in Mexico and Peru. Additional information is available at the Company's website at [www.esperanzasilver.com](http://www.esperanzasilver.com).

## **EXPLORATION REVIEW**

### **Cerro Jumil, Mexico**

In the first quarter of 2009, the Company submitted a permit application for a drilling campaign designed to: a) fill in blank areas within the defined resources, b) test a newly identified target immediately west of the Las Calabazas area, and (c) explore the northern extension of the West Zone where silver has been discovered. Drilling began in the fourth quarter of 2009. In the third quarter of 2009 the Company completed a Preliminary Economic Assessment (“PEA”) of the 100% owned Cerro Jumil property. The results of the PEA were positive. Refer to the news release on September 8, 2009 which can be found on [www.sedar.com](http://www.sedar.com) or the Company’s website [www.esperanzasilver.com](http://www.esperanzasilver.com).

The current drill program which began in the fourth quarter of 2009 is evaluating areas of the property where limited or no previous drilling had been completed. The results have been encouraging so far and the Company anticipates that it will continue to add to or upgrade its resource base as drilling continues in this area. This current drill program should be finished by early summer and a revised resource estimate will be completed shortly thereafter. The gold deposit is exposed on surface which provides easy access for metallurgical sampling. Concurrent with the on-going drill program, Esperanza is selecting sites for bulk metallurgical samples. A comprehensive series of advanced tests have been planned by Esperanza’s consulting metallurgist in conjunction with Esperanza geologists and will begin once final sample locations are defined.

The drilling at Cerro Jumil is a part of a comprehensive work program recommended by the 2009 PEA and is designed to move the project to the full feasibility level as rapidly as possible. Additional work planned for 2010 in addition to the advanced metallurgical testing includes: geotechnical analysis, environmental baseline data collection and other efforts required to advance the project.

### **San Luis Project, Peru**

The property is currently held 55% by Silver Standard Resources Inc. (“Silver Standard”) and 45% by the Company. On March 26, 2007, Silver Standard elected to exercise its option to earn up to 70% of the San Luis project in Peru by funding all activities necessary to complete a feasibility study. Silver Standard also became the operator of the project. Upon delivery of a feasibility study recommending commercial production Silver Standard will have the option to increase its share to 80% by funding all pre-production capital. The Company has been informed by Silver Standard that a feasibility study is now underway.

### **Pucarana, Peru**

On March 5, 2007 the Company announced it had reached a definitive agreement on the Pucarana, Peru mineral property with Canadian Shield Resources Inc. Pursuant to the agreement, Esperanza has an option to earn a 51% interest by expending US\$650,000 over a two year period commencing upon receipt of drill permits, with a commitment to fund US\$200,000 in exploration expenditures in the first year. Esperanza also has the option to earn a subsequent 9% interest (for a total of 60%) by making additional exploration expenditures of US\$650,000 over a two year period. A cash payment of US\$30,000 was paid on signing of a definitive agreement and a second payment of US\$50,000 is due if Esperanza elects to exercise the right to earn the additional 9% interest. The expenditure commitments are contingent upon Esperanza receiving exploration and drilling permits.

Esperanza has completed a first phase of trenching and sampling over potential mineral zones. An application for drill permits is now being prepared.

### **Bolivia Exploration**

In 2009, Esperanza decided not to continue mineral exploration in Bolivia and wound up its subsidiary, Empresa Minera Atocha.

## **RESULTS OF OPERATIONS**

### **Year Ended December 31, 2009**

The Company recorded a loss of \$2,608,913 for the year ended December 31, 2009. The loss was significantly lower than for 2008 due to: lower mineral property write-offs and lower stock-based compensation, partially offset by lower interest income and higher general exploration expenditures. In 2008, Esperanza wrote off a significant amount exploration costs pertaining to the AT Properties in Mexico and also some write-offs in Peru as it decided to abandon a number of its exploration properties. In the 2009 the write downs were minor and only pertained to Peru. Stock-based compensation was lower because the value per option granted in 2009 was considerably less than in 2008 due to lower stock prices. Interest income was lower due to much lower interest rates in 2009 compared to 2008 and due to a lower amount of cash available for investment. Exploration costs were higher in 2009 because the Company was spending more time generating new projects whereas in the prior year the Company had a significant number of projects that it was already exploring and was spending less on searching for new projects.

### **Three Months Ended December 31, 2009**

The Company recorded a loss of \$678,337 for the three months ended December 31, 2009 (2008 - \$2,844,589). The loss was significantly higher in 2008 due to the write off of a number of exploration properties in Mexico and Peru.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company started 2009 with working capital of \$9,351,557 and had working capital of \$5,598,144 at December 31, 2009. The decrease in working capital of \$3,753,413 was due mainly to the investment in mineral properties of approximately \$1,766,000 and the loss from operations of \$1,279,000, partially offset by cash received on the exercise of stock options in the amount of \$208,500. Most of the expenditures on mineral properties were incurred completing a preliminary economic assessment, additional drilling and field work on the Cerro Jumil property in Mexico and field work done on various early-stage properties in Peru. Working capital includes a receivable from the Mexican government for value added tax in the amount of \$213,000. The Company is in the process of filing claims for this outstanding balance and expects that the full amount will be recoverable. Esperanza is dependent on raising funds through the issuance of shares and attracting joint venture partners in order to finance further property acquisitions and to explore and develop its mineral properties. On February 16, 2010, the Company completed a private placement of 4,000,000 units at a price of \$1.25 per unit for gross

proceeds of \$5,000,000 (refer to note 14 of the audited consolidated year-end financial statements). On March 4, 2010 the Company completed a second private placement of 500,000 units at a price of \$1.25 per unit for gross proceeds of \$625,000. Esperanza currently has sufficient working capital to fund its exploration and administrative expenditures for the next twelve months.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements or obligations that are not disclosed in the financial statements.

#### **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2009 the Company paid \$190,800 (2008 - \$Nil) to Seabord Services Corp. ("Seabord"), a management company with two officers in common, for office space and administrative services. At December 31, 2009, the Company was indebted to Seabord in the amount \$Nil (2008 - \$Nil). At December 31, 2009, Esperanza had deposits for future services with Seabord amounting to \$10,000 which were included in prepaid expenses. These transactions were in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties. All balances due to related parties are included in accounts payable and accrued liabilities.

#### **MANAGEMENT COMPENSATION**

During the year ended December 31, 2009, Esperanza paid the following amounts as salaries to senior management: Bill Pincus, President - \$171,352; Steve Zuker, Vice-President - \$ 125,658; Bill Bond, Vice-President - \$125,658; and Paul Bartos, Vice-President - \$125,658. In addition to the salaries paid to management, at year-end bonuses totaling US\$125,000 were accrued to the President (US\$50,000) and each Vice-President (US\$25,000). David Miles, the chief financial officer and Kim Casswell, the corporate secretary are employees of Seabord and received no management compensation from Esperanza. Esperanza's directors who are not part of management are paid directors' fees. For the year ended December 31, 2009, the following directors' fees were paid: George Elliott - \$22,000, Brian Bayley - \$21,500, Mike Halvorson - \$20,000 and Steve Ristorcelli - \$22,500.

## QUARTERLY INFORMATION

	2009		2009	
Quarter Ended	Dec. 31	Sept. 30	June 30	Mar. 31
Operating expenses	\$ 692,211	\$ 575,412	\$ 905,915	\$ 575,581
Loss for the period	(678,337)	(562,378)	(854,657)	(513,541)
Loss per share (basic and diluted)	(0.01)	(0.01)	(0.02)	(0.01)

	2008		2008	
Quarter Ended	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Operating expenditures	\$ 703,980	\$ 534,226	\$ 481,479	\$ 1,545,925
Loss for the period	(2,844,589)	(480,046)	(396,045)	(1,408,565)
Loss per share (basic and diluted)	(0.06)	(0.01)	(0.01)	(0.03)

### 2009

For the quarter ended December 31, 2009 both operating expenses and the loss for the quarter were higher than for the prior quarter due to higher costs for administration, exploration and investor relations partially offset by lower foreign exchange. Administration costs were higher due to a higher allocation of management time to that category and due to a portion of year-end bonuses accrued to Denver staff being allocated to administration. Exploration expenses were higher due to a higher level of activity on general reconnaissance work than for the prior quarter. Investor relations costs were higher due to higher activity at investor conferences. The foreign exchange loss was much lower than in the prior quarter as the Mexican peso was stable in the quarter whereas in the prior quarter the peso dropped by 9%.

For the quarter ended September 30, 2009 both operating expenses and the loss for the quarter were lower than for the prior quarter because stock-based compensation was significantly lower.

For the quarter ended June 30, 2009, both operating expenses and the loss for the period were higher than for the prior quarter because stock-based compensation expense was significantly higher.

For the quarter ended March 31, 2009, operating expenditures were lower than in the previous quarter mainly due to lower exploration costs. Exploration expenditures are costs directed towards new project generation and there was a lower level of activity for these types of expenditures in the first quarter of 2009. The loss for the first quarter was much less than for the previous quarter because in the fourth quarter there was a mineral property write-off of \$2,236,319 and there was no corresponding write-off in the first quarter.

## **2008**

For the quarter ended December 31, 2008, operating expenditures were higher than in the prior quarter due to higher exploration expenses as a result of allocating more resources to finding new properties as opposed to working on projects already owned or under option agreements. The loss for the quarter ended December 31, 2008 was much higher than in the prior quarter because Esperanza wrote off a significant amount of capitalized mineral property costs in Mexico and Peru whereas in the prior quarter there was only a minor write-off pertaining to the Atocha property.

For the quarter ended September 30, 2008, operating expenditures were higher than in the prior quarter due to an unfavourable foreign exchange variance and higher exploration expenses which were partially offset by lower investor relations and lower stock-based compensation costs. The unfavourable exchange variance was mainly due to the weakening of the Mexican peso against the Canadian dollar in the quarter, whereas the peso strengthened against the Canadian dollar in the prior quarter. Exploration expenses were higher than in the prior quarter due to an increase in regional exploration in Peru. Investor relations costs were lower in the current quarter due to attending fewer trade shows. Lower stock-based compensation costs in the current quarter were the result of the Company's lower share price which reduced the values generated by the Black-Scholes option pricing model.

For the quarter ended June 30, 2008, operating expenditures were significantly lower than in the prior quarter due to lower stock-based compensation, consulting and investor relations costs and a favourable foreign exchange variance. Stock-based compensation was lower because there were no grants in the current quarter whereas there were 1,100,500 options granted in the previous quarter. Consulting costs were lower because bonuses were awarded in the prior quarter and none in the current quarter. Investor relations costs were lower mainly due to the seasonality of trade shows. The favourable foreign exchange variance was due to the strengthening of the Mexican peso against the Canadian dollar in the current quarter.

### **SELECTED ANNUAL FINANCIAL INFORMATION**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Operating Expenses	\$ 2,749,119	\$ 3,265,610	\$ 3,491,824
Net Loss	(2,608,913)	(5,129,245)	(2,839,379)
Loss per Share – Basis and Diluted	(0.05)	(0.11)	(0.06)
Capitalized Minerals Property Costs	1,765,919	5,048,383	3,859,162
Total Assets	19,270,621	21,250,623	25,817,957
<b>Cash Flows (Used In):</b>			
Operating	\$ (1,287,876)	\$ (2,408,992)	\$ (720,945)
Investing	(1,765,919)	(5,058,177)	(3,974,597)
Financing	208,516	325,800	16,174,455
Net Increase (Decrease) in Cash	\$ (2,845,279)	\$ (7,141,369)	\$ 11,478,913

## **2009**

In 2009, Esperanza had lower operating expenses due to lower stock-based compensation partially offset by higher general exploration expenses and a higher foreign exchange loss. Stock-based compensation was lower because the value per option granted in 2009 was considerably less than in 2009 due to lower stock prices. Exploration costs were higher in 2009 because the Company was spending more time generating new projects whereas in the prior year the Company had a significant number of projects that it was already exploring and was spending less on searching for new projects. Foreign exchange was higher in 2009 due to the decline in the value of the Mexican peso during the year which resulted in an exchange loss on translation of Esperanza's Mexican assets. The net loss was significantly lower in 2009 due to the lower operating expenses as noted above plus in 2008 there was a significant write-off of capitalized mineral property costs as a result of abandoning a number of exploration properties in Mexico and Peru.

Cash used in operations in 2009 was much less than for 2008 because Esperanza collected a significant amount of the IVA receivable from the Mexican government whereas in 2008 the Company paid out much more in IVA than it collected. Cash used in investing activities was much lower in 2009 because the Company conducted much less exploration and development work on its properties in order to conserve capital as a result of impact of the world financial crisis. As in 2008, funds raised by financing activities were due to the exercise of stock options.

## **2008**

In 2008 Esperanza had lower operating expenses due to lower stock-based compensation and a favourable variance on foreign exchange. Stock-based compensation was lower than in 2007 mainly because the value per option was significantly lower because the weighted average exercise price declined from \$3.27 in 2007 to \$1.34 in 2008. The foreign exchange variance was favourable because the Company invested about \$3.9 million in mineral properties in 2007 and during 2007 the US dollar weakened significantly against the Canadian dollar and Esperanza incurred a significant loss on translation of the accounts of its Mexican subsidiary as a result. These favourable variances were partially offset by higher office and rent costs as a result of moving the Denver personnel into better office space. The Company also began paying directors' fees in 2008 which partially offset the lower costs for stock-base compensation and foreign exchange. The net loss in 2008 was higher than for 2007 as a result of writing off a number of properties in Mexico and Peru and due to lower interest income because there was less cash to invest than in the prior year.

Cash used in operations in 2008 was well above 2007 because the IVA receivable in Mexico increased significantly and the Company used working capital to reduce the accounts payable balance during the year whereas in 2007 Esperanza collected on amounts due from its JV partner and reduced the cash outflow as a result of increasing accounts payable during the year. In addition the Company generated less interest on invested cash in 2008 than in 2007. Investing activity was higher in 2008 because in 2007 the Company received a significant cash contribution for development activities from its joint venture partner in Peru. In 2008, Esperanza was incurring the bulk of its development costs in Mexico and there was no contribution during the year from a joint venture partner. Cash from financing activities was much lower in 2008 because the Company did not do a private placement compared to 2007 when the Company raised over \$16 million from a private placement and the exercise of warrants.

## **SUBSEQUENT EVENTS**

On February 16, 2010, the Company announced that it had completed a private placement of 4,000,000 units at a price of \$1.25 per unit for gross proceeds of \$5,000,000. Each unit consists of one common share ("Share") and one non-transferable common share purchase warrant ("Warrant") to purchase another share for \$1.75 which expires on February 16, 2012. If, after the expiry of all Canadian resale restrictions, the closing price of Esperanza's common shares on the TSX Venture Exchange is \$2.20 or greater for a period of 20 consecutive days, the Company may accelerate the expiry of the Warrants, to 21 trading days after giving notice thereof. All Shares, Warrants and any Shares issued upon exercise of the Warrants, are subject to a regulatory hold period expiring on June 17, 2010. Finder's fees were payable in cash to Haywood Securities Inc. (\$22,981), Global Resource Investments Inc. (\$193,750) and Lincoln Peck Financial Inc. (\$6,250) in consideration of their efforts in locating investors. On March 4, 2010, the Company completed a second private placement of 500,000 units with the same terms as the first private placement, for total proceeds of \$625,000. The 500,000 non-transferable common share purchase warrants issued as part of this private placement expire on March 4, 2012.

## **CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Company has made significant progress with respect to its transition to International Financial Reporting Standards ("IFRS") reporting. The first IFRS reporting period will be the quarter ended March 31, 2011. Because Esperanza is an "Exploration-Stage" company, the IFRS transition issues are not as complex as for a company with operating mines and revenues from the sales of concentrates or bullion. However, the transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The most significant impact with respect to the restatement of 2010 financials will be the effect of adopting the IFRS policy with respect to foreign currency translation, particularly as it applies to the translation of Esperanza's wholly-owned subsidiaries.

### **Exemptions**

Esperanza has made the following decisions regarding the optional exemptions provided under IFRS transitional rules.

### **Business Combinations**

For business combinations, the Company has decided to take the exemption which means that it does not have to restate the accounting for any business combinations that occurred before January 1, 2010. If the Company enters into any business combinations in 2010, it will likely adopt the new CICA Handbook standard for business combinations which is in compliance with current IFRS standards. This means that the Company will most likely not have to restate any 2010 business combinations in order to be IFRS compliant.

### **Fair Value or Revaluation as Deemed Cost**

Esperanza will use the cost method of accounting for office and field equipment and therefore will not elect to fair value any of the Company's equipment.

## **Cumulative Translation Differences**

On translation of a foreign operation in accordance with IAS 21 “The Effect of Changes in Foreign Exchange Rates”, certain exchange differences are recognized as a separate component of equity and under the amendments to IAS 21 in 2007, are to be shown as part of other comprehensive income. IAS 21 also requires an entity to disclose the net exchange differences classified as a separate component of equity as well as a reconciliation of the opening and closing balances. On subsequent disposal of a foreign operation, the accumulated translation differences related to the specific foreign operation are recognized in profit or loss for the period as part of the gain or loss on disposal of the subsidiary.

Under IFRS 1 a first-time adopter may elect not to calculate this translation difference retrospectively and thereby set corresponding translation differences at the date of transition to zero. The gain or loss on subsequent disposal of a foreign operation then includes only foreign exchange differences that arose subsequent to the date of transition. The Company has elected not to calculate this translation difference retrospectively.

## **Jointly Controlled Entities**

The Company has not reached a final conclusion regarding how it will account for jointly controlled entities under IFRS but at this point it is considering using the equity method and this would result in a difference between the current balance sheet presentation under Canadian GAAP and its transitional IFRS balance sheet.

## **Additional Note Disclosures**

The Company will have to provide more note disclosure under IFRS than under current Canadian GAAP. However, Esperanza is an exploration-stage company and consequently the note disclosures are not nearly as onerous as for an operating company. Additional note disclosure will mainly be required for long-term assets and equity but the Company is currently capturing enough information in order to provide this disclosure.

## **NEW ACCOUNTING PRONOUNCEMENTS**

New accounting pronouncements which may impact the Company in the future are as follows:

### **Business Combinations, Consolidated Financial Statements and Non-Controlling Interest**

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business

combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards (“IAS”) 27, Consolidated and Separate Financial Statements (January 2008). Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These new sections effectively bring Canadian GAAP into line with IFRS. The Company does not expect to adopt these new CICA Handbook sections prior to January 1, 2011. At that point, the Company will begin reporting its financial results under IFRS and therefore does not expect that these new Handbook sections will have any impact on the Company’s financial statements in the interim period.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### **Financial Instrument Disclosures**

In May 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair market value measurements for financial statements and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The fair value hierarchical classification of the Company’s cash and cash equivalents at December 31, 2009 is Level 1.

### **Exploration Costs**

On March 27, 2009, the Emerging Issues Committee of the CICA approved abstract EIC-174 – Mining Exploration Costs and withdrew EIC – 126 – Accounting by Mining Enterprises for Exploration Costs. The publication of EIC-174 covers all guidance in EIC-126 and provides additional guidance for mining exploration enterprises in circumstances where a test for impairment is required. The adoption of this abstract did not have any impact on the Company’s consolidated financial statements.

## **RISKS AND UNCERTAINTIES**

### **Mineral Property Exploration and Mining Risks**

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company’s properties has a known commercial ore deposit, although Esperanza has published a PEA, which indicates that Cerro Jumil may be shown to have a commercial ore deposit upon completing a pre-feasibility or feasibility study. The main operating risks include: ensuring ownership of and access to

mineral properties by confirmation that option agreements, concessions and leases are in good standing and obtaining permits for drilling, other exploration activities and/or extraction.

One of the Company's projects is near a known archeological site. The Company is working with appropriate government authorities to assess any archeological value within the Company's proposed areas of operation. It is possible that certain areas may be excluded from mining activities.

Esperanza is currently earning an interest in one of its properties through an option agreement and acquisition of title to the property will only be completed when the option conditions have been met. These conditions generally include making property payments and incurring exploration expenditures on the properties. If the Company does not satisfactorily complete these option conditions in the time frame laid out in the option agreements, the Company's title to the related property will not vest and the Company will have to write-off the previously capitalized costs related to that property.

The market prices for silver, gold and other metals can be volatile and there is no assurance that a profitable market will exist for a production decision to be made or for the ultimate sale of the metals even if commercial quantities of precious and other metals are discovered.

#### **Financing and Share Price Fluctuation Risks**

Esperanza has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Recently, the securities markets have experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies such as Esperanza, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on Esperanza's ability to raise additional funds through equity issues.

#### **Political and Currency Risks**

The Company is operating in countries that currently have varied political environments. Changing political situations may affect the manner in which the Company operates. The Company's equity financings are sourced in Canadian dollars but for the most part it incurs its expenditures in local currencies or in US dollars. At this time there are no currency hedges in place. Therefore a weakening of the Canadian dollar against the US dollar, Mexican peso or Peruvian sole could have an adverse impact on the amount of exploration conducted.

#### **Insured and Uninsured Risks**

In the course of exploration, development and production of mineral properties, the Company is subject to a number of risks and hazards in general, including adverse environmental conditions, operational

accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in the damage to the Company's property or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability, result in increased costs, have a material adverse effect on the Company's financial results and cause a decline in the value of the securities of the Company.

Some work is carried out through independent consultants and the Company requires that all consultants carry their own insurance to cover any potential liabilities as a result of their work on a project.

### **Environmental Risks and Hazards**

The activities of the Company are subject to environmental regulations issued and enforced by government agencies in jurisdictions where the Company has operations or activities. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve 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 can be no assurance that future changes in environmental regulation, if any, will not adversely affect Esperanza's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present.

### **Competition**

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.

### **OUTSTANDING SHARE DATA**

As at April 14, 2010 there were 52,754,521 common shares issued and outstanding. There were also 3,126,800 stock options outstanding with exercise prices ranging between \$0.40 and \$1.91 per share. All of the outstanding options have vested. As a result of the two private placements in 2010, the Company has 4,500,000 common share purchase warrants outstanding with an exercise price of \$1.75 and with expiry dates of February 16, 2012 and March 4, 2012.