



**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2011**

All amounts in Canadian dollars unless otherwise specified.

SINCHAO METALS CORP.
Management's Discussion and Analysis
For the Twelve Months Ended March 31, 2011

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This Management's Discussion and Analysis ("MD&A") provides a review of the results of operations of Sinchao Metals Corp. ("Sinchao" or the "Company") and should be read in conjunction with the audited interim consolidated financial statements and related notes for the twelve months ended March 31, 2011. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All dollar figures included therein and in the following MD&A are quoted in Canadian dollars unless otherwise specified. The following MD&A is prepared as of June 28, 2011. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com or at the Company's website, www.sinchao.com

SELECTED ANNUAL FINANCIAL INFORMATION

The following table provides selected audited consolidated financial information that should be read in conjunction with the consolidated financial statements of the Company.

	March 31, 2011	March 31, 2010	March 31, 2009
	\$	\$	\$
Loss before interest, amortization, income taxes and other	712,703	691,732	677,459
Loss before income tax	11,588,099	807,826	1,341,685
Net loss per share	0.15	0.01	0.02
Working capital deficit	1,456,351	781,582	(450,731) (i)
Total assets	20,231,613	32,463,297	31,037,756
Long-term liabilities	-	460,413	488,253

- (i) These are non-gaap measures used by management. Working capital is current assets less current liabilities.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

When used in this document, words such as 'estimate', 'expect', 'anticipate', 'believe' and similar expressions are intended to identify forward-looking statements. Such statements are used to describe management's future plans, objects, and goals for Sinchao and therefore involve inherent risks and uncertainties.

Shareholders and prospective investors should be aware that the financial statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risk and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Sinchao undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or such factors which affect this information, except as required by law.

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COMPANY HIGHLIGHTS

CORPORATE

- On June 29, 2010, the company announced the appointment of Bruce Ramsden as Vice President Finance and Chief Financial Officer.
- In November 2010, John Huguet announced that he would be stepping down as Chairman and Chief Executive Officer of the Company, effective December 31, 2010, and David Rae would be appointed a Director, Chairman and Chief Executive Officer, effective January 1, 2011. John Huguet is no longer involved in the affairs of the Company.
- In January 2011, Nick Demare announced his resignation from the Board of Sinchao.

OTHER SIGNIFICANT EVENTS

PROJECT

On February 7, 2011, Sinchao announced that it had conducted a review of its properties earlier this year and determined that title to the claims of four of the properties comprising the Sinchao Project were not properly transferred to a subsidiary of Andean, the party that had purported to transfer the claims to Sinchao. As a result neither Andean nor Sinchao holds any proprietary interest in the claims, which claims contain approximately 40% of the inferred resource previously disclosed by Sinchao. Sinchao has been striving to reach an agreement with the parties that Andean originally dealt with in order to remedy the deficiencies in title, however it has been unable to reach such an agreement. Sinchao is therefore not optimistic that it will be able to remedy the deficiencies in title, and has written the project down by \$11,306,431 to management's best estimate of its fair value, which takes into account the proportion of resources no longer accessible, and the market value of the company as a whole. In addition to the four properties mentioned above, Sinchao has also determined that six other properties believed to have been acquired at the time of Sinchao's formation had previously lapsed and thus are not held by the Company. These properties are not material to Sinchao's operations.

FINANCIAL POSITION

As at March 31, 2011, Sinchao had a cash and cash equivalent position of \$68,483, and a working capital deficiency of \$1,456,351. The Company will need to raise additional funds or borrow the funds from Andean American Gold Corp. ("Andean"), formerly Andean American Mining Corp., its majority shareholder.

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COMPANY'S FUTURE

The Sinchao Project contains significant mineralization and through additional drilling there is strong potential to increase the resource. If and when the Company resolves the issues relating to the four properties mentioned above and depending on its ability to raise the necessary funds, the Company plans to complete a recommended 5,000 metre drill program with the goal of increasing the inferred resources.

OVERVIEW

Sinchao Metals Corp. was incorporated on March 15, 2006 under the Business Corporations Act of Alberta. Through its 100% owned subsidiary, Corporacion Minera Sinchao S.A.C. ("Minera Sinchao"), the Company's principal business is the exploration of mineral properties located in Peru.

Sinchao is a Canadian-based exploration and development company. The Company is a subsidiary of Andean, which at March 31, 2011 owned 45,714,286 common shares of the 76,327,800 or 59.9% of the Company and at June 25, 2011 owned 45,714,286 of the common shares of the 76,386,133 common shares outstanding or approximately 59.8% of the Company.

The Company's principal business is the exploration of mineral properties located in Peru.

The Sinchao mineral properties (the "Sinchao Project") consist of four exploration rights, covering approximately 191.6292 hectares. The exploration rights overlie 16 mining concessions and one claim, as well as two additional claims, which lie outside the four exploration rights. In June 2006, Andean completed the transfer of its wholly-owned subsidiary, Corporacion Minera Sinchao, holder of the Sinchao Property, to Sinchao Metals Corp.

The Company is registered under the Business Corporation Act of British Columbia and trades on the TSX Venture Exchange under the symbol "SMZ".

OPERATIONS REVIEW

The Sinchao Project is located within the Yanacocha-Hualgayoc mining district, approximately 60 kilometres north of the city of Cajamarca in northern Peru. The elevation of the property varies from 3,725 to 4,000 metres above sea level. Access to the property from Cajamarca consists of a paved road to Yanacocha (30km), then a well maintained paved road to Cerro Corona, adjacent to Sinchao. The infrastructure in Cajamarca is adequate and is steadily improving.

Four mineralized systems have been identified on the Sinchao Property: the Hydrothermal Breccia Zone, the Skarn Zone, the High Sulphidation Epithermal Zone, and the Massive Sulphide Lenses. Initial geological mapping, surface sampling, induced polarization and ground magnetometer surveys were completed in 1996, followed by over 8,000 metres of drilling during 1997 and 1998. Although results were very encouraging, metal prices were at all time lows and exploration was halted.

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During 2006 the Sinchao Project was geologically mapped in detail and state of the art 3D Induced Polarization and expanded ground magnetic surveys were completed. The geophysical surveys have successfully identified new targets with signatures that are comparable to known mineralization. Additional mapping and sampling, carried out in 2006, of the high grade zinc mineralization comprised sixty-four grab samples over a length of approximately 1,500 metres, which returned average values of 14.27% zinc, 2.4% lead, 1.87 g/t gold, 85.0 g/t silver and 1.40% copper.

The 2008 drill program concentrated on the Breccia Zone as part of a 9,250 metre program leading to a NI 43-101 compliant estimate of inferred resources. However, in the light of recently disclosed deficiencies in the title to four of the claims upon which the inferred resource estimate was based, Sinchao cautions its shareholders that the NI 43-101 compliant resource estimate can no longer be relied upon. Please refer to the Company's press release dated February 7, 2011 for more information.

The table below shows the Sinchao Project NI 43-101 compliant resource estimate of inferred resources dated October 30, 2008. Shareholders are cautioned that approximately 40% of the inferred resources referred to below are contained on the four claims mentioned above, in which the Company does not hold any proprietary interest and which have been written off.

INFERRED RESOURCE ESTIMATES BY CUT-OFF					
CUT-OFF		TONNES	COPPER	GOLD	SILVER
Cu%	Aug g/t	Millions	%	g/t	g/t
0.13	0.07	416	0.36	0.33	9.2
0.23	0.15	376	0.38	0.36	9.9
0.27	0.24	237	0.47	0.49	12.1
0.39	0.35	155	0.58	0.62	14.2
0.44	0.44	113	0.65	0.72	15.6
0.43	0.55	82	0.74	0.82	17.0
0.48	0.64	64	0.85	0.90	110.3

EXAMPLES OF CONTAINED METALS				
TONNES	COPPER lb	GOLD oz	SILVER oz	Eq. COPPER lb
237 million	2.45 billion	3.73 million	92 million	4.04 billion grading 0.77% Copper Eq *
416 million	3.3 billion	4.4 million	123 million	5.71 billion grading 0.62% Copper Eq*
*based on US\$1.50/lb copper, US\$600/oz gold and US\$8/oz silver.				

Notes:

Mineral resources that are not mineral reserves do not have demonstrated economic viability. The realizable value of the mineral resource estimate may be materially affected by the inability to obtain required environmental and other regulatory approval, environmental or operating permits. The estimate may also be materially affected by global economic conditions such as the price of gold and silver, the price of oil and other commodities utilized in the production of gold and silver.

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Unknown geologic or hydrologic conditions or other unknown factors may also materially affect the resource estimates.

Metallurgical recoveries and net smelter returns have not yet been determined. There has been no metallurgical work done at the Sinchao Property to date.

Victor Jaramillo, P. Geo., of Discover Geological Consultants Inc. is an Independent Qualified Person as defined by National Instrument 43-101 and is responsible for the resource estimates shown above.

The High Sulphidation Epithermal Zone and the Massive Sulphide Lenses remain targets for future evaluation but are lower priority. The High Sulphidation Epithermal Zone is restricted to a limited area on the westernmost side of the property, and has superimposed enargite mineralization on the predominantly chalcopyrite mineralization at the Hydrothermal Breccia and Skarn Zones. The Massive Sulphide Lenses appear to be of limited size however further exploration will be needed.

A NI 43-101 compliant resource estimate of inferred resources was completed October 30, 2008 and can be viewed at www.SEDAR.com.

OUTLOOK

The exploration program of the Sinchao Property is designed to define the size of the potential bulk tonnage, open pitable mineralization of the Hydrothermal Breccia, Epithermal and Skarn Zones. The Company is encouraged by the work accomplished to date, in particular, the success of the 2008 drill program which was the basis for an estimation of inferred resources.

Only 15% of the identified geological targets on the Sinchao Property have been drill tested. An additional drill program of approximately 5,000 metres has been recommended in order to test the extensions of the Breccia Zone to the northwest and the Skarn Zone to the southeast. Depending on the results of the 5,000 metre drill program, a further 15,000 metres of drilling, has also been recommended, but not yet budgeted. The objectives of the planned drilling will be to increase the inferred resource and collect representative samples for metallurgical studies. The Company may involve strategic partners.

Sinchao is currently operating an Acid Rock Drainage Treatment Plant to neutralize the Acid Rock Drainage ("ARD") outflow from mining done in the area by a third party, known as the old Cleopatra workings. The Company has since discovered that it does not own this property and has advised the Ministry of Environment.

The rainy season in Peru was particularly heavy during the first quarter of 2010, resulting in heavy ARD from the mines in the district. It is estimated that the ARD, from workings other than the old Sinchao operations, are flowing at an estimated 2-3 cubic meters per second, which is a concern to the local communities. The Company is working closely with the Government Agencies and has budgeted USD\$500,000 to remediate any property that it owns that might have an ARD problem and, depending on the availability of funds, will carry out remediation in the next twelve months.

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FINANCIAL REVIEW AND QUARTERLY RESULTS

A summary of selected financial information for the last eight quarterly periods is as follows:

	Three months ended			
	March 31	December 31	September 30	June 30
	2011	2010	2010	2010
	\$	\$	\$	\$
Earnings and Cash Flow				
Net earnings	(10,972,352)	(243,412)	(162,531)	(209,804)
Cash from (used by) operations	5,425	15,587	31,755	(880,749)
Net income (loss) per share	(0.15)	(0.00)	(0.00)	(0.00)
Capital expenditures	88,941	(38,564)	(108,312)	(98,114)
Balance Sheet				
Total assets	20,231,613	31,558,173	31,559,222	31,558,969
	March 31	December 31	September 30	June 30
	2010	2009	2009	2009
	\$	\$	\$	\$
Earnings and Cash Flow				
Net earnings	(620,738)	(258,114)	(131,730)	202,756
Cash from (used by) operations	(184,178)	296,369	57,025	110,393
Net income (loss) per share	(0.01)	(0.00)	(0.00)	0.00
Capital expenditures	(169,030)	301,284	35,818	110,693
Balance Sheet				
Total assets	32,463,697	31,276,627	31,289,160	31,343,921

Three and Twelve months Ended March 31, 2011 compared to the Three and Twelve months Ended March 31, 2010

For the three and twelve months ended March 31, 2011, the Company recorded a net loss of \$10,972,352 or \$0.15 loss per share and \$11,588,099 or \$0.15 loss per share compared to \$620,735 or \$0.01 loss per share and \$807,826 or \$0.01 loss per share for the same period in 2010. The increase in the net loss in the current quarter compared with the previous comparative quarter was due to an \$11,306,431 write off of certain properties.

For the three and twelve months ended March 31, 2011 an amount of \$41,330 and \$415,174 was charged by Andean compared to \$134,599 and \$419,994 for the same period in 2010.

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OPERATING EXPENSES

Operating expenses for the three and twelve months ended March 31, 2011 were \$134,781 and \$712,703 compared to \$311,126 and \$722,084 for the same period in 2010.

General and administrative expenses

General and administrative expenses for the three and twelve months ended March 31, 2011 were \$49,692 and \$439,763 compared to \$236,099 and \$532,561 for the same period during 2010. See the breakdown below.

Details of administrative costs for the three and twelve months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31		Twelve Months Ended March 31	
	2011	2010	2011	2010
Administrative and management services	\$ 41,330	\$ 134,599	\$ 415,174	\$ 419,994
Investor relations	420	6,771	1,819	6,771
Office rent, salaries and sundry	(1,259)	56,930	1,598	58,470
Regulatory and transfer agent	9,113	8,496	14,598	17,483
Travel and accomodation	88	29,843	6,574	29,843
	\$ 49,692	\$ 236,639	\$ 439,763	\$ 532,561

Depreciation

Depreciation expenses for the three and twelve months ended March 31, 2011 were \$3,857 and \$16,041 compared to \$5,013 and \$31,072 for the same period in 2010.

Professional fees

Professional fee expenses for the three and twelve months ended March 31, 2011 were \$53,398 and \$128,964 compared to \$42,757 and \$42,757 for the same period in 2010.

Stock based compensation

Stock based compensation expenses for the three and twelve months ended March 31, 2011 were \$38,692 and \$127,935 compared to \$27,257 and \$115,694 for the same period in 2010.

Interest and other income

Interest and other income expense for the three and twelve months ended March 31, 2011 were (\$514) and (\$860) compared to \$Nil and \$619 for the same period in 2010.

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Other expense

Other expense for the three and twelve months ended March 31, 2011 were \$Nil and \$Nil compared to \$35 and \$102,284 for the same period in 2010.

Write-down of related party debt

Write-down of related party debt expense for the three and twelve months ended March 31, 2011 were \$Nil and \$Nil compared to \$Nil and (\$50,925) for the same period in 2010.

Write-down of mineral property

Write-down of mineral property expense for the three and twelve months ended March 31, 2011 were \$11,306,431 and \$11,306,431 compared to \$Nil and \$Nil for the same period in 2010. This is due to the loss of four key properties.

Foreign exchange loss (gain)

Foreign exchange loss (gain) for the three and twelve months ended March 31, 2011 were (\$8,961) and \$28,518 compared to (\$258,046) and \$66,848 for the same period in 2010. At March 31, 2011 the United States dollar versus the Canadian dollar was 0.9696 and at March 31, 2010 was 1.0158. This means a 4.5% increase in the exchange rate. These gains and losses are a result of fluctuations in the various currencies, and any exchange gain or loss that arises on translation is included in the determination of net loss for the period. As at March 31, 2011 the Company holds its cash and cash equivalents in United States dollars and Peruvian New Soles, representing the near term operating costs to be incurred in Peru. With the pressure on the United States dollar we might expect to see more (gains)/losses during the course of the year.

Income and Resource Taxes

The Company is subject to income taxes in Canada with a blended statutory income tax rate of 28.53%. The Company's operating subsidiary, Minera Sinchao, is subject to relevant income tax laws applicable in Peru with the statutory income tax rate at 30%.

The Company is subject to assessment by Canadian and Peruvian authorities, which may interpret tax legislation in a manner different from the Company. These differences may affect the final amount or the timing of the payment of taxes. When such differences arise the Company makes provision for such items based on management's best estimate of the final outcome of these matters.

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FINANCIAL POSITION AND LIQUIDITY

Operating Cash Flow

Three and Twelve months Ended March 31, 2011 compared to the Three and Twelve months Ended March 31, 2010

Cash provided from (used by) operations in the three and twelve months ended March 31, 2011 was \$5,425 and (\$827,982) compared to (\$184,178) and (\$586,602) for the same period in 2010. The increase in cash outflow was mainly due to a repayment of related party loans.

Investing Activities

Three and Twelve months Ended March 31, 2011 compared to the Three and Twelve months Ended March 31, 2010

Capital expenditures for the three and twelve months ended March 31, 2011 amounted to \$88,941 and \$156,049 compared to (\$169,030) and \$278,765 for the same period during 2010. Most of the amounts in 2010 relate to deferred exploration costs.

Financing Activities

Three and Twelve months Ended March 31, 2011 compared to the Three and Twelve months Ended March 31, 2010

During the three and twelve months ended March 31, 2011 the Company issued 350,000 common shares from the exercise of options for proceeds of \$53,500, and for the same period in 2010, the Company issued 5,160,000 common shares for gross proceeds of \$1,032,000.

Cash Resources and Liquidity

At March 31, 2011 the Company had a working capital deficit of \$1,456,351 (March 31, 2010 – \$781,582). This included an available cash balance of \$68,483 (March 31, 2010 - \$1,019,481). As at March 31, 2011 the net amount due to Andean from the Company was \$886,367.

The Company is in the process of exploring and evaluating its mineral properties in Peru. On the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the mineral properties and related deferred costs are entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. The amount shown as mineral properties and deferred exploration costs represents net costs to date and does not necessarily represent present or future values.

These consolidated financial statements have been prepared under the going concern assumption, and that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

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The Company has incurred a net loss of \$11,588,099 for the twelve months ended March 31, 2011 (March 31, 2011 - \$807,826).

These conditions cast significant doubt about the Company's ability to continue as a going concern. The Company is dependent upon the continuing support of its major shareholder, Andean and/or obtaining additional financing to meet its obligations, repaying its liabilities through settlement with its creditors and generating sufficient cash to meet its operating expenses in the future. The doubts surrounding tenure present a challenging funding environment and, together with the low price of the Company's common shares, make it difficult to raise funds by private placements of shares at this time.

Failure to arrange adequate financing on acceptable terms and to achieve profitability would have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These consolidated financial statements do not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the consolidated financial statements. Such adjustments could be material.

The Company has instituted severe cost cutting measures to conserve its cash resources. However, should the Company be obliged to seek additional funding under current market conditions, then it is likely that existing shareholders would suffer significant dilution.

SUBSEQUENT EVENTS

There have been no subsequent events.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

At March 31, 2011 the Company had no commitments or contractual obligations.

RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at the exchange amount, which is the amount of consideration agreed upon between the parties.

- (a) During the twelve months ended March 31, 2011 the Company repaid a Bridge Loan Agreement with Andean for \$800,000. At March 31, 2011 the Company owed to Andean \$858,310.
- (b) During the three months ended March 31, 2011, the Company paid or accrued to Andean, and its subsidiaries \$415,174 (March 31, 2010 - \$419,994) for administrative.

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FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and amounts due to related parties. For cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities and loans payable, carrying value is considered to be a reasonable approximation of fair value due to the short-term nature of these instruments.

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity, foreign exchange, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and commodity price risk.

Currency risk

The Company's property interests in Peru make it subject to foreign currency fluctuations (Peruvian Sol and US Dollar) and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

The Company is exposed to foreign currency fluctuations to the extent cash, accounts receivable and accounts payable and accrued liabilities of the Company are not denominated in Canadian dollars. As at March 31, 2011 the Company had \$30,561 of cash denominated in US dollars (March 31, 2010 - \$22,515). As at March 31, 2011, there were \$Nil of accounts receivable denominated in US dollars (March 31, 2010 - \$12,513). As at March 31, 2011 there were \$327,677 of liabilities denominated in US dollars (March 31, 2010 - \$303,531). These liabilities were included in accounts payable and accrued liabilities.

Credit risk

The Company's cash and cash equivalents are held in Canadian financial institutions in Canada and Peru in (Peruvian Soles and US dollars). The Company does not have any asset-backed commercial paper in its cash and cash equivalents. The Company's amount receivable consists primarily of goods and services tax due from the federal government of Canada and prepaid tax from the Peruvian Government. The Company's maximum credit risk exposure is considered to be represented by the amounts shown in the balance sheet.

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Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

At March 31, 2011 the Company did not have any commitments.

Additional information relating to liquidity risk is disclosed in note 1 of the financial statements.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

Commodity price risk

The ability of the Company to develop its mineral properties and the future profitability of the Company are directly related to the market price of gold. The Company has not hedged any of its future gold sales. The Company's input costs are also affected by the price of fuel. The Company closely monitors gold and fuel prices to determine the appropriate course of action to be taken by the Company. At this time the Company does not generate sales and so financial results are not impacted by commodity prices.

MANAGEMENT REPORTING

Management's Responsibility for Consolidated Financial Statements

The accompanying audited consolidated financial statements of the Company are the responsibility of management. The audited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information reflected in this Management's Discussion and Analysis is consistent with these financial statements.

The Company's Board of Directors has approved the information contained in the audited consolidated financial statements and this Management's Discussion and Analysis. The Board of Directors fills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate which complies with the current requirements of Canadian securities legislation. The Audit Committee meets at least on a quarterly basis.

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CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred expenditures, asset retirement obligations, the value of stock-based compensation and the allocation of purchase prices for business acquisitions. All of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's share and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model; however, the future volatility is uncertain and the model has its limitations.

The Company's recoverability of the carrying value of its mineral properties and property, plant and equipment and asset retirement obligations 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 disposition of the properties. The fair value of these items is subjective and is based on management's best estimate incorporating the use of internal and external expertise.

Sinchao is in an industry that is dependent on a number of factors, including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Sinchao's accounts are stated using Canadian GAAP. The Company's accounting policies have not changed during 2011 and no future changes are contemplated except as may be required to conform to future changes in Canadian GAAP.

Future accounting change:

International Financial Reporting Standards ('IFRS')

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will assess the impact of the transition to IFRS and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

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TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after January 1, 2011, the Company must comply with the AcSB that have been revised to satisfy the requirements of IFRS as issued by the International Accounting Standards Board.

Management of IFRS implementation

Sinchao is a junior company with a small accounting staff. The VP Finance and Chief Financial Officer and the Corporate Controller will manage the conversion and report regularly to the Audit Committee. The implementation of IFRS consists of three phases:

- (i) *Scoping and impact analysis* - Project scoping and impact analysis was completed as at June 30, 2010 and produced a high level view of potential differences to existing accounting and reporting policies and consequential changes to information systems and business processes.
- (ii) *Evaluation and design phase* - This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content. The evaluation phase commenced in 2009 and the Company will continue to evaluate the impact of IFRS through to implementation.
- (iii) *Implementation and review phase* - The implementation and review phase has commenced and includes training programs for all finance staff, execution of changes to information systems and business processes, and completing formal authorization processes to approve recommended accounting policy changes. It will culminate in the collection of financial information necessary to compile IFRS compliant financial statements, embedding of IFRS in business processes, elimination of unnecessary data collection processes and Board approval of IFRS financial statements. Implementation also involves delivery of further staff training as systems begin to take effect.

In the third quarter of fiscal 2011, a review was made to update the scoping and impact analysis to identify key differences between the Company's current accounting policies, including new accounting policies adopted in 2010, and those required under IFRS.

The Company believes that it will be prepared to adopt IFRS and meet the required disclosure requirements in time for the Company's first filing of fiscal 2012.

Key differences in accounting policies

The differences between Canadian GAAP and IFRS identified to date as potentially having a significant effect on Andean's financial performance and financial position have been identified and where policy choice decisions are required, these are included below. The information provided below is to allow users of the Company's financial statements to obtain a better understanding of the status of the Company's IFRS conversion plan and the resulting possible effects on the Company's financial statements and operating performance measures. These estimates are

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unaudited and are based on the Company's current understanding, and readers are cautioned that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations. The Company continues to monitor the development of IFRS by accounting standard-setting bodies in Canada and Peru where the Company has operations or interests.

The Company has performed an assessment of the alternatives permitted including IFRS 1 exemptions and identified the areas affected by the conversion.

(i) Business combinations

Section 1582 – Business Combinations issued by CICA's AcSB and IFRS 3, *Business Combinations* ("IFRS3") are converged. The Company had elected to early adopt s.1582 effective from January 1, 2010 and therefore all business combinations after that date, are accounted for the same as the IFRS rules.

(ii) Property, plant and equipment

Under IAS 16, *Property, Plant and Equipment* ("IAS16"), the Company has an option to adopt the cost model or the revaluation model. IFRS1 provides exemption for the Company to elect to use fair value as the deemed cost of an item of property, plant and equipment in its balance sheet on the transition date. The Company had a relatively small value of property, plant and equipment on the transition date and the Company plans to adopt the cost model.

IAS16 calls for a higher degree of component accounting for property, plant and equipment than Canadian GAAP. The Company does not expect to have many new components added, but will review its accounting system and depreciation rates to assess if any change is required.

(iii) Stock options

Under IFRS 2, the Company would have to compute fair value of each vesting tranche of a stock option grant and recognize the stock-based compensation over the expected life accordingly. As at the transition date, not all stock options are vested and there is a financial impact, which is not regarded as material and no adjustment will take place.

Other accounting policies that are affected by the transition to IFRS are:

(i) Exploration and evaluation

The Company capitalizes all pre-exploration, exploration and evolution expenditures related to mineral properties until the properties are brought into production at which time they are amortized over the life of the mine on a units-of-production basis. Under Canadian GAAP, pre-exploration expenses are not separately identified. Under IFRS, pre-exploration expenses are expensed, and the Company has a choice of expensing exploration and evaluation expenditures as incurred or capitalizing them. At the transition date, the Company has no exploration and evaluation

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expenditures and while the Company is reviewing its policy in relation to exploration and evaluation expenditures, this has no effect on the transition date balance sheet.

(ii) Impairment of long-lived assets

Canadian GAAP uses a two-step approach to impairment testing for long-lived assets, with the first step being the use of undiscounted cash flow to identify possible impairments. IAS 36, *Impairment of Assets*, calls for a one-step approach for identifying and measuring impairments, which is based on comparing the carrying value to the recoverable amount, the recoverable amount being the higher of the fair value less selling costs and the value in use, which is based on discounted cash flows. The Company did not have a significant amount of long-lived assets on transition date and there is no impact on its transition date balance sheet.

(iii) Functional currency and translation of foreign operations

Under Canadian GAAP, translation of self-sustaining foreign operations are translated for the purpose of consolidation as follows: assets and liabilities are translated at the closing rate, revenues and expenses are translated at actual rates or appropriate averages and equity components (excluding current year movements which are translated at actual rates) are translated at historical rates.

The financial statements of integrated foreign operations are translated as follows: all transactions not denominated in the Company's functional currency are measured at the spot exchange rate on initial recognition. Monetary items are translated at the closing rate and non-monetary items at historical rates. Exchange differences arising on translation are recognized in profit and loss for the period. The Company has determined that the functional currency of each of its entities will remain the currency in which its books are denominated, as it was previously determined under Canadian GAAP. The Company's Canadian entities are denominated in Canadian dollars and the Company's foreign subsidiaries are denominated in US dollars.

UNCERTAINTIES AND RISK FACTORS

The mining business is inherently risky in nature. Exploration activities rely on professional judgments and statistically based tests and calculations and often yield few rewarding results. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and operations may be subject to risks including labour disputes, environmental hazards, safety issues, geological issues, weather conditions, and changing regulatory requirements, as examples. Sinchao is subject to competitive risk as its ability to finance its activities and generate profitable operations or proceeds from disposal of assets are subject to the world price for the precious metals and the economic forces that influence capital markets. As a result the securities of Sinchao must be considered speculative. A prospective investor in Sinchao should carefully consider the following factors:

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Exploration and Development

Exploration for gold, copper and other minerals is highly speculative in nature, involves many risks and frequently is unsuccessful. There can be no assurance that exploration efforts will result in the discovery of mineralization or that any mineralization discovered will result in the definition reserves. If reserves are developed, it may take a number of years and substantial expenditures from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. No assurance can be given that exploration programs will result in the definition of reserves or that reserves may be economically mined.

The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors, which are beyond the control of the Company.

All exploration and development evaluation expenditures incurred in Sinchao, prior to establishing that a property has economically recoverable reserves, are capitalized.

Operating Hazards and Risks

Mineral exploration and mining involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The work that the Company proposes to undertake will be subject to all the hazards and risks normally incidental to exploration, development and production, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, explosions and cave-ins, are all the risks involved in the operation of mines and the conduct of exploration programs. Although the Company has secured liability insurance and will, when appropriate, secure property insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs or uninsured losses that could have a material adverse effect upon its financial condition.

Regulations and Mining Law

Mining operations and exploration activities are subject to extensive local and foreign laws and regulations governing exploration, development, production, taxes, labour standards, occupational health, waste disposal, protection and remediation of the environment, reclamation, mine safety, toxic substances and other matters. Compliance with such laws and regulations increases the costs of planning, designing, developing, constructing, operating and closing mines and other facilities. It is possible that the costs and delays associated with compliance with such laws and regulations could become such that the Company would not proceed with or would postpone the development and operation of a mine or mines.

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Environmental Factors

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which they operate. 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 Sinchao's operations or result in substantial costs and liabilities in the future.

Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. Obtaining the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions. There can be no assurance that Andean will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

Title to Assets

On February 7, 2011, Sinchao announced that it had conducted a review of its properties earlier this year and determined that title to the claims of four of the properties comprising the Sinchao Project were not properly transferred to a subsidiary of Andean, the party that had purported to transfer the claims to Sinchao. As a result neither Andean nor Sinchao holds any proprietary interest in the claims, which claims contain approximately 40% of the inferred resource previously disclosed by Sinchao. In addition to the four properties mentioned above, Sinchao has also determined that six other properties believed to have been acquired at the time of Sinchao's formation had previously lapsed and thus are not held by Sinchao. These properties are not material to Sinchao's operations.

Financing Risks

Sinchao 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 work or to fulfill its obligations under any applicable agreements. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development plans.

Commodity Prices

The Company's future revenues, if any, are expected to be in large part derived from the mining and sale of gold, silver, copper and other metals. The price of those commodities has fluctuated in recent years, and is affected by numerous factors beyond the Company's control including international economic and political conditions, expectations of inflation, international currency exchange rates, interest rates, global or regional consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and improved mining and production methods. The effect of these factors on commodity prices makes it difficult to predict the economic viability of the Company's operations.

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Foreign Currency Risks

The Company's future revenues, if any, may be denominated in United States dollars, while the Company operates primarily in Peru and a significant portion of the Company's operating costs and capital expenditures are denominated in the Peruvian Sole and the Canadian dollar. As a result, the Company is exposed to the currency fluctuations relative to these two currencies.

Governmental Regulation

Exploration, development and mining of the properties will be affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law; (iii) restrictions on production; price controls; and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are required in connection with the exploration activities proposed for the properties. To the extent such approvals are required and not obtained, the Company's planned exploration, development and production activities may be delayed, curtailed, or cancelled entirely.

Failure to comply with applicable laws, regulations and requirements may result in enforcement action against the Company, including orders calling for the curtailment or termination of operations on the properties, or calling for corrective or remedial measures requiring considerable capital investment. Parties engaged in mineral exploration and mining activities may be subject to civil and criminal liability as a result of failure to comply with applicable laws and regulations.

Amendments to current laws, regulations and permitting requirements affecting mineral exploration and mining activities could have a material adverse impact on the Company's operations and prospects.

No Dividends

Sinchao has not paid any dividends on its Common Shares during the past five years. Any decision to pay dividends on its shares in the future will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the board of directors of the Company may consider appropriate in the circumstances.

Dependence on Key Employees

Sinchao's future growth and its ability to develop depend, to a significant extent, on its ability to attract and retain highly qualified personnel. Sinchao is highly dependent on the principal members of its senior management group and the loss of their services might impede Sinchao's business strategy and growth. The loss of one or more key employees could have an adverse effect on the growth and profitability of Sinchao.

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Conflicts Of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other reporting companies or may have significant shareholdings in other reporting companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms.

Competition

The mineral industry is intensely competitive in all its phases. Sinchao competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

Share Price Fluctuations

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered development stage companies, have experienced wide fluctuations in price which would have not necessarily been related to the operating performance, underlying asset values or prospect of such companies. There can be no assurance that continual fluctuation in share price will not occur.

OUTSTANDING SHARE DATA

Undiluted and diluted common shares outstanding as at June 28, 2011	
Common shares	76,386,133
Shares issuable on exercise of options	2,475,000
Shares issuable on exercise of warrants	-
Fully diluted shares outstanding as at June 25, 2011	78,861,133

GENERAL

All pertinent information on the Company is available on SEDAR at www.sedar.com.

INDEMNITIES

No director or officer of the Company shall be held responsible for any losses or damages sustained by the Company while in the execution of the duties of his office save if such resulted from his gross negligence or willful omission, or if he has not acted with honesty and in good faith. The Company shall fully indemnify and save harmless all directors and officers from any and all losses or damages they may sustain while in the execution of the duties of their office save if such resulted from their gross negligence or willful omission or if they did not act with honesty and in good faith. The Company maintains insurance policies that may provide coverage against certain claims.

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QUALIFIED PERSON

Mr. Andrew Gourlay, P. Geol., former President of Sinchao Metals Corp., is a Qualified Person as defined by National Instrument 43-101 with the ability and authority to verify the authenticity and validity of the technical and scientific data. Mr. Gourlay has verified the technical and scientific data disclosed in this document including sampling, analytical and test data underlying the information.

Victor Jaramillo, P. Geo., of Discover Geological Consultants Inc. is an Independent Qualified Person as defined by National Instrument 43-101 and is responsible for the resource estimates.