Carpathian Gold Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and twelve month periods ended December 31, 2013.

The following management discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Carpathian Gold Inc. ("Carpathian" or the "Corporation"), for the year ended December 31, 2013 and Corporation's other securities filings available on www.sedar.com. The Corporation reports its audited consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All financial figures contained in this MD&A are denominated in United States dollars (US$), unless otherwise specified.

Date of MD&A

This MD&A is current as of June 17, 2014.

Cautionary Statements Regarding Forward-looking Information

Some statements contained in this MD&A constitute "forward-looking information" as defined by Canadian securities laws. These statements relate to future events of the Corporation's future performance. Often, but not always, forward-looking information can be identified by the use of such words as "plans", "expects", "is expected", "budgeted", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur, or be achieved. Forward-looking information involves uncertainties, risks and other factors that could cause actual results to differ materially from those anticipated in such forward-looking information. Forward- looking information and statements in this MD&A include, without limitation, those that relate to the following:

- the Corporation's strategies and objectives with respect to the RDM project;
- the Corporation's estimate of the quantity and quality of its mineral reserves and resources;
- the achievement of commercial production;
- the sufficiency of available funds and the requirement for additional funding;
- the expected ore grades, recovery rates and throughput;
- the Corporation's production and cost guidance;
- the anticipated operation of plants, equipment and processes;
- the long-term demand and supply of gold;
- prices and price volatility for gold;
- the Corporation's estimates of any reclamation costs;
- the Corporation's future exploration, capital and operating costs; and
- general business and economic conditions.

Such forward-looking information is necessarily based on a number of factors and assumptions that, while considered reasonable by the Corporation as of the date of such statements, may prove to be incorrect, including, but not limited to, assumptions and factors relating to the following:

- the availability of financing for the Corporation's activities;
- operating and capital costs;
- the estimated timeline for the ramp-up of production at the RDM project;
- the supply and demand for, and the level and volatility of the price of gold;
- timing of the receipt of regulatory and government approvals for its operations;

- the exchange rates between the Canadian dollar, the United States dollar and the Brazilian real;
- energy and fuel costs;
- the accuracy of the Corporation's mineral reserve and resource estimates and the geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources) and operational and price assumptions on which the mineral reserves and resource estimates are based; and
- general business and economic conditions.

Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the Corporation's actual results, performance or achievements to be materially different from those anticipated thereby. These risks, uncertainties and other factors include, but are not limited to those inherent to the gold exploration and development industry as well and those risks factors discussed in this MD&A under the heading *"Risks and Uncertainties"* and in the Corporation's Annual Information Form for the year ended December 31, 2013 as filed on SEDAR. Readers are cautioned that these risks, uncertainties and other factors are not exhaustive of the risks, uncertainties and other factors that may affect the forward-looking information.

All forward-looking information in this MD&A is qualified by this cautionary statement. Readers should not place undue reliance on forward-looking information. The forward-looking information contained in this MD&A is made as of the date hereof and is subject to change after such date. The Corporation does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking information and statements, except as prescribed by applicable securities laws.

Responsibility of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and the accompanying Financial Statements and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Corporation's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Corporation and has reviewed and approved this MD&A and the accompanying Financial Statements.

Overview

The Corporation is principally a mineral exploration and development company. Through its subsidiaries, the Corporation is currently involved in the exploration and development of mineral properties situated in two jurisdictions. In Minas Gerais State, Brazil, the construction and development of the Corporation's Riacho dos Machados gold project ("RDM" or the "Project") was nearing completion at the end of 2013; however certain important material capital projects remain to be completed. In Romania, the Corporation has carried out extensive exploration programs on three copper-gold porphyry systems referred to as Rovina, Colnic and Ciresata (collectively, the "Rovina Valley Project" or "RVP") with a view to advancing them to the pre- feasibility stage.

Corporate Update

In October 2013, personnel employed by the Corporation's Brazilian subsidiary, Mineração Riacho dos Machados Ltda. ("MRDM"), identified possible irregularities in connection with procurement for the RDM Project. MRDM personnel investigated the possible irregularities and issued a preliminary report in mid-December 2013 that was sent to MRDM management and to the Corporation's Chief Financial Officer. The investigation team recommended that additional investigative steps be undertaken.

The Corporation disclosed the possible irregularities identified by the investigation team to its external auditor as part of audit planning for the Corporation's 2013 audit. Following discussions between the Audit Committee of the Corporation and its external auditor, the Corporation concluded that it would be necessary to have a third party undertake additional investigative procedures. In March 12, 2014, the Corporation engaged external forensic accounting and external legal advisors to undertake, and to assist in undertaking, additional investigative procedures. The investigation identified problems with procurement practices, possible misconduct by MRDM personnel and, in relation to the Corporation's IFCR, weakness in the control environment and the override of controls by management at MRDM that may have contributed to the irregularities identified.

As a result of the Corporation's decision to record an impairment of the assets of MRDM to their fair value as of December 31, 2013, we have concluded that the consolidated financial statements of the Corporation are appropriately stated and no financial impact needs to be recorded to reflect any of the findings from the investigation. To remediate the material weaknesses in the Corporation's IFCR, all MRDM personnel identified as having engaged in possible misconduct have ceased to be employed by MRDM and the Corporation has appointed new personnel in the finance and procurement teams at MRDM. In addition, the Corporation is in the process of strengthening the internal control environment and procedures at all subsidiaries, implementing a comprehensive ethical business conduct policy (the "Ethical Business Conduct Policy"), implementing a policy to obtain periodic verification from all major suppliers and annual confirmations from all employees of the Corporation and its subsidiaries of their compliance with the Ethical Business Conduct Policy, changing contractors that were involved in the irregularities and implementing a more comprehensive monitoring of actual to budget performance.

In light of the above-noted investigation, on March 14, 2014, the Corporation announced (the "Default Announcement") that, for the reasons set out in the Default Announcement, the filing of the Corporation's audited annual financial statements, related management's discussion and analysis and accompanying Interim CEO and CFO certifications for the financial year ended December 31, 2013 (collectively, the "Required Filings") would not be completed by the prescribed period under applicable securities laws. As a result of this delay in the filing of the Required Filings, the Ontario Securities Commission (the "OSC") issued a management cease trade order (the "MCTO") on April 16, 2014 against the Corporation's Interim Chief Executive Officer and Chief Financial Officer, as opposed to a general cease trade order against the Corporation. The MCTO prohibits all trading in securities of the Corporation, whether directly or indirectly, by the Corporation's Interim Chief Executive Officer and Chief Financial Officer until two full business days following receipt by the OSC of the Required Filings. The MCTO does not affect the ability of shareholders who are not insiders of the Corporation to trade their securities. However, the applicable Canadian securities regulatory authorities could determine, in their discretion, that it would be appropriate to issue a general cease trade order against the Corporation affecting all of the securities of the Corporation. The Corporation was granted an extension to its original MCTO expiring on May 30, 2014, which will remain in place until June 23, 2014. Upon the filing on SEDAR of the Required Filings, the Corporation anticipates that the MCTO will be lifted.

Brazil

RDM is the Corporation's sole exploration and development project in Brazil and the focus of its efforts since late 2008. RDM hosts a past producing mine that was operated by Vale S.A. ("Vale") as an open-pit heap-leach gold mine until 1997, with maximum pit depths at that time of approximately 60 m. The objectives of the work carried out since 2008 were to define a gold resource at RDM that could be of sufficient size to justify expanding and deepening the former open-pit mine, as well as to define additional gold mineralization and/or exploration targets along strike and at depth. The Corporation, through its Brazilian subsidiary, Mineração Riacho dos Machados ("MRDM"), owns 100% of RDM, which currently comprises 6 exploration licenses and one mining concession that covers a total area of approximately 10,090 ha. In addition, MRDM is in the process of applying for additional mining concessions covering areas not included in the above.

On April 6, 2011, the Corporation announced the results of a NI 43-101 feasibility study (the "Feasibility Study") on the open-pit portion of the Project (the "RDM Technical Report") and a construction decision.

The Feasibility Study was amended on November 15, 2011 (the "Amended RDM Technical Report") to reflect updated qualified persons certificates and filed on that date on SEDAR, which is accessible at www.SEDAR.com. In addition, an addendum to the Amended RDM Technical Report was issued by Golder

Associates Brasil Consultoria e Projectos Ltda., and filed on SEDAR on November 15, 2011. This addendum primarily reflected the agreement by the Corporation with the Brazilian authorities that the Corporation would undertake to add an impervious liner to the tailing impoundment area, along with some environmental works. The extra cost for this additional work, along with certain scope changes that have been implemented to enhance future operations is estimated at approximately $15 million. As of the date of this MD&A, the estimated start-up CAPEX for the Project, including the extra scope discussed above, is approximately $185 to $190 million. However, given that gold production has not yet fully ramped up, there is no assurance that the final cost will be within this estimate.

The Amended RDM Technical Report is based on an owner operated conventional open-pit method with drill and blast, backhoe excavators, haul trucks, and auxiliary mobile equipment to support an operation processing approximately 2.5 million tonnes per year of ore and moving approximately 27.7 million tonnes per year of waste. The report identified total proven and probable reserves of 20.9 million tonnes of ore at a grade of 1.24 g/t Au with an operational strip ratio of 7.4 to 1. A combination of owner operated and contractor equipment will be used. The run-of mine ("ROM") ore will be hauled from the open-pit with 60 tonne haul trucks and dumped directly into a hopper that feeds the primary crusher at a rate of 7,000 tonnes per calendar day or 2.555 million tonnes per year. A small ore stockpile of 5,000 tonnes will be established at the primary crusher area to cater for the event that the pit operation is stopped for any reason, so that the crushing plant can continue to operate.

The process plant is conventional with a primary jaw crusher, secondary and tertiary cone crushers in closed circuits with vibrating screens, a single stage ball mill in a closed circuit with cyclones, a CIL circuit, a cyanide destruction system, and an adsorption, desorption and recovery ("ADR") plant to produce gold dore bars. The processing rate of the plant is expected to be 7,000 tonnes per calendar day at a head grade of approximately 1.24 g/t Au and is expected to average about 90% gold recovery based on the test work performed. Approximately 7,500 ounces of gold is planned to be produced on an average monthly basis over the life of the mine.

The focus of the Corporation during 2013 was on construction activities pertaining to the process plant, a lined tailings facility, waste dump pad, and pre-gold production open-pit mining as permitting under the LI. Mining utilized a combination of owners' fleet and contractors' fleet with focus on waste removal and stockpile of mineralized material from the weathered rock zones. Mining production ramped-up during the course of the year with monthly production attaining 2 million tonnes of material moved and attaining the mining rates proposed in the feasibility study. Mining was temporarily suspended in early November to await completion of the process plant and conserve cash spend. A total of 9 million tonnes of waste were mined and 1 million tonnes of mineralized material stockpiled for later processing.

With construction nearing completion, on December 13, 2013, MRDM received from SUPRAM an Autorização Provisória de Operação (provisional operating permit or "APO") allowing it to proceed with the full operation of its gold producing facilities. The APO provides the same legal rights as the Licença Operação ("LO") and allows the RDM Project to proceed in the interim while arrangements are being performed by the government agencies and related entities for the issuance of the LO. On December 24, 2013, MRDM completed its first gold smelt at the RDM Project. MRDM subsequently completed a second gold smelt and poured its first doré gold bar of approximately 10.1 kg on January 7, 2014. On January 8, 2014, the Corporation announced a temporary suspension of production at the RDM Project as a result of the receipt by MRDM of a temporary suspension of the APO. The APO was reinstated by SUPRAM on February 24, 2014, and re-commissioning of the processing plant at the RDM Project is underway. The re-commissioning comprises a sequential start-up of the component parts of the plant. It is anticipated that the operation will gradually build up to the planned production target of approximately 7,500 to 8,000 ounces of gold per month, over the next few months.

As of the date of this MD&A, MRDM has poured a total of 8,265 ounces of gold and 3,505 ounces of silver and continues to work with the governmental agencies and other relevant entities in order to obtain the definitive LO.

On October 5, 2011, the Corporation announced that MRDM would enter into a committed arrangement with Macquarie Bank for a Project Loan Facility (the "Facility") ranging from US$75 to US$97 million and associated currency and commodity price protection facilities to fund the construction and development of the RDM Mine. On December 14, 2011, the Board of Directors of the Corporation approved the construction and development of the RDM Mine. Concurrently, MRDM and Macquarie Bank agreed to enter into final documentation for a Facility of US$80 million. In conjunction with this, MRDM, through Macquarie Bank, also entered into price protection programs in the form of currency swaps for the RDM Project's Capex (R$1.90 to US$1.00) and Opex (R$1.983 to US$1.00) as well as a gold price protection program (consisting of forward sales) for a total of 216,600 ounces of gold (approximately 26% of the open-pit reserves) at a price of US$1,600 per ounce. On October 1, 2012, the Corporation announced that the amount available to MRDM under the proposed Facility would be increased to US$90 million. Final documentation in respect of the Facility was completed on January 11, 2013. During 2013, MRDM drew the entire US$90 million against the Facility. The Facility has been amended a number of times to provide for the increase of the aggregate amount available thereunder to up to US$165 million and to provide forbearance against certain defaults and covenants of MRDM under the Facility. As of the date of this MD&A, an aggregate of approximately US$161.4 million has been drawn down by MRDM under the amended Facility. The current forbearance period expires on June 30, 2014.

The Corporation acts as a guarantor of MRDM's obligations under the Facility and related derivative contracts until such time as project completion is achieved as defined under the terms of the Facility.

On August 29, 2013, pursuant to an agreement with Cormark Securities Inc. and Macquarie Capital Markets Canada Ltd., as co-lead underwriters, the Corporation completed a bought deal private placement of shares of the Corporation at an issue price of Cdn$0.14 per share. On August 29, 2013, the Corporation issued a total of 57,871,429 common shares for gross proceeds of Cdn$8,102,000. On September 5, 2013, the Corporation issued a total of 80,878,571 common shares for gross proceeds of Cdn$11,323,000. In total, the Corporation issued 138,750,000 common shares under both tranches of the private placement for aggregate gross proceeds of Cdn$19,425,000. Costs of the issue were $1,317,329. The funds raised were used for working capital purposes.

The gold mineralization at RDM is situated within a continuous 14 km long shear zone hosted in Precambrian metamorphic rocks with a demonstrated gold endowment. This shear zone is fully covered by the Corporation's mining concession and exploration licenses that extend over a continuous strike-length of approximately 40 kilometres. The most intensely explored zone to date has been at the RDM mine site location and only represents approximately 2 km of the southern portion of the 14 km long shear zone. There are numerous surface gold targets of similar gold grade that occur along strike at RDM within this shear zone and, to date, a total of at least nine (9) priority exploration targets have been identified, of which seven are to the north of the open-pit area and two to the south. The Corporation expected to embark on a drilling exploration program to evaluate these targets as well as other targets with the goal of defining further resources with the potential to provide additional plant feed and mine life; however, this exploration program has been largely deferred to a later date as a cost containment measure.

The exploration team is currently providing their technical and field support to the mine geology team for implementing ore-control, in-pit geology bench mapping, QA-QC sampling, reconciliation between the Resource-Reserve model to the short term model and to liberation blocks, variography updates and ore-control reporting.

Further information on RDM, including the NI 43-101 reports can be found on the Corporation's web site at www.carpathiangold.com.

Under current regulations, all exploration activities that the Corporation undertakes through MRDM must be carried out on valid exploration licenses or prospecting permits issued by the Departamento Nacional de Produção Mineral ("DNPM"), a department of the Brazilian federal government. The DNPM is responsible for the administration of all mining and exploration licenses, and prospecting permits. According to local regulations, MRDM must submit a final exploration report before the expiry date of any license or permit, which is usually three years from the date of grant. However, Brazilian mining laws and regulations are currently undergoing a major restructuring, and draft legislation to this effect has been submitted to the federal legislature for review and approval. The effects of this restructuring will, if adopted, be far-reaching in the ways that mining rights can be acquired and maintained in that country. Current proposals include an auction process for new licenses, minimum expenditures designed to eliminate the "warehousing" of mining permits and licenses as well as new fee schedules. They also provide for land owner participation where applicable. It is the Corporation's understanding, based on consultations with local counsel, that licenses currently held in good standing will be grandfathered and not subject to certain requirements of the proposed new regime.

The project operations, development and construction work is taking place on a mining concession on which MRDM owns the surface rights and the environmental licenses required to execute the construction of the Project. Each year, MRDM also pays the Brazilian government an annual fee based on the number of hectares forming part of each license (Taxa Anual por Hectare). As at the date hereof, the licenses held by MRDM represented a total of 28,000 hectares. MRDM is required to pay the Brazilian government a 1% royalty fee (the "CFEM") on the value of the ore produced. However, and as mentioned above, the Brazilian government is currently considering the adoption of new mining legislation which would include increases in the CFEM royalties. (See also *"Risk Factors – Foreign Jurisdictions"*).

Environmental permits are granted for one to two year periods and all local agencies have the right to monitor and evaluate compliance with the issued permits even though such monitoring tends to be minimal in scope and nature. Any changes to the exploration activities that result in a greater environmental impact require approval.

The work MRDM carries out on its exploration licenses is largely restricted to drilling and ancillary activities associated with the drilling programs (i.e., low impact road construction, drilling stations). As such, the reclamation costs in respect of drilling activities are not material to MRDM and are factored into the budget for exploration programs.

As part of the completion of the Feasibility Study along with environmental impact assessments, a reclamation program was developed for the mining license. A total cost of $8.2 million is the current estimate as the projected liability on the closure of the operations. In addition, MRDM estimates expenditures of approximately $1 million per year in respect of other environmental costs. Further environmental impact assessments will provide a more detailed analysis of the future costs of compliance with applicable environmental requirements and will also provide a better estimate of the eventual costs of reclamation obligations at the end of the mine life. As MRDM has not yet commenced commercial operations, the Corporation records the rehabilitation provision based on the percentage of completion of the construction project. As at December 31, 2013, the rehabilitation provision has been discounted using a discount rate of 5.25% and an obligation of approximately $5.1 million has been recorded (December 31, 2012 - $3 million), based on the approximately 94% construction completion at the Project at that time.

Romania

The Corporation holds the Rovina Valley Project through an exploration license which covers a total of approximately 94 square kilometres (the "Rovina License"). The Rovina Valley Project is the Corporation's sole exploration project in Eastern Europe and the main focus of its exploration efforts there since 2005. It hosts three copper-gold porphyry systems or deposits: Rovina (the "Rovina Deposit"), Colnic (the "Colnic Deposit") and Ciresata (the "Ciresata Deposit"). The Colnic Deposit is located approximately 2.5 km south of the Rovina Deposit and the Ciresata Deposit is approximately 4 km south of the Colnic Deposit.

The area covered by the Rovina License has access to all necessary power and water supplies. The topography of the area is hilly with forest vegetation and an elevation of approximately 900 m above sea-level.

On November 17, 2008, the Corporation released the results of an updated NI 43-101 Mineral Resource Estimate (the "Resource Estimate") on the Rovina Valley Project indicating 193.1 million tonnes of 0.49 g/t Au and 0.18% Cu in the Measured and Indicated categories for a total of 3.07 million ounces of gold and 759.1 million pounds of copper and 177.7 million tonnes of 0.68 g/t Au and 0.17% Cu in the Inferred category for 3.89 million ounces of gold and 663.1 million pounds of copper. The complete report can be found on www.SEDAR.com. The Ciresata deposit hosts significant mineralization above the cut-off grade of 0.70 g/t Au eq. which was not incorporated into the Resource Estimate due to low drill hole density on the edges of the Resource Estimate mineralization, and at depth where the mineralization is still open. Nearly every drill hole in the Ciresata Deposit bottomed in mineralization.

On March 23, 2010, the Corporation announced the results of the NI 43-101 compliant PEA study on the Rovina Valley Project, completed by PEG Mining Consultants Inc. ("PEG"). The PEA is based on the Resource Estimate. All three porphyry deposits contain higher-grade core zones which were the focus of the PEA's mine design in order to maximize an early return on the project. The mine design is based on a gold price of $750 per ounce and a copper price of $1.75 per pound. The PEA utilizes conventional open-pit mining at the Rovina and Colnic Deposits, respectively, and bulk-underground mining at the Ciresata Deposit. Ore processing is an industry-standard flotation process at a rate of 40,000 tonnes per day to produce a gold-rich saleable copper concentrate containing 18 to 22% Cu and 50 to 60 g/t Au. Importantly, this process does not require the use of cyanide.

Highlights of the PEA study included:

- Average annual gold production of 238,000 ounces per annum for the first five years and averaging 196,000 ounces per annum over the mine life of 19 years, for a total of 3.72 million ounces of recoverable gold over the life-of-mine (LOM).
- Average annual copper production of 53.5 million lbs for the first five years and averaging 49.4 million lbs per annum over the19 year mine life, totalling 938 million lbs of recoverable copper over LOM.
- Total Gold Equivalent ounces produced over the 19 year mine life is 6.22 million.
- Project net present value ("NPV") of $316 million based on an 8% discount rate at prices of $900 per ounce for gold and $2.25 per pound of Cu.

Based on the PEA, the project was originally contemplated to be a conventional open-pit mine with down-the-hole drill blast hole, hydraulic shovels and conventional haul trucks for the Rovina and Colnic Deposits located approximately 2.5 km apart. Mining production from the combined two open pits is planned at 20,000 t/d, while the Ciresata Deposit would be mined underground by a combination of a sublevel panel retreat mining in the upper levels of the deposit accessed by a decline from the surface, and an induced block cave method for the lower part of the deposit. The upper sublevel panel retreat mining method would allow mining access to higher-grade ore while development occurs to prepare for the induced block cave operation at depth. At full capacity, the underground operation would mine 20,000 t/d. Ore from the induced block cave operation would be fed to the centralized process plant located between the Rovina and Colnic Deposits via a 6 km inclined conveyor tunnel to the surface.

Based on the PEA, the onsite metallurgical facility would process 40,000 t/d and would include conventional milling facilities such as crushing, grinding, froth flotation and dewatering to produce a gold-rich copper flotation concentrate. Metallurgical test work has determined that good recoveries and saleable concentrate grades are attainable through flotation only, and the use of cyanide leaching is not required.

Metallurgical testing has been completed on samples of drill core from each deposit at SGS Geosol, Brazil and at SGS Minerals Services, Lakefield, Canada. The work consists of preliminary grindability testing, batch rougher and cleaner testing, mineralogy and locked cycle flotation testing. Locked cycle flotation testing has demonstrated that a simple flotation flow sheet with moderate grinds and low reagent additions is able to generate saleable copper concentrates averaging 18 to 22% copper and 50 to 60 g/t Au concentrate. In recognition of an increased gold price forecast, recent metallurgical work targeted a flotation concentrate containing higher concentrations of gold-bearing pyrite. The high gold content of this product is anticipated to attract excellent downstream processing terms.

There has been no previous commercial mining activity at the Rovina Valley Project and the proposed mine site footprint, as defined by the PEA, does not include any known protected heritage sites or archaeological occurrences and has been specifically designed to minimize the impact on nearby communities.

During 2010, the Corporation announced the results of three deep diamond drill holes at the Ciresata Deposit. The three deep, vertical core holes (approximately 3,000 m) were designed to test for the depth extension of the Ciresata mineralization as the results of the PEA highlighted additional upside potential for resource growth at the Ciresata Deposit given that practically every drill hole bottomed in higher-grade gold and copper mineralization. The drill program was also designed to provide infill drill hole data, which would serve to upgrade the present resource category from inferred to indicated. The results of this drilling program have successfully met our objectives and have added significant depth extensions of gold and copper mineralization below previous drilling in addition to verifying and upgrading the grade tenor of the inferred resource estimate. Results of the three deep drill holes have added 280 to 300 m depth extension of Au-Cu mineralization below the previous drilling, and indicate that the deposit is still open laterally.

As a result of the success of the 2010 drill program, the Corporation embarked on a +35,000 metre drill program in 2011 in order to define the limits of the Ciresata Deposit, upgrade the RVP inferred resource to the Measured plus Indicated resource categories, as well as test satellite targets.

On July 17, 2012, the Corporation announced an updated NI 43-101 resource estimate (“2012 Resource Estimate”). This updated resource incorporated a total of 120,256 m of drilling database results from 241 drill holes. The 2012 Resource Estimate was completed by AGP Consultants Inc. (“AGP”) which is an independent engineering company. The 2012 Resource Estimate increased the previous measured plus indicated gold resource category by 134% to 7.19 million ounces and increased the measured plus indicated copper resource by 84% to 1,420 million pounds of copper. In addition the measured plus indicated gold resource grade increased by 12.2 % from the previous resource and the tonnage by 110%.

The 2012 resource update is shown below:

Resource Category	Tonnage (MM t)	Au (g/t)	Cu (%)	Gold (MM oz)	Copper (MM lbs)	Au eq* (MM oz)
Measured						
Rovina (open-pit)	31.8	0.36	0.30	0.37	209.0	0.91
Colnic (open-pit)	29.4	0.64	0.12	0.61	75.0	0.80
Ciresata (underground)	29.7	0.86	0.16	0.82	105.0	1.09
Total Measured	**90.9**	**0.62**	**0.19**	**1.80**	**389.0**	**2.80**
Indicated						
Rovina (open-pit)	73.5	0.27	0.23	0.64	370.0	1.59
Colnic (open-pit)	106.3	0.47	0.10	1.59	226.0	2.18
Ciresata (underground)	135.1	0.72	0.15	3.15	435.0	4.26
Total Indicated	**314.9**	**0.53**	**0.15**	**5.38**	**1,031.0**	**8.03**
Total Measured + Indicated	**405.8**	**0.55**	**0.16**	**7.18**	**1,420.0**	**10.83**
Comparison to 2008 Resource Estimate	+ 110%	+12.2%	-11.1%	+134%	+87%	+113%
Inferred						
Rovina (open-pit)	**13.4**	**0.19**	**0.20**	**0.08**	**60.0**	**0.24**
Colnic (open-pit)	**3.8**	**0.32**	**0.10**	**0.04**	**8.0**	**0.06**
Ciresata (underground)	**9.6**	**0.67**	**0.14**	**0.21**	**29.0**	**0.28**
Total Inferred	**26.8**	**0.38**	**0.16**	**0.33**	**97.0**	**0.58**
Comparison to 2008 Resource Estimate	-85%	-43.7%	-3.1%	-92%	-85%	-90%

- *Au eq. determined by using a gold price of US$1,370 per ounce and a copper price of US3.52/lb. These prices are the 3-year trailing average as of July 10th, 2012. Metallurgical recoveries are not taken into account for Au eq.
- Base case cut-off used in the table are 0.35 g/t Au eq. for the Colnic deposit and 0.25% Cu eq for the Rovina deposit, both of which are amenable to open pit mining and 0.65 g/t Au eq for the Ciresata deposit which is amenable to underground bulk mining.
- For the Rovina and Colnic porphyries, the resource is an in-pit resource derived from a Whittle shell model using gross metal values of $1,350/oz Au price and $3.00/lb Cu price, net of payable amounts after smelter charges and royalty for net values of US$1,313/oz Au and US$2.57/lb Cu for Rovina and US$2.27/Ib Cu for Colnic.
- Rounding of tonnes as required by reporting guidelines may result in apparent differences between tonnes, grade and contained metal content.

A consortium of leading engineering groups and specialists, led by AGP was selected in July 2011 to complete a Pre-Feasibility Study for the Project, specifically on the Ciresata, Colnic and Rovina porphyry deposits. The Pre-Feasibility Study was put on hold in 2013, given the decline in commodity prices and the equity markets sentiment to fund low grade, large capital cost projects. The interim results of the pre-feasibility study are being reviewed internally for a smaller scale operation then was envisioned in the PEA study competed in March 2010.

During 2012 and subsequent to the data closure date of the 2012 Resource Estimate update, the Corporation completed a total of 14,920 metres of drilling at the Rovina Valley Project, of which, 5,290 metres of drilling was for resource definition, 8,715 metres of exploration and satellite target drilling, predominantly at the Ciresata porphyry and 915 metres of geotechnical drilling.

Drilling activities on the Rovina Valley Project stopped on July 5, 2012 due to the impending expiry of the exploration license on August 29, 2012 and closure of the work program for the submittal of final documentation for the conversion to a mining license. In August 2012, the final exploration report was submitted to the NAMR and accepted. Romanian mining law states that the holder of an exploration license has the exclusive right to apply for a mining license at any time or within 90 days after the expiration date of the exploration license. The Corporation, through its wholly-owned subsidiary, SAMAX Romania SRL ("SAMAX") notified the NAMR of its intention to exercise its exclusive statutory right to apply for a Mining License.

SAMAX subsequently and within the 90 day requirement, submitted the required Mining License Application ("MLA") documentation including the mining study, the waste management plan, an environmental assessment, various impact studies and a closure plan. In March 2013, the NAMR approved and registered the MLA resources/reserves in the National Registry. In October 2013, the NAMR approved the mining waste management plan.

The MLA was based on a large 40,000 tonne per day operation. Given the decline in commodity prices and increase in capital cost items since the date of the PEA, the Corporation is reviewing the scope of the project as a smaller, lower capital intensive operation. Discussions have been on-going with the NAMR to re-submit the MLA as a smaller scale operation. The NAMR has accepted this request and the required information is planned to be re-submitted to the NAMR in late 2014. The Corporation with a consortium of Romanian specialists will complete the required documentation for the smaller scale project Mining License Application. This study will likely be utilized in the future for the re-commencement of the Pre-Feasibility Study.

Following the conversion to a mining license, approval to begin construction and mining operations will require a building authorization permit that will include land zoning and final environmental reviews and approval resulting from a full Environmental Impact Assessment ("EIA") study. During the conversion process from an exploration license to a mining license, no disruptive physical field work (i.e., drilling, land clearing, etc.) can be carried out on the property, until after the mining license has been approved.

Through its wholly owned operating subsidiary, SAMAX, the Corporation continues to maintain its proactive local stakeholder engagement program. The program includes local community hall public meetings, a public information centre and partnership programs with local NGO's and community leaders to implement community-based projects. The good relations with the community have allowed unhindered surface access for drilling in the Rovina Valley Project area which requires permission from landowners. In addition, the Corporation continues with its long lead time work activities for both the EIA and SIA documentation that will be required for the permitting of the project.

As of the date of this MD&A, the Corporation continues to be engaged in the conversion of the Exploration License to the Mining License with all interested stakeholders from the local to federal level.

Further information on the Rovina Valley Project, including NI 43-101 reports can be found on the Corporation's web site at www.carpathiangold.com.

All exploration activities undertaken by the Corporation in Romania must occur on valid exploration licenses or prospecting permits issued by the NAMR in Bucharest, which is responsible for the administration of all mining and exploration licenses and prospecting permits. According to the regulations and standard practices in Romania, the Corporation must submit reports of work completed and follow-up work programs on an annual basis to the NAMR.

Prior to initiation of any exploration activity, environmental approval of a proposed exploration program must be obtained from various land management agencies having local, county and/or regional jurisdiction. These local agencies are responsible for forestry, surface waters, archaeology and history, and are coordinated through the local environmental agency. The levels of environmental studies and approvals are determined by the local environmental agency following an approval template referred to as the 'urbanisation certificate'. In practice, exploration activities, including drilling, are classified as low impact, and as such do not require comprehensive environmental impact studies.

Environmental permits are granted for one to two year periods and all local agencies have the right to monitor and inspect environmental impacts to evaluate compliance with issued permits even though such monitoring tends to be minimal in scope and nature. Any changes to the exploration activity that result in a greater environmental impact require approval.

Due to the fact that SAMAX is an exploration-stage company, the activities it conducts on its projects are largely restricted to drilling and ancillary activities associated with the drilling programs, such as access road and drill pad construction. As such, the reclamation costs in respect of drilling activities are not material to the Corporation and are factored into the Corporation's budgets for exploration programs. If and when the Corporation wishes to enter the production stage, it will need to prepare a feasibility study as well as extensive environmental impact assessments studies. These environmental impact assessments will provide the Corporation with a better idea of the future costs of compliance with applicable environmental requirements and will also provide a better estimate of the eventual costs of reclamation obligations at the end of the mine life.

Results of Operations

The following tables set out certain unaudited financial information for the last eight quarters:

For the quarters ended	**Q4 2013**	**Q3 2013**	**Q2 2013**	**Q1 2013**	**Q4 2012**	**Q3 2012**	**Q2 2012**	**Q1 2012**
Net (income) loss for the period	44,940,306	78,170,777	(51,409,027)	(21,690,493)	(13,223,945)	36,375,945	(1,218,847)	11,441,980
Basic and diluted (income) loss per share	0.08	0.13	(0.09)	(0.04)	(0.03)	0.07	0.00	0.02
Exploration and evaluation expenditures	652,148	809,417	1,383,191	1,683,000	2,069,062	3,776,460	3,556,780	2,356,037
Mine development expenditures	6,904,338	1,470,280	8,606,026	5,542,806	7,824,821	760,611	1,115,484	2,606,070

There were no revenues from operations in any of these periods as the Corporation did not have any operations in production.

Fourth quarter ended December 31, 2013 ("Q4 2013")

During Q4 2013, work in Brazil was primarily focused on advancing RDM through the construction and development of the Project, the continued implementation of grade reconciliation programs, optimization of the open pit mining activities, as well as continuing its government and social relations work related programs for the Project and the LI, obtaining the Provisional LO, which was issued on December 3, 2013, and advancing the works and documentation necessary to obtain the LO. Minor generative exploration efforts included a hand-held auger drill program was completed during the third quarter at RDM. No substantial fieldwork was carried out in Romania during this quarter.

The net loss for Q4 2013 was $44,940,304 compared to net income of $13,223,945 for Q4 2012. Included in the loss in Q4 2013 is a non-cash loss of $14,792,729 [non-cash gain of $15,886,767 in Q4 2012] on the Corporation's currency swaps and gold contract derivatives arising from a movement in the foreign exchange rates for the Brazilian Real and forward gold prices (see Financing Activities). In addition, a non-cash impairment charge of $59,407,763 was recognized against the carrying value of the RDM project (see further discussion below). General and administrative costs in Q4 2013 aggregated $2,218,787 as compared to $1,325,529 in Q4 2012 primarily due to additional office and general expenses incurred in the expanded Brazilian office facilities. Salaries and benefits of $700,257 in Q4 2013 decreased as compared to $1,614,443 in Q4 2012, primarily due to lower share based compensation. Due to the movement in the value of the Canadian dollar and the Brazilian Real relative to the US$ an unrealized foreign exchange loss of $3,879,249 was recorded in Q4 2013 compared to an unrealized foreign exchange gain of $337,479 in Q4 2012.

The basic and diluted earnings per share was a loss of $0.08 in Q4 2013 versus loss of $0.03 in Q4 2012.

Year ended December 31, 2013

The following table sets out certain financial information for the years ended December 31, 2013 ("Fiscal 2013") and 2012 ("Fiscal 2012"):

	Fiscal 2013	Fiscal 2012
Net (gain) loss for the period	**50,011,563**	33,375,133
Basic and diluted (income) loss per share	**0.08**	0.06
Exploration and evaluation expenditures	**4,527,756**	11,758,339
Mine development expenditures	**22,543,450**	12,306,986
Total assets	**274,352,331**	159,763,216
Total non-current financial liabilities	**59,857,350**	49,743,413

The net loss for Fiscal 2013 was $50,011,563 compared to a net loss of $33,375,133 for Fiscal 2012. Included in the Fiscal 2013 loss was a non cash gain on the currency swaps and gold contract derivatives of $72,039,014 compared to a loss on derivatives of $22,271,701 in Fiscal 2012. This gain has been offset by a non-cash impairment charge of $116,117,638 that has been recognized against the carrying value of the RDM project during Q3 2013 and Q4 2013. General and administrative during Fiscal 2013 aggregated $4,523,861 as compared to $3,909,498 in Fiscal 2012 primarily due to additional office and general expenses incurred in the expanded Brazilian office facilities. Salaries and benefits decreased during Fiscal 2013 relative to the corresponding Fiscal 2012 due to the lower stock compensation costs in Fiscal 2013 totaling $508,003 compared to Fiscal 2012 of $1,416,640 due to no stock options being granted in 2013. Fiscal 2013 foreign exchange gain of $6,020,087 compared to a loss of $2,862,843 for Fiscal 2012 was primarily due to the movement of the Canadian dollars against the US dollar. The basic and diluted net loss per share was $0.08 in Fiscal 2013 versus a $0.06 loss per share in Fiscal 2012.

Liquidity and Capital Resources

As at December 31, 2013, the Corporation had cash and cash equivalents of $3,011,774 ($18,956,650 – at December 31, 2012) and restricted deposits of $2,431,521 ($1,282,168 - at December 31, 2012) and a working capital shortfall of $126,115,563, (working capital balance of $4,624,182 at December 31, 2012).

The Corporation's available funds will not be sufficient to fund the completion of Riacho dos Machados, the exploration in Romania, working capital requirements and corporate administration. The Corporation will need to secure additional financing to meet the Corporation's requirements for funding the balance of construction activities and Facility repayments on an on-going basis. The Corporation is currently assessing various financing options in order to secure additional funding and, in the interim, has been engaged in on-going discussions with Macquarie Bank Limited ("Macquarie Bank") to temporarily increase the amount available to the Corporation under the Facility until those alternative financing options are secured. Nevertheless, there is no assurance that these initiatives will be successful or sufficient. These circumstances lead to significant doubt as to the ability of the Corporation to meet its obligations as they become due and, accordingly, the ultimate appropriateness of use of the accounting principles applicable to a going concern.

These audited consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities or reported expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

As a result of delays in the completion of the construction at the RDM project, MRDM, as borrower, and the

Corporation (as guarantor) have defaulted on certain covenants imposed under the Facility arrangement with Macquarie Bank. These covenant defaults relate to financial and operational difficulties experienced by the Corporation, including delays in commencement of production and unplanned cost overruns. As a result, on October 18, 2013, MRDM and the Corporation entered into a Forbearance and Amendment Agreement, as subsequently amended from time to time, (the “Forbearance Agreement”) with Macquarie Bank, under which the lenders have agreed to continue forbearing from exercising their rights under the Facility through June 30, 2014. This has also resulted in the Corporation reclassifying all scheduled repayment under the Facility as current liabilities. In addition, under the terms of the Forbearance Agreement Macquarie Bank has agreed, at its discretion, to provide an additional Tranche 3 under the Facility, the availability of which shall be in the absolute discretion of the lenders.

Financing Activities

On October 5, 2011, the Corporation announced that MRDM would enter into a committed arrangement with Macquarie Bank for a Project Loan Facility (the "Facility") ranging from US$75 to US$97 million and associated currency and commodity price protection facilities to fund the construction and development of the RDM Mine. On December 14, 2011, the Board of Directors of the Corporation approved the construction and development of the RDM Mine. Concurrently, MRDM and Macquarie Bank agreed to enter into final documentation for a Facility of US$80 million. In conjunction with this, MRDM, through Macquarie Bank, also entered into price protection programs in the form of currency swaps for the RDM Project's Capex (R$1.90 to US$1.00) and Opex (R$1.983 to US$1.00) as well as a gold price protection program (consisting of forward sales) for a total of 216,600 ounces of gold (approximately 26% of the open-pit reserves) at a price of US$1,600 per ounce. On October 1, 2012, the Corporation announced that the amount available to MRDM under the proposed Facility would be increased to US$90 million. Final documentation in respect of the Facility was completed on January 11, 2013. During 2013, MRDM drew the entire US$90 million against the Facility. The Facility has been amended a number of times to provide for the increase of the aggregate amount available thereunder to up to US$165 million and to provide forbearance against certain defaults and covenants of MRDM under the Facility. As of the date of this MD&A, an aggregate of approximately US$161.4 million has been drawn down by MRDM under the amended Facility. The current forbearance period expires on June 30, 2014.

The Corporation acts as a guarantor of MRDM’s obligations under the Facility and related derivative contracts until such time as project completion is achieved as defined under the terms of the Facility.

On August 29, 2013, pursuant to an agreement with Cormark Securities Inc. and Macquarie Capital Markets Canada Ltd., as co-lead underwriters, the Corporation completed a bought deal private placement of shares of the Corporation at an issue price of Cdn$0.14 per share. On August 29, 2013, the Corporation issued a total of 57,871,429 common shares for gross proceeds of Cdn$8,102,000. On September 5, 2013, the Corporation issued a total of 80,878,571 common shares for gross proceeds of Cdn$11,323,000. In total, the Corporation issued 138,750,000 common shares under both tranches of the private placement for aggregate gross proceeds of Cdn$19,425,000. Costs of the issue were $1,317,329. The funds raised were used for working capital purposes.

Impairment

For the year ended December 31, 2013, impairment charges totaled $116,177,638 (2012 - $Nil) for MRDM, of which $84,043,979 related to Property, plant and equipment, $3,086,629 related to Exploration and evaluation assets and $29,047,030 related to Mine development assets.

In the third quarter of 2013, the Corporation defaulted on certain financial and operational covenants, as outlined in Note 1 and resulted in an impairment charge of $56,769,875.

In the fourth quarter of 2013, with the further delay in commencement of production to March 2014, the Corporation recorded an additional impairment charge of $59,407,763.

As at December 31, 2013 the carrying amount of the Corporation's net assets exceeded its market capitalization, which is an indicator of potential impairment. Consequently, the Corporation undertook an impairment test on each of its identified cash generating unit ("CGU"), primarily focused on MRDM. A CGU is generally an individual operating mine or development project. For the impairment test, fair value less costs of disposal ("FVLCD") was used to determine the recoverable amount as this was expected to be higher than a value in use model.

The key assumptions and estimates used in deterring the FVLCD was calculated using discounted after-tax cash flows based on cash flow projections in the Corporation's current life of mine plans. These projected cash flows were changed for latest expectation of future metal prices, future capital expenditures, production costs estimates, discount rates and exchange rates. FVLCD was determined by calculating the net present value ("NPV") of the future cash flows expected to be generated by the mine. The estimates of future cash flows were derived from the most recent LOM plans. Based on observable market or publicly available data, including spot and forward prices and equity sell-side analyst forecasts, we make an assumption on future gold prices to estimate future revenues. The key assumptions used by the Corporation for their impairment testing are: gold price per ounce $1,300; discount rate of 12%; LOM years of 10; and Brazilian Reais to US$ exchange rate of 2.35.

Sensitivities

The Corporation performed a sensitivity analysis on commodity price, which is the key assumption that impacts the impairment calculation. The Corporation assumed a negative 10% change for the assumption, taking gold sales prices from $1,300 per ounce down to $1,170 per ounce, while holding all other assumptions constant. Based on the results of the impairment testing performed in the third quarter and fourth quarter of 2013 for MRDM, the fair value of MRDM would have been reduced from $129,917,986 to $76,618,900 as at December 31, 2013. The Corporation noted that this sensitivity identifies the key assets where the decrease in the sales prices, in isolation, could cause the carrying value of MRDM to exceed its recoverable amount for purposes of the non-current asset impairment test where an indicator of impairment for the non-current asset was identified.

Should there be a significant decline in commodity prices, the Corporation would take actions to assess the implications on our LOM plans, including determination of reserves and resources, and the appropriate cost structure for MRDM.

Disclosure of Outstanding Share Data

As at the date of this report the total issued and outstanding number of Common Shares is 694,169,911.

Options

As at December 31, 2013, stock options held by directors, officers, employees and consultants are as follows:

	Options Outstanding	**Fair Value at Grant Date**	**Exercise Price Cdn$**	**Remaining Contractual Life**	**Options Exercisable**
Employees	420,000	27,896	0.20	3 days	420,000
Directors, officers and employees	2,570,000	210,285	0.20	42 days	2,570,000
Directors, officers and employees	6,090,000	969,557	0.30	301 days	6,090,000
Directors	200,000	71,579	0.56	1 years 303 days	200,000
Directors, officers and employees	10,992,000	3,797,392	0.58	2 years 229 days	10,992,000
Directors, officers and employees	7,765,000	716,515	0.40	3 years 226days	5,176,667
Consultants	400,000	13,912	0.40	226 days	300,000
Officer and employee	1,000,000	139,498	0.40	3 years 283 days	666,667
Balance at December 31, 2013	**29,437,000**	**5 ,946,634**		**2 years 97 days**	**26,515,334**

Warrants

As at December 31, 2013, the following Common Share purchase warrants were outstanding:

	Number of Warrants	Weighted Average Exercise Price Cdn$
Balance at December 31, 2011	**8,377,717**	**0.33**
Expired warrants	**(8,302,717)**	**0.33**
Exercised by warrant holders	**(75,000)**	**0.33**
Balance at December 31, 2012	**-**	**-**
Issued on Finalization of Facility	**20,000,000**	**0.40**
Balance at December 31, 2013	**20,000,000**	**0.40**

The fair value of the Common Share purchase warrants was estimated at $3,256,109 on the grant date using the Black-Scholes valuation model using the exercise price of Cdn$0.40, expiry of January 11, 2016 and estimated volatility of 65%.

As at the date hereof, on a fully diluted basis, the total issued and outstanding number of Common Shares is 694,169,911.

Commitments

The Corporation has entered into a Sub-Lease Agreement from December 1, 2010 and expiring on March 31, 2018 for office space. The minimum annual rent is Cdn$35,640 for the entire term of the sub-let plus applicable expenses. In addition, the Corporation has a lease agreement from June 1, 2012 to March 31, 2018 for additional office space. The minimum annual rent is Cdn$39,618, increasing to Cdn$44,020 on October 1, 2014 plus applicable expenses. As at December 31, 2013, the Corporation's Brazilian subsidiary had entered into contracts for the construction, development and operating activities in Brazil as follows:

	Within 1 year	2 to 3 years	4 to 5 years	Total
Construction and supply contracts	2,496,935	-	-	2,496,935
Office lease	160,118	320,235	13,343	493,696

In addition, the Brazilian subsidiary has signed agreements for services and supplies to be used during the operations of the Project, including for the supply of diesel fuel.

Off-balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements.

Related Parties

As at December 31, 2013, there were no amounts due to or from related parties (December 31, 2012 - $Nil). During the three months ended March 31, 2012, the Corporation purchased graphic design and printing services from an entity in which, Dino Titaro, former Chairman and Chief Executive Officer of the Corporation is a partner. There have been no other related party transactions since then.

Financial Instruments – Derivatives

Gold Stream Transaction

On May 20, 2010, the Corporation's wholly owned subsidiary MRDM entered into a gold purchase and sale agreement (the "Agreement") with Macquarie Bank Limited ("Macquarie Bank") for its RDM Project in Brazil.

Under the terms of the Agreement, as amended from time to time, Macquarie Bank made upfront cash payments (the "Upfront Payments") totalling $30 million in return for which it acquired the right to purchase 12.5% of the gold produced from the Project at a price of $400 per ounce of payable gold delivered ("Delivered Gold Ounce"). Based on the life of mine model (as determined from the Preliminary Economic Assessment ("PEA") previously released on August 12, 2009), the effective total proceeds per ounce to Carpathian per Delivered Gold Ounce will be approximately $730. Macquarie Bank also has the right to extend its participation to purchase 12.5% of the additional gold produced from any underground operation within the mining concession and five contiguous exploration licenses, as well as any open pit and/or underground operation on the balance of the property outside of the existing mining concession and five contiguous exploration licenses referred to above (the "Expanded Production"), by contributing 12.5% of the capital required to develop the Expanded Production and paying $450 per Delivered Gold Ounce.

The transactions covered by the Agreement have been recorded as a sale of a partial mineral property interest and the Upfront Payments have been accounted for as a recovery of exploration and development costs. Accordingly, no immediate gain or loss has been recognized on the transaction. These funds were used for the on-going construction activities in Brazil. As at December 31, 2012, the full $30 million in Upfront Payments had been received ($15 million - at December 31, 2011).

In addition, the Agreement provides that, if during the period from July 1, 2013 to June 30, 2014, MRDM has not produced a minimum of 80,000 ounces of refined gold (of which 5,000 ounces would be deliverable to Macquarie Bank), then Macquarie Bank, shall have the right to require MRDM and the Corporation, jointly and severally, to refund to Macquarie Bank an amount (the "Production Shortfall Payment") equal to that percentage of the Upfront Payments which is equal to the percentage of underproduction of refined gold over such 12 month period compared with that which was projected for such 12 month period as set out in the life of mine plan agreed at the time of closing of these transactions. At the request of the Corporation and/or MRDM, Macquarie Bank, in its absolute discretion, may agree to extend the date for payment of the Production Shortfall Payment to a date that is at least 2 (two) years after the closing date. The Corporation does not anticipate that it will have produced the 80,000 ounces of refined gold by June 30, 2014.

Notwithstanding the foregoing, if any Production Shortfall Payment becomes due to Macquarie Bank under the Agreement, and at such time both the Corporation and MRDM are in violation or default of any debt covenant under the credit, debt or loan facility for the Project debt, or the payment of such amounts by the Corporation and/or MRDM would each constitute a default under such credit, debt or loan facility, then MRDM and the Corporation shall have the right to defer payment of such Production Shortfall Payment to Macquarie Bank until the later of the date upon which such violation or default of such credit, debt or loan facility has been remedied and the date on which the amount owing to Macquarie Bank may be paid by the Corporation and/or MRDM without constituting a default under such credit, debt or loan facility. Until paid in full to Macquarie Bank, the Production Shortfall Payment shall bear interest at the Default Rate (as defined in the Agreement).

The Corporation acts as a guarantor of MRDM's obligations under the Agreement.

Project Loan Facility

In conjunction with the entering into of the Facility, MRDM, through Macquarie Bank, also entered into price protection programs in the form of currency swaps for the Project's Capex at R$1.90 to US$1.00 and Opex at

R$1.983 to US$1.00. In addition and concurrently with the currency swaps, MRDM entered into a gold price protection program (“Gold Contracts”) comprised of 216,600 ounces of gold (approximately 26% of the open-pit reserves) which were sold forward at a price of $1,600 per ounce representing a notional amount of $346,560,000.

The Capex currency swaps were put in place in order to mitigate the risks associated with fluctuations in the Brazilian Reais (R$) during the mine construction period relative to the US$. The notional amount of the Capex currency swaps remaining outstanding as at December 31, 2013 was R$Nil (December 31, 2012 – R$153,590,069). The Opex currency swaps were arranged to cover R$/US$ currency fluctuations during the initial years of the mine operations for a notional amount of R$401,789,423.

Derivatives arising from the currency swaps and gold forward sale contracts are intended to manage the risks associated with changing market values, but they do not meet the strict hedge effectiveness criteria designated in a hedge accounting relationship. Accordingly, these derivatives have been classified as “non-hedge derivatives”.

The fair value of currency swap contracts is determined by discounting contracted cash flows using a discount rate derived from observed LIBOR and swap rate curves and credit default swap (the “CDS”) rates. In the case of currency contracts, the Corporation converts non-U.S. dollar cash flows into U.S. dollars using an exchange rate derived from currency swap curves and CDS rates. The fair value of commodity forward contracts is determined by discounting contractual cash flows using a discount rate derived from observed LIBOR and swap rate curves and CDS rates. Contractual cash flows are calculated using a forward pricing curve derived from observed forward prices for each commodity. Currency contracts and commodity forward contracts were in a net asset position and therefore, the Corporation used CDS spread for Macquarie Bank. Gold options are valued based on valuations taken from the CME group gold options quote site using American options for strike range of $1,600 and expiry date of December 2016.

The Facility is a five-year agreement with standard commercial terms as are customary in agreements of this nature. Subject only to interest breakage costs, MRDM may repay the Facility at any time, with no adverse penalties. The Corporation has granted Macquarie Bank 20 million common share purchase warrants at an exercise price of Cdn$0.40 per warrant for a period of three years. The fair value of these warrants was estimated at $3,256,109 using a Black-Scholes model. In addition, MRDM has granted Macquarie Bank a call option on 10,000 ounces of gold exercisable at $2,000 per ounce for a three year period from the date of commencement of operations (the “Gold Option A”). The Gold Options had a fair value of $1,400,000 liability on the date of grant. Total cost of debt issuance amounted to $7,097,513, which includes $1,800,000 fee to Macquarie and $641,404 of other costs. The Corporation acts as a guarantor of MRDM’s obligations under the Facility and related derivative contracts until such time as project completion is achieved as defined under the terms of the Facility.

On August 28, 2013, the Corporation entered into an agreement with Macquarie Bank to amend the Facility as follows:

a) MRDM granted Macquarie Bank Gold options (the “Gold Option B”) to acquire 10,000 ounces of gold at $1,600 per ounce for a three year period from the date of commencement of operations; and

b) A reduction in the strike price of the previous Gold Option A to acquire 10,000 ounces of gold from $2,000 to $1,600 per ounce for a three year period to $1,600 per ounce.

The additional Gold Option B had a fair value of $1,525,000 liability on the date of the amendment and the previously issued Gold Option A has an additional fair value of $805,000 on the day of amendment. Total cost of amended debt issuance amounted to $2,378,200 which includes the increase in fair value of original 10,000 ounces of gold and the fair value of the options for the additional 10,000 ounces of gold, and $48,200 of other costs and have been netted against the Facility balance. The cost of the amendment offset the carrying value of the Facility as such extension was determined to be a modification rather than an extinguishment for accounting purposes.

As a result of delays in the completion of the construction at the RDM Project, MRDM, as borrower, and the Corporation (as guarantor) have defaulted on certain covenants under the Facility arrangement with Macquarie Bank. These covenants relate to financial and operation, including delays in commencement of production and unplanned cost overruns. Due to the Forbearance Agreement all deferred debt issuance costs have been written off to Mine Development assets, resulting in deferred financing costs of $9,475,713 for the year ended December 31, 2013.

As at December 31, 2013, the principal balance outstanding on the Facility was $120,000,000. Interest accrued during the year ended December 31, 2013 was $2,738,454. Commitment fees and facility fees for the year ended December 31, 2013 were $305,438 and $1,500,000, respectively. Interest paid for the year ended December 31, 2013 was $1,961,032.

The Corporation entered into a Forbearance Agreement on October 18, 2013, whereby Macquarie Bank agreed to forebear exercising their rights and remedies of Creditors under this facility agreement with respect to the defaults during the forbearance period form October 18, 2013 to October 31, 2013. This period was amended from time to time, with the last amendment providing for a forbearance period to June 30, 2014. Pursuant to the Forbearance Agreement, funds drawn under Tranche 3 of the Facility must be repaid by June 30, 2014.

This Facility bore interest at LIBOR plus a margin of 5.5% for Tranche 2 and 5.0% for Tranche 1 prior to entering into the Forbearance Agreement on October 18, 2013. These were to be reduced to LIBOR plus 5.0% and 4.5%, respectively on commencement of production.

Under the terms of the Forbearance Agreement, as amended, Macquarie Bank has agreed to provide up to $30 million, at its discretion, of additional financing under a "Tranche 3" of the Facility. Tranche 3 of the Facility is repayable on June 30, 2014 and bears interest at 15% per annum. In addition, facility fees of 5% are payable on each drawdown against Tranche 3.

As a result of the defaults under the terms of the Facility, the interest rate payable for the $90 million drawn under Tranche 1 and 2 has been increased to LIBOR plus a margin of 9.0% and 9.5%, respectively.

Subsequent to December 31, 2013, Macquarie Bank has agreed to increase additional financing under Tranche 3 of the Facility to $75 million.

As of the date of this MD&A, the Corporation has drawn $71.4 against the Facility's Tranche 3, under the Forbearance Agreement, as amended.

Summary of Derivatives at December 31, 2013

	Notional Amount by Term to Maturity ($)				Fair Value $
	Within 1 year	2 to 3 years	4 to 5 years	Total	
Currency contracts:					
OPEX contract	42,656,201	85,312,402	74,648,352	202,616,9555	(60,965,144)
Commodity contracts:					
Gold contract	72,960,00	145,920,000	127,680,000	346,560,000	76,553,422
Gold Options	-	32,000,000	-	32,000,000	(1,550,000)

Summary of Derivatives at December 31, 2012

	Notional Amount by Term to Maturity ($) Within 1 year	2 to 3 years	4 to 5 years	6 to 7 years	Total	Fair Value $
Currency contracts:	79,933,898				79,933,898	(5,376,103)
CAPEX contract	18,984,720	69,812,389	86,243,028	18,605,853	193,645,990	(27,674,924)
OPEX contract						
Commodity contracts:						
Gold contract	22,240,000	142,320,000	146,480,000	35,520,000	346,560,000	(21,219,710)

Fair Values of Derivative Instruments

	Balance Sheet Classification	**Fair Value as at December 31, 2013**	Fair Value as at December 31, 2012	**Balance Sheet Classification**	**Fair Value as at December 31, 2013**	Fair Value as at December 31, 2012
Currency contracts:						
CAPEX contract	Current assets	-	-	Current liabilities	-	5,376,103
OPEX contract		-	-	Current liabilities	**8,613,628**	1,377,758
OPEX contract		-	-	Non-current liabilities	**52,351,516**	26,297,166
Commodity contracts:						
Gold contract	Current assets	**18,010,647**	-	Current liabilities	-	1,109,163
Gold contract	Non-current assets	**58,542,775**	-	Non-current liabilities	-	20,110,546
Gold Options		-	-	Non-current liabilities	**1,550,000**	-

Changes in the fair value of the Gold Options derivative in the Agreement and the Currency and Gold Contract derivatives are recognized in the consolidated statement of loss as gains or losses on non-hedge derivatives.

Net realized and unrealized (gains) losses on Derivatives

	For the year ended December 31, 2013	2012
Currency contracts:		
CAPEX contract	**(2,630,470)**	2,508,262
OPEX contract	**34,244,487**	4,673,563
Commodity contracts:		
Gold contract	**(97,773,131)**	15,089,876
Gold Options	**(2,180,000)**	-

Critical accounting estimates and judgments

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The judgments, estimates, assumptions and risks discussed here reflect updates form Note 3 of the Corporation's annual audited consolidated financial statements for the year ended December 31, 2013.

The Corporation performs impairment testing on an annual basis, as at December 31, and more frequently if there are indicators of impairment. As at December 31, 2013, the carrying amount of the Corporation's net assets exceeded its market capitalization which is an indicator of potential impairment of the carrying amount of the Corporation's net assets. Accordingly, the Corporation assessed the recoverable amounts of each cash-generating unit ("CGU").

For the impairment test, fair value less costs of disposal ("FVLCD") was used to determine the recoverable amount since it is higher than value in use. FVLCD was calculated using discounted after-tax cash flows based on cash flow projections in the Corporation's most recent current of life of mine plans. These projected cash flows were changed for current metal prices, future capital expenditure, production costs estimates, discount rates and exchange rates.

Expected future cash flows used in determining the FVLCD used in the impairment testing are inherently uncertain and could materially change over time. The cash flows are significantly affected by a number of factors, including estimates of production levels, operating costs and capital expenditures as well as economic factors beyond management's control, such as gold prices and discount rates. Should management's estimate of the future not reflect actual events, additional impairment charges may be identified and required.

The possible effects of a change in any single assumption may not fairly reflect the impact on a CGUs fair value as the assumptions are inextricably linked.

Risks and Uncertainties

The operations of the Corporation as well as those of its subsidiaries are speculative due to their nature, the locations in which they operate, and their relative stages of its development. The following risk factors pertain to the business and operations of the Corporation and its subsidiaries.

Nature of Mineral Exploration and Mining

The exploration and development of mineral deposits involve significant risks over an extended period of time which even a combination of careful evaluation, experience and knowledge may not eliminate. As a result, few properties which are explored are ultimately developed into producing mines. The long term profitability of Carpathian's operations will be in part related to the cost and the success of its exploration programs, which programs may be affected by a number of factors out of the Corporation's control, such as commodity prices, the availability of skilled personnel, qualified vendors and the availability of critical equipment and capital.

Substantial expenditures on drilling and related costs are required to establish reserves, to determine the technical and economic feasibility of mining and extraction and, if warranted, to develop the mining and processing facilities and infrastructure of any given project. Although substantial benefits may be derived from the discovery of a major mineralized deposit, it is impossible to ensure that proposed exploration programs on the properties will result in profitable mining operations. There is no assurance that the Corporation's expenditures will result in discoveries of commercially viable ore bodies. Furthermore, there can be no assurance that the Corporation's estimates of future exploration expenditures will be accurate.

Actual expenditures may be significantly higher than currently anticipated. Whether a deposit will be commercially viable depends on a number of factors, including, but not limited to, the particular attributes of the deposit (e.g. size and grade of the deposit), costs and efficiency of the recovery methods that can be employed, proximity to infrastructure, land use and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in Carpathian not receiving an adequate return on its invested capital.

Exploration and Development Risks

Mineral exploration and mining involve considerable financial and technical risks. Substantial expenditures are usually required to establish ore reserves, to evaluate mineral treatment processes and to construct mining and processing facilities. The Corporation cannot assure that the current exploration programs planned by the Corporation will result in profitable commercial mining operations, as few properties that have been explored are ultimately developed into producing mines. Unusual or unexpected geological formations, unstable ground conditions that could result in cave-ins or landslides, floods, power outages or fuel shortages, labour disruptions, fires, explosions, and the inability to obtain suitable or adequate machinery, equipment, materials or labour are risks associated with the conduct of exploration programs and the operation of mines, any of which could result in legal liabilities arising therefrom. The Corporation has relied, and may continue to rely, upon consultants for expertise with respect to the construction and operation of a mining facility.

Construction and Start-up of New Mines

The success of construction projects and the start-up of new mines by the Corporation is subject to a number of factors including the availability and performance of engineering and construction contractors, mining contractors, suppliers and consultants, the receipt of required governmental approvals and permits in connection with the construction of mining facilities and the conduct of mining operations (including environmental permits), the successful completion and operation of the ore pass, the plant, the conveyors to move the ore and other operational elements. Any delay in the performance of any one or more of the contractors, suppliers, consultants or other persons on which the Corporation is dependent in connection with its construction activities, a delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay in or failure in connection with the completion and successful operation of the operational elements in connection with new mines could delay or prevent the construction and start-up of new mines as planned. There can be no assurance that current or future construction and start-up plans implemented by the Corporation will be successful; that the Corporation will be able to obtain sufficient funds to finance construction and start-up activities; that available personnel and equipment will be available in a timely manner or on reasonable terms to successfully complete construction projects; that the Corporation will be able to obtain all necessary governmental approvals and permits; and that the completion of the construction, the start-up costs and the ongoing operating costs associated with the development of new mines will not be significantly higher than anticipated by the Corporation. Any of the foregoing factors could adversely impact the operations and financial condition of the Corporation.

Foreign Jurisdictions

The Corporation’s assets are all located outside of Canada. It may be difficult or impossible to effect service or notice to commence legal proceedings upon foreign governments, persons and businesses. Even if effected, it may not be possible to enforce against such parties, judgements obtained in Canadian courts predicated upon the civil liability provisions available under Canadian laws.

The Corporation conducts its operations in Brazil and Romania through two foreign subsidiaries which directly and indirectly hold all of the assets in connection with the RDM Project and the Rovina Valley Project. Accordingly, any limitations placed by the Brazilian or Romanian governments on the transfer of cash or other assets between the Corporation and its subsidiaries could restrict the Corporation’s ability to fund the RDM Project or the Rovina Valley Project licenses efficiently. Any such limitations could have an adverse impact on the Corporation’s prospects, financial condition and results of operations.

The Corporation’s assets are located in Brazil and Romania, which causes it to be subject to certain risks, including possible political or economic instability, which may result in the impairment or loss of licenses or mineral rights. Mineral exploration and mining activities may be affected in varying degrees by instability and government regulations relating to the mining industry, which could include the cancellation or renegotiation of licenses and other contracts, changes in local domestic laws or regulations, changes in tax laws, royalty and tax increases, restrictions on production, price controls, expropriation of property, fluctuations in foreign currency, foreign exchange controls, import and export regulations, restrictions on the export of gold, restrictions on the ability to repatriate earnings and pay dividends, environmental legislation, employment practices and mine safety. There can be no assurance that such restrictions and controls will not be imposed in the future and such restrictions, controls or fluctuations may materially affect the Corporation's financial position as well as the Corporation's ability to develop its assets. Any changes in the laws, rules or regulations, policies or shifts in political attitudes regarding foreign investment in the Brazilian or Romanian mining industry are beyond the Corporation's control and may adversely affect its business. (See also "Brazil – Exploration Activities")

No Assurance of Title to Exploration Licenses or Surface Rights

To carry out its activities, the Corporation must obtain licenses and/or permits to explore for minerals in any given area. These licenses are granted by government agencies and, once granted, are registered with such agencies. The Corporation has conducted title searches on all of its exploration licenses and, to the best of its knowledge; the titles to all of its licenses are in good standing. However, this should not be construed as a guarantee of such titles. The Corporation's licenses may be subject to prior unregistered agreements or transfers or third party claims or may also be affected by other undetected defects, such as prior unregistered liens, agreements, transfers or claims, including Native title claims. There is no assurance that the interests of the Corporation in any of its licenses may not be challenged or impugned. Exploration licenses do not include the surface rights to the areas covered by such licenses nor access thereto. In the event that a positive development and or production decision is made, the Corporation would need to acquire the surface rights to the areas covered by such licenses and possibly other surface rights providing access to such areas. These surface rights may be owned by governmental authorities or private interests, and there is no guarantee that the Corporation would ever be able to acquire such surface rights on reasonable terms or at all.

Environmental and other Regulatory Requirements

The operations of the Corporation are subject to Romanian and Brazilian laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. The Corporation believes that it is in substantial compliance with all applicable material laws and regulations, however, there can be no assurance that all permits which the Corporation may require for its operations, particularly environmental permits, will be obtained on reasonable terms or that compliance with such laws and regulations would not have an adverse effect on the profitability of any mining project that the Corporation may undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Furthermore, non-governmental organizations ("NGOs") have been very active in certain parts of the world in blocking or attempting to block the acquisition of permits for large scale mining projects. There have been many recent instances where mining projects have been blocked or extensively delayed because of numerous means employed by NGOs as well as their extensive recourse to the courts to obtain injunctions and other procedural and legal remedies.

Permits, Licenses and Approvals

The operations of the Corporation require permits, licenses and approvals from various governmental and non-governmental authorities. The Corporation has obtained, or will be required to obtain, all necessary permits, licenses and approvals required to carry on its operations under applicable laws and regulations. Notably, MRDM is currently operating under the APO and there is no guarantee that an LO will be issued. However, such permits, licenses and approvals are subject to changes in regulations and in various operating circumstances. There can be no assurance that the Corporation will be able to obtain all necessary permits, licenses and approvals required to carry out exploration, development and mining operations in connection with its projects.

Environmental Liability

Mining, like many other extractive natural resource industries, is subject to potential risks and liabilities associated with environmental pollution and waste disposal. Environmental liability may result from mining activities conducted by other parties prior to the Corporation's involvement with its properties. To the extent the Corporation is subject to uninsured environmental liabilities, the payment of such liabilities would reduce funds otherwise available to the Corporation and could have a material adverse effect on the Corporation. Should the Corporation be unable to fund fully the cost of remedying an environmental problem, the Corporation might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

Uncertainty of Mineral Resource Estimates

The figures for mineral resources presented herein are estimates, and no assurance can be given that the anticipated tonnage and grades will be achieved or that the indicated level of recoveries of gold and copper will be realized. The ore grade actually recovered by the Corporation may differ from the estimated grades of the mineral resources. Such figures have been determined based on assumed gold and copper prices and operating costs. Mineral resource estimates for properties that have not commenced production are based, in most instances, on very limited and widely spaced drill hole information, which is not necessarily indicative of conditions between and around the drill holes. Accordingly, such mineral resource estimates may require revision as more drilling information becomes available or as actual production experience is gained. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Inferred mineral resources are considered too speculative geologically to have economic considerations applied to them that would enable them to be characterized as mineral reserves. There is no certainty that mineral resources will be converted into mineral reserves.

Mineral Deposits, Production Costs and Metal Prices

The economics of developing mineral deposits are affected by many factors including variations in the grade of ore mined, cost of operations and fluctuations in the sale prices of products. The value of Carpathian's mineral properties is heavily influenced by metal prices. Metal prices can and do change substantially over a short period of time, and are affected by numerous factors beyond the control of the Corporation, including, but not limited to, changes in the level of supply and demand, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, new discoveries, speculative activities and increased production arising from improved mining and production methods. There can be no assurance that the prices of mineral products will be sufficient to ensure that the Corporation's properties can be mined profitably. Depending on the price received for minerals produced, the Corporation may determine that it is impractical to commence or continue commercial production.

The grade of any ore ultimately mined from a mineral deposit may differ from the Corporation's estimates based on drilling results. Production volumes and costs can be affected by such factors as the proximity and the capacity of processing facilities, permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. Short-term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on the results of the operations. Moreover, there can be no assurance that any gold, silver, copper or other minerals recovered in small-scale laboratory tests will be achieved under production scale conditions. Although precautions to minimize risks will be taken, processing operations are subject to hazards such as equipment failure or failure of tailings impoundment facilities, which may result in environmental liability.

Volatility of Gold Price

The price of gold is primarily influenced by interest rates, volatility in the credit and financial markets, strong investment demand and inflation expectations. As with many other commodities, the price of gold has fluctuated widely in recent years as well as within the recent month. While the price of gold is currently in the order of $1,300.00, there can be no assurance that gold prices will remain at such levels or be such that the Corporation's properties can be exploited at a profit. If the price of gold declines, it could have a material adverse effect on the Corporation's share price, business and operations.

In connection with the RDM Project financing facility entered into with Macquarie Bank, the Corporation has entered into gold forward sales agreements representing 216,600 ounces at a price of $1,600 per ounce. Deliveries under these agreements are to be spread out over the first five years of production.

Volatility of Copper Price

The price of copper is dependent on the global supply and demand factors that are beyond the control of the Corporation. The price of copper is currently in the order of $3.10 per pound, however there can be no assurances that the price will remain at this level or be at such a price that the Corporation's properties can be exploited at a profit.

Currency Fluctuations

Currency fluctuations may affect the costs that the Corporation incurs for its exploration programs and at its operations. Gold and copper are sold throughout the world based principally on a U.S. dollar price, but some of the Corporation's operating expenses are incurred in other currencies including Euros, Romanian Lei and Brazilian Reais. The fluctuation of the Euro or Real against the U.S. dollar will influence the cost of gold and copper production at such mining operations and could materially affect the Corporation's earnings and financial condition.

The Corporation has entered into currency swaps for its 2012-2013 RDM Project capital expenditures program, as well as currency swaps to cover its operational expenditures for the years 2013 to 2018, in order to mitigate against adverse fluctuations in the Brazilian Real vis-a-vis the U.S. dollar.

Hedging Activities

Derivative products can be used to manage the risks associated with, among other things, changes in commodity prices and foreign currency exchange rates. The Corporation has entered into such arrangements. The Corporation enters into hedging contracts to limit the impact of fluctuations as a result of volatilities in the world markets by hedging a portion of its requirement of Brazilian Reais and U.S. dollar, and its expected sales of gold.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Corporation's operations, financial condition and results of operations.

Liquidity Concerns and Future Financing

The viability of further development and exploration of the various mineral properties in which the Corporation holds interests will depend upon the Corporation's ability to obtain financing through joint ventures, equity financing, debt financing or other means. As noted elsewhere in the MD&A, the Corporation is in default of its borrowing agreement and is subject to the Forbearance Agreement. There is no assurance that the Corporation will be successful in obtaining required financing when needed. Volatile markets for precious and base metals may make it difficult or impossible for the Corporation to obtain debt financing or equity financing on favourable terms or at all. Failure to obtain such additional financing could result in the dilution or complete loss of the Corporation's interests in these properties.

Competition

The mineral exploration and mining business is competitive in all of its phases. The Corporation competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Corporation, in the search for and the acquisition of attractive mineral properties. The ability of the Corporation to acquire properties in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable properties or prospects for mineral exploration. There is no assurance that the Corporation will continue to be able to compete successfully with its competitors in acquiring such properties or prospects.

Acquisitions and Integration

From time to time, the Corporation examines opportunities to acquire additional mining assets and businesses. Any acquisition that the Corporation may choose to complete may be of a significant size, may change the scale of the Corporation's business and operations, and may expose the Corporation to new geographic, political, operating, financial and geological risks. The Corporation's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, negotiate acceptable terms for any such acquisition, and integrate the acquired operations successfully with those of the Corporation. Any acquisitions would be accompanied by risks. For example, there may be a significant change in commodity prices after the Corporation has committed to complete the transaction and established the purchase price or exchange ratio; a material ore body may prove to be below expectations; the Corporation may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt the Corporation's ongoing business and its relationships with employees, customers, suppliers and contractors; and the acquired business or assets may have unknown liabilities which may be significant. In the event that the Corporation chooses to raise debt capital to finance any such acquisition, the Corporation's leverage will be increased. If the Corporation chooses to use equity as consideration for such acquisition, existing shareholders may suffer dilution. Alternatively, the Corporation may choose to finance any such acquisition with its existing resources. There can be no assurance that the Corporation would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

Litigation Risks

All industries, including the mining industry, are subject to legal claims, with and without merit. The Corporation may become involved in legal disputes in the future. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material effect on the Corporation's financial position or results of operations.

Dependence on Key Individuals

The Corporation is dependent on a relatively small number of key personnel, and the loss of any one of them could have an adverse effect on the Corporation. In addition, while certain of the Corporation's officers and directors have experience in the exploration and development of mineral producing properties; the Corporation will remain highly dependent upon contractors and other third parties in the performance of its exploration and development activities. There can be no guarantee that such contractors and third parties will be available to carry out such activities on behalf of the Corporation or be available upon commercially acceptable terms.

Conflicts of Interest

The directors and officers of the Corporation do not devote all of their time to the affairs of the Corporation. The directors and officers of the Corporation are also directors and officers of other companies, some of which conduct business similar to that of the Corporation. The directors and officers of the Corporation are required by law to act in the best interest of the Corporation. They have the same obligations to the other companies to which they act as directors and officers. The discharge by the directors and officers of their obligations to the Corporation may result in a breach of their obligations to the other companies and, in certain circumstances; this could expose the Corporation to liability to those companies. Similarly, the discharge by the directors and officers of their obligations to the other companies could result in a breach of their obligation to act in the best interest of the Corporation. Such conflicting obligations may expose the Corporation to liability to others and impair its ability to achieve its business objectives.

Insurance

The Corporation currently holds a certificate of insurance underwritten by Encon Group Inc. providing for Directors and Officers Liability coverage of up to $20,000,000, inclusive of defence costs. Additionally, the Corporation carries a general liability policy in the amount of $5,000,000. Furthermore, the Corporation, for and on behalf of MRDM, has obtained a construction insurance policy in the amount of USD$30 Million as well as a wrap-up liability policy in the amount of USD$25 Million. The Corporation is also presently negotiating policies in order to insure the risks associated with the commercial start-up of the Project mine. There is no guarantee that these policies will provide sufficient protection for the Corporation and or MRDM against certain risks associated with mineral exploration, commercial exploitation and related corporate activities. Even with these policies in place, there remains a risk that unusual liabilities may not be covered or that the insured amounts may prove insufficient.

Fluctuation in Market Value of Carpathian's Shares

The market price of the Corporation's publicly-traded Common Shares is affected by many variables not directly related to the performance of the Corporation, including, but not limited to, the market in which the Common Shares are traded, the strength of the economy generally, the availability and attractiveness of alternative investments and the breadth of the public market for the stock. The effect of these factors on the market price of the Common Shares in the future cannot be predicted.

Rising Production Costs

Carpathian is faced with the challenge of rising production and energy costs. Changes in the Corporation's production costs could have a major impact on its profitability. Such rising costs are caused by, among other things, materials, personnel costs, energy, high input commodity prices, higher royalty and tax structures, a weak U.S. dollar and long delays in permitting mineral projects and may affect the ability of mining companies to explore, commence or sustain economically viable production at their mines.

Equipment, Materials and Skilled Technical Workers

The Corporation is dependent on the availability of affordable and accessible equipment, replacement parts, and repair services and the absence or disrepair of such equipment, parts and services could affect or halt exploration or eventual production on the properties of the Corporation. There can be no guarantee that such equipment, parts or repair services will be available to the Corporation, or that such equipment, replacement parts or repair work will be available on commercially reasonable terms.
Carpathian is dependent on the availability of affordable and accessible materials. There can be no guarantee of the availability, quality and reliability of the supply of neither such materials, nor that such materials will continue to be available to the Corporation on commercially reasonable terms.

The Corporation is also dependent on the availability of skilled technical workers to carry out various functions on the properties of the Corporation. There can be no guarantee that such skilled workers will be available to carry out such activities on behalf of Carpathian or that such workers will be available on commercially reasonable terms.

Negative Operating Cash Flow

The Corporation had negative operating cash flow for Q4 2013 and year to date. To the extent that the Corporation has negative cash flow in future periods, the Corporation may need to deploy a portion of its cash reserves to fund such negative cash flow.

Current Global Financial Conditions

In recent years global financial conditions have been characterized by markedly increased volatility and have led to intervention by governments in many financial markets. Access to public financing has been negatively impacted by the lack of readily available money. These factors may impact the ability of the Corporation to obtain equity and/or debt financing in the future or on terms favourable to the Corporation. Additionally, these factors, as well as other related factors, may cause decreases in the asset values that are deemed to be other than temporary, which may result in additional impairment losses.

Limitations under the Facility

The Corporation's Facility with Macquarie Bank limits, among other things, the Corporation's ability to permit the creation of certain liens, make investments, dispose of material assets or, in certain circumstances, pay dividends. In addition, the Facility limits the Corporation's ability to incur additional indebtedness and requires the Corporation to maintain specified financial ratios and meet financial covenants. Events beyond the Corporation's control, including changes in general economic and business conditions, may affect the Corporation's ability to satisfy these covenants, which could result in a default under the Facility. If an event of default under the Facility occurs, the lender could elect to declare all principal amounts outstanding thereunder at such time, together with accrued interest, to be immediately due. An event of Default under the Facility may also give rise to an event of default under existing and future debt agreements and, in such event, the Corporation may not have sufficient funds to repay amounts owing under such agreements.

The Corporation's Level of Debt

The Corporation's indebtedness as a result of the Facility, among other things, could:

- make it difficult for the Corporation to satisfy its obligations;
- increase the Corporation's vulnerability to general adverse economic and industry conditions;
- limit the Corporation's flexibility in planning for, or reacting to or capitalizing on, changes in the Corporation's business, the markets in which the Corporation operates and in government regulations;
- place the Corporation at a competitive disadvantage compared to companies that have less debt; and
- limit the Corporation's ability to borrow or raise additional funds.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Corporation's Interim Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their supervision, of the design and operating effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2013 and have concluded that the disclosure controls and procedures were appropriately designed and have been effective, subject to the material weaknesses described below.

The Corporation has also established internal controls over financial reporting (as defined in National Instrument 52-109) ("ICFR") to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and preparation of its financial statements for external purposes in accordance with GAAP. The Corporation's Interim Chief Executive Officer and Chief Financial Officer assessed, or caused an assessment under their supervision, of the design and operating effectiveness of the Corporation's ICFR as at December 31, 2013 using the Committee of

Sponsoring Organizations Internal Control – Integrated Framework. Based on that assessment, it was determined that the Corporation's ICFR was designed appropriately and was effective with the below noted exceptions.

The Corporation's audit committee is working with management and monitoring the implementation of the other control enhancement steps envisioned below.

Material weakness of Controls

Based on management's evaluation of controls, it was concluded that the Corporation's disclosure controls and procedures and its ICFR had material weaknesses. A material weakness is defined as a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Corporation's annual or interim financial statements will not be prevented or detected on a timely basis. The weaknesses in disclosure controls and procedures and ICFR, and the additional processes undertaken to address such weaknesses, can be summarized as follows:

Material weakness in the control environment

Management has concluded that, as of December 31, 2013, a material weakness existed in the design of internal control over financial reporting caused by failure of the Corporation to establish and communicate its expectations regarding standards of business conduct in the interests of developing and maintaining a culture of integrity, and to oversee compliance with such standards. This material weakness could result in business and accounting practices that could put both the Corporation's reputation and its financial reporting at risk. This material weakness should also be considered a weakness in the Corporation's disclosure controls and procedures.

Management and the board are in the process of establishing a written code of business conduct, and developing procedures to communicate it effectively and monitor its implementation throughout the organization.

Management override of controls

Management has concluded that, as of December 31, 2013, material weaknesses existed in the design of internal control over financial reporting caused by the discovery that possible irregularities in connection with procurement for the RDM Project may have occurred at the Corporation's subsidiary. After an internal investigation was performed, it was determined that additional investigative steps were required. The Board engaged external forensic accounting and external legal advisors to undertake, and to assist in undertaking, of additional investigative procedures. The investigation identified problems with procurement practices, possible misconduct by MRDM personnel and the override of controls by management at MRDM that may have contributed to the irregularities identified.

As a result of the Corporation's decision to record an impairment of the assets of MRDM to their fair value as of December 31, 2013. We have concluded that the consolidated financial statements of the Corporation are appropriately stated and no financial impact needs to be recorded to reflect any of the findings form the investigation noted above.

To remediate the material weaknesses in the Corporation's IFCR, all MRDM personnel identified as having engaged in possible misconduct have ceased to be employed by MRDM and the Corporation is in the process of appointing new personnel in the finance and procurement teams at MRDM. In addition, the Corporation is in the process of strengthening the internal control environment and procedures at all subsidiaries, implementing a comprehensive ethical business conduct policy (the "Ethical Business Conduct Policy"), implementing a policy to obtain periodic verification from all major suppliers and annual confirmations from all employees of the Corporation and its subsidiaries of their compliance with the Ethical Business Conduct Policy, changing contractors that were involved in the irregularities and implementing a more comprehensive monitoring of actual to budget performance.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

2014 Outlook

The Corporation's priority for 2014 is focused on completing the construction of its RDM Project and achieving commercial gold production. While the Corporation also plans on advancing the permitting process with the regulatory bodies for its Rovina Valley Project, it will do so at a very conservative pace depending on the level of financing that is available to the Corporation. All environmental base line work and social programs will also continue on both the RDM and Rovina Valley Projects. Achievement of these objectives remains dependent on the Corporation's ability to access necessary financing, as required. The Corporation continues to operate as prudently as possible with an emphasis on cost containment.

Additional Information

Additional information relating to the Corporation is available from SEDAR at www.sedar.com.

Approved by the Board of Directors

Dated: June 17, 2014