INTERNATIONAL MINERALS CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
YEAR ENDED JUNE 30, 2008

*The following discussion and analysis has been prepared as of September 26, 2008 unless otherwise indicated and should be read in conjunction with the accompanying **Audited Annual Consolidated Financial Statements** and related notes as at June 30, 2008. Unless otherwise indicated, **all currency is reported in U.S. dollars**.*

Forward Looking Statements

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Highlights

During the fiscal year July 1, 2007 through June 30, 2008, and to date, International Minerals Corporation (the "Company") achieved the following significant accomplishments:

- Completed the year ended June 30, 2008, with $60.4 million in cash and equivalents, aggregate working capital of $58.4 million and total assets of $159 million.

- Commissioned the Company's first operating mine on September 9th, 2007, with commercial production from the 40% owned Pallancata silver-gold mine in Peru. The Company's joint venture partner, Hochschild Mining Plc ("Hochschild"), is the mine operator and holds a 60% interest in the project.

- Realized fiscal year production (from September 9, 2007 to June 30, 2008) from the **Pallancata Mine** of 212,745 tonnes of ore recovering 2,033,000 ounces of silver and 7,920 ounces of gold on a 100% project basis, with the Company's 40% share being 813,200 ounces of silver and 3,168 ounces of gold.

- Production for the quarter ended June 30, 2008, from the Pallancata Mine at 83,517 tonnes of ore producing approximately 829,000 ounces of silver and 3,230 ounces of gold on a 100% project basis, with the Company's 40% share of production being 331,600 ounces of silver and 1,292 ounces of gold in the quarter.

- Subsequent to the end of the year on August 25, 2008, announced a significant increase to the estimated proven and probable mineral reserves at the **Pallancata Mine** to 5.8 million tonnes at an average grade of 329 grams per tonne ("g/t") silver and 1.2 g/t gold containing approximately 62.3 million ounces of silver and 232,000 ounces of gold on a 100% project basis. This updated reserve estimate represents an 80% increase from the previously released reserve estimate of March 2008 and more than a 450% increase from the reserves estimated in a pre-feasibility study in August 2007.

- Achieved the first National Instrument 43-101 ("NI-43-101") compliant, independent mineral resource estimate for the **Gaby** gold project in Ecuador with an estimated 308.4 million tonnes at an average grade of 0.63 g/t gold containing 6.2 million ounces of measured and indicated gold resources (100% project basis). Approximately 74% of this resource is attributable to the Company. The Company also announced the results of a preliminary feasibility study (the "PFS") for the Gaby project, which was not positive at a base case gold price of $650/oz. Further optimization studies are underway evaluating a larger plant capacity, significantly above the 20,000 tpd case in the PFS.

- Increased estimated proven and probable mineral reserves for the Alejandra North Vein deposit at the 100% owned **Rio Blanco** project to 2.1 million tonnes at an average grade of 8.8 g/t gold and 62 g/t silver containing approximately 605,000 ounces of gold and 4.3 million ounces of silver.

- Completed an initial core drilling program at the **Urbaque** gold project in southern Peru, with results including a drill intercept of 30m at 0.9 g/t gold. The Urbaque gold project is held under an option agreement with Barrick Gold Corporation's Peruvian subsidiary whereby the Company is earning a 51% interest.

- Expended $19.6 million in resource property activities mainly in preliminary feasibility study drilling, metallurgy and field work for the Gaby gold property in Ecuador; for field work and development costs for the Rio Blanco gold-silver project in Ecuador; and in exploration field work on the Antabamba and Urbaque projects in Peru.

On April 18, 2008, the Ecuadorian National Constituent Assembly passed a new Mining Mandate ("Mandate") into law in Ecuador. All of the Company's exploration activities in Ecuador were suspended on that date and will remain suspended until a new legal framework for mining (a new mining law) is approved. In this regard, the Company has temporarily ceased all exploration drilling and field activities at its Rio Blanco and Gaby projects, however, off-site engineering activities related to the Rio Blanco project and tonnage and economic optimization studies for the Gaby project are continuing. As far as the Company is aware, its concessions are still in good standing. However, it is unclear at this time whether the Mandate or proposed mining law will affect this status (see “Ecuador” section below).

Corporate Overview

The Company is a Yukon Territory registered Canadian corporation with its common shares listed and traded on the Toronto Stock Exchange (TSX: IMZ) and the Swiss Stock Exchange in Zurich (IMZ). The Company’s shares are also listed on the Frankfurt Stock Exchange in Germany (MIW). The Company is engaged in precious metal exploration, development and mining of gold and silver deposits in Peru and Ecuador. The Company recently transitioned to “producer” status with the commencement of production from the Company’s 40%-owned Pallancata silver mine in Peru in September 2007, and has aligned itself with excellent operating partners in South America (including Hochschild and Barrick).

It is a significant accomplishment that the Company is now a precious metals producer, distinguishing itself from other junior exploration companies. The Company continues to advance its precious metal projects in Ecuador and Peru, and, in addition to a silver mine in production, it also holds an attractive pipeline of advanced projects, two of which (Rio Blanco and Gaby, both in Ecuador) are progressing towards the production phase over the next few years, subject to the new mining law, permits and financing.

Corporate Objectives and Strategy

The Company intends to deliver value to shareholders by growing its mineral resources and reserves and low-cost production in gold and silver to generate positive cash flow. The Company’s goal is to become a mid-tier gold/silver producer. Over time, the Company intends to diversify its current production base (in Ecuador and Peru), thereby mitigating its geopolitical and geographic risks, by:

- Aligning the Company with leading senior mining companies with extensive operating and mine development experience in the Americas (including, for example, the existing joint venture agreements with Hochschild and Barrick); and

- Seeking investment opportunities in precious metals properties in North and South America, where the Company believes it can increase the value of such properties using its technical, development financing and administrative abilities, in-country knowledge and economies of scale.

(See “Outlook” for further information about the Company’s fiscal year 2009 plans and objectives).

The Company’s longer-term objectives are to:

- In conjunction with its partner Hochschild, (a) increase mineral reserves and resources at the Company’s 40%-owned Pallancata Mine, (b) increase production at Pallancata (100% project basis) to over 4 million ounces silver equivalent in calendar 2008 and over 6 million ounces of silver equivalent in calendar 2009 (based on a silver to gold ratio of 60:1);

- Develop and operate the 100% owned Rio Blanco gold-silver project in Ecuador, targeting production start-up in 2011, subject to enactment of the proposed new mining law in Ecuador, obtaining production permits, arranging required additional financing and completing construction;

- Advance the Gaby Project in Ecuador towards a targeted production start-up in 2013, again subject to the proposed new Ecuadorian mining law, results from the current economic optimization studies, completion of a final feasibility study and obtaining production financing and production permits, if warranted by the study;

- Increase the Company’s total mineral resources and reserves;

- Grow the Company’s assets to a combined production profile of approximately 300,000 gold equivalent ounces per year by 2013;

- Advance the exploration projects currently in the Company’s pipeline; and

- Seek new property acquisitions to continuously replenish the Company’s portfolio of projects together with making additional strategic joint venture alliances, such as that with Hochschild at the Pallancata Mine, in order to advance projects with reduced additional cash outlay by the Company.

History

The Company’s common shares were listed on the Alberta Stock Exchange in December 1993 and voluntarily de-listed in November 1994, at which time the Company’s shares were listed for trading on the Toronto Stock Exchange (“TSX”). On January 23, 2002, the Company changed its name from “Ecuadorian Minerals Corporation” to “International Minerals Corporation” and the Company’s common shares began trading under that name on the TSX. On June 19, 2002, the Company’s shares were listed for secondary trading on the Swiss Stock Exchange in Zurich. On June 10, 2003, the Company also listed its common shares for secondary trading on the Frankfurt Stock Exchange in Germany.

The Company successfully transitioned from being an exploration company to being a "producer" on September 9, 2007 with the formal commissioning of the Pallancata silver-gold mine project in Peru. The Pallancata Mine is jointly-owned by the Company (40%) and Hochschild (60%).

Property Updates

Pallancata Mine, Peru

On September 9, 2007, Hochschild commenced commercial underground production at a rate of 500 tonnes per day from the Pallancata underground silver-gold project. The Pallancata Mine is jointly-owned by the Company (40%) and Hochschild (60%), with Hochschild's wholly-owned subsidiary, Compañia Minera Ares S.A.C. ("Ares"), as the mine operator. In December 2007, the first silver-gold flotation concentrate was shipped to a custom smelter for processing and sale.

Pallancata ore is being toll-processed to produce a silver –gold flotation concentrate at Hochschild's Selene process plant, located 22 kilometers by a gravel road north of the Pallancata Mine. In calendar first half 2009, the Company expects to commence receiving cash dividends from the Pallancata joint venture. Hochschild has funded 100% of the start-up capital costs for the mine and these costs are only recoverable from Hochschild's share of joint venture cash flow.

Quarterly production statistics, for the Pallancata Mine (100% project basis) are summarized below for the last four fiscal quarters ended June 30, 2008:

		Fiscal Quarter				Since start-up (Sep 2007)
		Q4	**Q3**	**Q2**	**Q1[1]**	
Ore mined	tonnes	89,642	66,408	65,174	11,125	**232,349**
Ore processed	tonnes	83,517	50,893	63,612	14,723	**212,745**
Silver head grade	grams/tonne	339	340	323	256	**329**
Gold head grade	grams/tonne	1.7	1.6	1.5	1.3	**1.6**
Silver produced[2]	ounces	829,000	500,000	599,000	105,000	**2,033,000**
Gold produced	ounces	3,230	1,930	2,330	430	**7,920**
Direct Site Costs per oz silver (after gold by-product credit)[3]	**$/ounce**	**$3.30**	**$3.99**	**$3.63**	N/A	**$3.58[3]**
Total Cash Costs per ounce silver (after gold by-product credit)[4]	**$/ounce**	**$5.89**	**$6.72**	**$5.82**	N/A	**$6.08[4]**

Notes to Table:

1. Production for the first fiscal quarter (July-September 2007) was limited as the mine was only commissioned on September 9, 2007.
2. Production has been rounded to thousands of ounces.
3. Direct Site Costs per ounce comprise direct mining, toll processing and mine general and administrative costs, net of gold by-product credit and were calculated based on full operational quarters from October 1, 2007 to June 30, 2008, excluding the first fiscal quarter, which saw production for only 21 days.
4. Total Cash Costs per ounce were calculated on full operational quarters from October 1, 2007 to June 30, 2008, excluding the first fiscal quarter, which saw production for only 21 days.

Total Cash Costs at the Pallancata Mine, using the Gold Institute's definition, include: mine operating costs, toll processing costs, mine general and administrative costs, Hochschild's management fee, concentrate transportation and smelting costs, taxes and the Peruvian government royalty (currently 1% of gross revenue for Pallancata). At this time, the joint venture operating company for Pallancata (Minera Suyamarca S.A.C.) does not pay Peruvian income tax due to accumulated losses for tax purposes.

Non-GAAP Measure Caution:
Total cash costs per ounce of silver produced, net of gold by-product credit, as defined by the Gold Institute, is a non-GAAP financial measure, which management believes is useful to measure the operational performance of the Pallancata Mine. Readers should not rely on this non-GAAP financial measure in isolation and are encouraged to refer to the Company's audited, annual consolidated financial statements.

Hochschild as mine operator has indicated its intention to increase the mining rate at Pallancata from 500 tpd to up to approximately 2,000 tpd by the end of calendar year 2008 and to expand its Selene plant (at Hochschild's cost) to accommodate processing of the increased tonnage from the Pallancata Mine. Under the joint venture agreement, all new capital expenditures required to expand the mine to 1,000 tpd are funded solely by Hochschild. Any mine expansion in excess of 1,000 tpd will be funded 60% by Hochschild and 40% by the Company. Such costs are yet to be finalized between the Company and Hochschild but it is expected the Company's share of such costs will be paid from cash flow. All exploration and development costs outside of the immediate mine area are funded 40% by the Company and 60% by Hochschild, as are replacement capital costs for the mine.

Subsequent to the end of the year on August 25, 2008, the Company announced a substantial increase in the mineral reserve estimate for the Pallancata silver-gold mine. The new proven and probable reserve estimate, on a 100% project basis, comprises 5.9 million tonnes at an average grade of 330 grams per tonne ("g/t") silver and 1.2 g/t gold, containing approximately 62.3 million ounces of silver and 232,000 ounces of gold (or approximately 75.5 million ounces of silver equivalent using $10.50 per ounce silver and $600 per ounce gold).

This updated reserve estimate represents a more than 80% increase from the previously-announced reserve estimate in March 2008 and more than a 450% increase from the reserves estimated in a pre-feasibility study in August 2007.

In addition, approximately 10.1 million ounces of silver and 34,000 ounces of gold (approximately 12 million ounces of silver equivalent) are contained in estimated inferred resources of 852,000 tonnes at an average grade of 369 g/t silver and 1.2 g/t gold.

Table 1 below shows estimated mineral reserves and resources for the Pallancata Mine (effective date of June 30, 2008) based on information supplied by the mine operator, Hochschild. Resources and reserves are reported at a cut-off grade of 148 g/t silver equivalent, which reflects a marginal economic cut-off value of $44 per tonne using metal prices of $10.50 per ounce of silver and $600 per ounce of gold. Hochschild's data and methodology have been reviewed by the Company's Technical Manager Nick Appleyard, who is a Qualified Person as defined by NI-43-101. The Company will be filing a Technical Report on SEDAR in support of this disclosure by mid-October, 2008.

Table 1: Pallancata Mine – Mineral Reserve and Resource Estimates (as of June 30, 2008)

Estimate Category	Tonnes	Average Grade (g/t silver)	Average Grade (g/t gold)	100% Basis --Contained Silver Ounces	100% Basis --Contained Gold Ounces	Company's 40% Attributable Silver Ounces	Company's 40% Attributable Gold Ounces
Proven Reserves	2,234,000	262	1.1	18,887,000	79,000	7,555,000	32,000
Probable Reserves	3,642,000	371	1.3	43,393,000	153,000	17,357,000	61,000
Total Reserves	**5,875,000**	**329**	**1.2**	**62,281,000**	**232,000**	**24,912,000**	**93,000**

Resource Category	Tonnes	Average Grade (g/t silver)	Average Grade (g/t gold)	100% Basis -- Contained Silver Ounces	100% Basis --Contained Gold Ounces	Company's 40% Attributable Silver Ounces	Company's 40% Attributable Gold Ounces
Measured Resources	1,836,000	313	1.3	18,480,000	77,000	7,392,000	31,000
Indicated Resources	3,511,000	428	1.5	48,292,000	171,000	19,317,000	69,000
Total Measured and Indicated Resources	**5,347,000**	**388**	**1.4**	**66,772,000**	**249,000**	**26,709,000**	**99,000**
Inferred Resources	852,000	369	1.2	10,113,000	34,000	4,045,000	14,000

1. Measured and indicated resources include proven and probable reserves.
2. Metal prices used are $10.50/oz for silver and $600/oz for gold.

3. The estimated reserves include an allowance of 5% for ore loss during mining and up to 20% for dilution with zero grade depending on individual stope configuration.
4. The estimated mineral resources are not mineral reserves and do not have demonstrated economic viability.
5. Numbers have been rounded in all categories to reflect the precision of the estimates.
6. The mineral resources were estimated using ordinary kriging for the western portion of the vein and inverse distance to the power of five for the central part of the vein and for peripheral veins. All of the measured resources and proven reserves stated above were estimated by ordinary kriging only.
7. Contained metal in estimated reserves remains subject to metallurgical recovery losses.

Ecuador

On April 18, 2008, the Ecuadorian National Constituent Assembly (the "Assembly") passed a new Mining Mandate (the "Mandate") into law in Ecuador. The Company is currently analyzing the impact of the mandate on its Rio Blanco gold-silver project (currently in the permitting process) and the Gaby gold project (currently in the preliminary feasibility stage of development).

The Company is one of a select group of companies that have been engaged for several months in discussions with the government regarding investment stability agreements and other mining issues related to the development of the mining industry in Ecuador, including a modified mining law.

While the full impact of the Mandate is not yet known, it establishes a moratorium on the granting of new mining concessions. As far as the Company is aware, its concessions are still in good standing. In addition, the Mandate stipulates that:

- All exploration activities are suspended until a new legal framework for mining (a new mining law) is approved. (In this regard, the Company has temporarily ceased all exploration drilling and field activities at Rio Blanco and Gaby, however, off-site engineering activities related to the Rio Blanco project and tonnage and economic optimization studies for the Gaby project are continuing).

- No more than three mining concessions can be held by any individual or entity. (The effect on the Company's holdings requires evaluation).

- A new legal framework for mining (mining law) will be issued within a period of 180 days. This is unlikely to occur as scheduled as the Mandate expires in mid-October.

- Only metallic mining concessions that are in the "exploitation phase" may continue their activities but such concession holders are required to renegotiate their titles under the new legal framework. (The Company is seeking clarification whether its Rio Blanco concessions fall within these parameters as it is in the advanced permitting stage of development).

- Mining concessions located within the areas defined as protected areas and their related "buffer" zones are cancelled. (Although Rio Blanco and part of Gaby are located within low-level protected areas, the Company is awaiting clarification from the government whether Rio Blanco and Gaby will be exempt from this restriction).

- A national mining company will be established in Ecuador, which will be involved in all phases of mining activities.

On April 24, 2008, the Company and seven other mining companies collectively met with Ecuadorian President Correa and other top officials to discuss the future of mining in Ecuador and the impact of the previously announced the Mandate. The companies welcomed President Correa's repeated statements that responsible mining will go ahead in Ecuador. He said that the purpose of the Mandate was to allow the government time to draft and implement a new mining law so that responsible mining can proceed. The President invited the mining companies to meet with the ministry to help formulate the new mining law, which is expected to be approved in October 2008.

A chronology of actual and expected events since the Assembly adopted the Mandate on April 18, 2008 is provided below. The predicted time lines and comments below are based solely on the Company's estimates and understanding of information published by various public sources:

- **April 18, 2008** – Mandate implemented. All mining and exploration activities suspended for 180 days (mid-October, 2008), pending issuance of a new mining law.

  During this period the Company maintained the majority of its technical and administrative staff and community workers in Ecuador in order to continue with various Mandate-compliant off-site technical studies and on-site maintenance activities at its Rio Blanco and Gaby projects. Another important factor in retaining the community workers was to maintain the excellent relationship between the Company and the local communities surrounding its projects that has been developed over the past 15 years of exploration activity by the Company in Ecuador.

- **June 27, 2008** – Draft mining law delivered to the President and his advisors by the Ministry of Mines and Petroleum (the "MMP").

- **July 28, 2008** – New Constitution completed and the Assembly went into recess, pending the outcome of the Referendum. This Assembly can only be recalled by the President to approve emergency legislation.

- **September 28, 2008** – Referendum to approve new Constitution. A winning majority is 50% of the votes cast, plus one vote.

- **~October 15, 2008** – Official results of Referendum to be announced.

- **~October 18, 2008** – Mandate expires and cannot officially be extended, even though a new mining law will probably not yet have been approved by this date. It is unclear as to whether mining activities could automatically re-start at this time.

- **~October 20, 2008** – Assuming a "Yes" vote for the new Constitution, a mini-Assembly ("Congressillo") of 39-50 of the previous 130 Assemblymen/women takes office until the new administration takes over in 2009.

- **End of October 2008 -** Congressillo expected to approve the new mining law as its first or second priority legislation and then send to the President for approval.

- **First week of November 2008 -** Expected formal approval of the mining law by the President.

- **Mid-late November 2008** – Exploration activities should resume.

- **November 6, 2008** – Announcement of General Elections for a new legislative Assembly and President.

- **February 2009** – General Elections

- **April 2009** – Results of elections (depends if two Presidential rounds are needed).

- **May 2009** – New President and Assembly in power and Congressillo dissolved.

If the Referendum vote is a "No" vote, the political procedure going forward is unclear. The President is likely to stay in power for the rest of his term (two years) but it is not clear if the original Congress (the one in place before the temporary Congressillo) comes back to govern, or if there would be new elections for a new Assembly with timelines as discussed above. Such a scenario would likely delay the approval of a new mining law until at least mid-2009 as there would be no interim governmental body (the Congressillo described above) to approve it.

The new mining law is not expected to address the details of two critical issues: a production royalty and a windfall revenue tax. These issues will be dealt with in "Production Contracts" to be signed by each company at the time that a project moves into the exploitation phase, as defined by the mining law (expected to be after a maximum of 8-10 years from the start of exploration). The Company expects to start negotiations with the MMP with respect to a Production Contract at Rio Blanco before the end of 2008 and within the following criteria:

- The **production royalty** is expected to range between 3% and 8% of production, dependent on the economics of the project. The type of royalty is not known at this time but it is expected to be some form of modified Net Smelter Return (NSR) royalty.

- The **windfall revenue tax** (passed in December 2007) is expected to be calculated as 70% of any metal price above a negotiated base price multiplied by the number of metal units (ounces, pounds etc) produced. The companies, therefore, would retain only 30% of any metal price upside above the base price stipulated in the Production Contract. Determination of the base price is expected to be based on the economics of each project on a case-by-case basis.

Rio Blanco, Ecuador

At the Company's 100%-held Rio Blanco gold-silver project in southern Ecuador, the Company has temporarily suspended exploration drilling because of the April 2008 Mandate, but is continuing the detailed engineering and capital and operating cost estimate work.

Subject to confirmation of the Company's mineral concessions under the pending new mining law in Ecuador, the targeted production date for the project has been extended by the Company to 2011 from the Company's original estimate due primarily to: delays due to the Mandate mean additional time necessary for permitting; further engineering work (due to a modified mine plan and plant and tailings locations); longer delivery times for critical capital purchases; and an extended construction period. In addition, industry-wide cost pressures and shortages of supplies and labor are adversely impacting the 2006 feasibility study estimates of capital costs and cash operating costs. Final capital and operating cost requirements are expected to be issued in the calendar fourth quarter of 2008 and anticipated capital cost increases will require the Company to obtain additional funding. Despite these cost effects, the economics of the project are expected to remain viable when using an updated base-case gold price of approximately $750oz of gold. The higher gold price is expected to not only provide increased revenue but also will lower the economic cut-off grade for calculating resource and reserve estimates, which should add additional ounces to the overall project.

On June 24, 2008, the Company reported high-grade drill results (including 2.2 meters ('m") at 30.8 grammes per tonne (g/t) gold from veins within the western part of the Bolivar Zone at Rio Blanco. The east-west trending vein system in the Bolivar Zone is approximately 1.5km in strike length and is located only 350m north of the Alejandra North Vein deposit, where a proposed underground mining operation is currently in the permitting stage, with approval of such permits pending the implementation of the proposed new mining law in Ecuador.

To date at Rio Blanco, the Company has estimated proven and probable reserves for the Alejandra North Vein deposit of 605,000 ounces of gold and 4.3 million ounces of silver contained within 2.15 million tonnes at average grades of 8.8 g/t gold and 62 g/t silver as shown in the table below.

		Gold		Silver	
Reserve Category	**Tonnes**	**Grade (g/t)**	**Contained Ounces(1)**	**Grade (g/t)**	**Contained Ounces(1)**
Proven	142,560	10.8	49,000	90	410,000
Probable	2,004,888	8.6	555,000	60	3,896,000
Proven and Probable	**2,147,448**	**8.8**	**605,000**	**62**	**4,307,000**

(1) Contained metal content remains subject to process recovery losses.

The mineral reserves are estimated using a 4 g/t gold cut-off grade and a $475/oz gold price. Numbers are rounded to reflect the precision of a reserve estimate.

The Company completed a positive feasibility study (the "Study") on the Alejandra North Vein deposit in January 2006. The Study was carried out under the overall supervision of independent consultants Micon International Limited ("Micon") of Toronto, Canada. In addition to Micon acting as overall supervisor for the feasibility study, the study was supervised internally by the Company's Qualified Person Technical Manager Nick Appleyard. A revised Technical Report with respect to the feasibility study was prepared by Micon and filed by the Company on SEDAR on May 3, 2006.

Gaby, Ecuador

At the Gaby property in Ecuador, the Company holds a 100% interest in 10 mining concessions, a 55% interest in the concession that hosts the majority of the Main Gaby Deposit, and right to a 100% interest in the concession that hosts the Papa Grande Deposit. The Company is in negotiations to increase its interest in the Main Gaby Deposit to 100%, thereby consolidating its ownership at 100% in the Gaby Project. Due to the April 2008 Mandate, the Company has temporarily suspended exploration drilling and fieldwork at Gaby, but is continuing with an economic optimization study to evaluate the economic impact of higher processing plant throughputs.

In February 2008, the Company completed an independent mineral resource estimate and a preliminary feasibility study (the "PFS") at Gaby with the first NI-43-101 compliant resource estimates for the project. The NI43-101 Technical Report, filed on SEDAR on March 27, 2008, provides details of the mineral resource estimate and the preliminary feasibility study. The PFS used a life-of-mine gold price of $650/oz and the financial results did not generate a positive net present value and, therefore, no mineral reserves have been stated. The results of the PFS show that the initial planned size of the process facility at 20,000 tons per day is too small and that the economics of the project can likely be substantially improved with a significantly larger capacity process plant. The PFS recommends that further engineering work be undertaken to optimize the process recovery flowsheet and production rate prior to proceeding with a final feasibility study using the most appropriate recovery option for project development. The Company plans to complete this optimization study (testing substantially higher processing rates up to 80,000 tons per day) by the end of 2008. Completion of a final feasibility study (if warranted), including additional drilling, would commence in 2009, and would be funded by the Company's existing working capital. Commencement of the additional feasibility drilling is subject to expiry of the Mandate and the approval of a new mining law.

On March 3, 2008, the Company announced it had signed an option to acquire the remaining 50% interest in the Papa Grande deposit at Gaby, consolidating the Company's ownership and rights over that deposit to 100%. This acquisition increased the measured and indicated mineral resources attributable to the Company in the overall Gaby Project by approximately 21%, from an estimated 3. 8 million to 4.6 million contained ounces of gold (within 224 million tonnes at an average grade of 0.64 gpt). It also increases the inferred resources attributable to the Company by approximately 20%, from an estimated 1.7 million to 2.0 million contained ounces of gold (within 95 million tonnes at an average grade of 0.66 gpt).

Gaby Mineral Resource Estimates

The combined Gaby measured and indicated resources (on a 100% project basis) are estimated by FSS Canada, an independent consulting firm, at approximately 308 million tonnes at an average grade of 0.63 g/t gold and 0.1 % copper, containing approximately 6,237,000 ounces of gold and 284,000 tonnes ("t") of copper (with approximately 3.8 million ounces of gold and 175,000 tonnes of copper currently attributable to the Company, based on the Company's rights and ownership interests in the Gaby property).

Additional inferred resources are estimated to be 122 million tonnes at an average grade of 0.65 g/t gold and 0.08 % copper containing approximately 2,571,000 ounces of gold and 95,400 t of copper (with approximately 2.0 million ounces of gold and 59,000 tonnes of copper currently attributable to the Company, based on the Company's ownership interests in the Gaby property).

This base-case resource estimate was calculated at a cut-off grade of 0.4 g/t gold, which approximates the internal cut-off grade for the recovery process options considered in the PFS and uses a base-case gold price of $650 per ounce.

Gaby Project – the Company's Attributable Mineral Resource and Total Mineral Resources (100% project basis)

Resource Estimate Category	Cut-Off Grade (g/t gold)	Total Tonnes (Mt) (100% Project)	Attributable Tonnes (Mt)	Gold Grade (g/t)	Attributable Gold Ounces(1)	Contained Gold Ounces (100% Project)(1)
Measured	**0.4**	**45.7**	**34.2**	**0.73**	**797,000**	**1,051,000**
Indicated	**0.4**	**262.8**	**189.9**	**0.62**	**3,794,000**	**5,186,000**
Measured & Indicated	**0.4**	**308.4**	**224.1**	**0.64**	**4,591,000**	**6,237,000**
Inferred	**0.4**	**122.3**	**95.5**	**0.66**	**2,030,000**	**2,571,000**

(1) Contained metal content estimate remains subject to mining dilution and process recovery losses.

Gaby Preliminary Feasibility Study ("PFS") Summary

The PFS for the Gaby Project was intended to assess the potential economic viability of an open-pit mining operation and various recovery process options by quantifying the capital and operating cost parameters to be used in the generation of mineral reserves. In addition, the PFS was intended to guide ongoing exploration and further engineering and metallurgical work needed to define the optimal scale of the mining operation required to warrant completion of a final feasibility study at Gaby.

The scope of the PFS comprised a comparative evaluation, based on the engineering studies and associated cost estimates included in the study, of four fundamentally different recovery process flow-sheets for a 20,000 tonnes per day ("tpd") mining operation (except for the heap cyanide leaching option, which assumed a 25,000 tpd mining operation). The recovery processes evaluated were:

- Whole ore grinding/carbon-in-leach ("CIL"), recovering gold only.
- Whole ore grinding/flotation to produce saleable copper-gold concentrate/CIL of combined rougher and cleaner flotation tailings.
- Whole ore grinding/flotation to produce saleable copper-gold concentrate/CIL of cleaner scavenger flotation tailings.
- Crushing/heap cyanide leach/gold recovery using carbon.

The economic viability of the Gaby Project has been evaluated initially by non-discounted cash flow techniques. At the base case gold price of $650 per ounce, none of the process options are currently financially viable and therefore the Company cannot state a mineral reserve estimate at this time. However, the results from the PFS suggest that the whole ore grinding/CIL process option (recovering gold only, at an average life-of-mine recovery rate of 89%) is the most technically and potentially economically viable process alternative for project development at sustainable gold prices of $850 per ounce and higher. Based on metallurgical testwork to date, the copper content of the deposit does not materially adversely affect the cyanide consumption in the whole ore grinding/CIL recovery process, because the copper is present as an inert sulfide (principally chalcopyrite). Evaluation of the preliminary pit optimization studies suggests that a larger plant capacity, significantly above the 20,000 tpd case evaluated in detail in the current study, could improve project economics.

Antabamba and Urbaque, Peru

In October, 2006, the Company signed joint venture agreements with Barrick's Peruvian subsidiary with respect to the **Antabamba** and **Urbaque** precious metal exploration properties, southwest of Cuzco in southern Peru. Urbaque is immediately adjacent to the west of the Pallancata Property and Antabamba is about 65 km to the northeast.

Antabamba

Based on a thorough evaluation of the drill results from the last core drilling program, carried out in October 2007, the Company decided to return the Antabamba property to Barrick. The Company's drilling program identified high-grade, but narrow, mineralized zones (shoots) within the known veins on the property and management considers that the overall potential to develop significant tonnage and ounces is limited.

As of June 30, 2008, the Company has written off its total accumulated capitalized exploration costs (approximately $3.5 million) incurred on the Antabamba project.

Urbaque

The Company can acquire a 51% interest by completing 9,000m of drilling by September 2009, with a minimum of 2,000m by September 30, 2007 (completed) and an additional 3,000m by September 30, 2008.

Once the Company acquires a 51% interest, Barrick has a one-time back-in right to increase its interest from 49% to 60% (and become operator) if the Company has established a total mineral resource (measured, indicated or inferred) in excess of 2.0 million ounces of gold. As part of its back-in right, Barrick must pay three times the exploration costs incurred by the Company up to that time.

As announced on November 29, 2007, a total of 2,385m of core drilling in eight widely-spaced inclined drill holes were completed by the Company on the Urbaque gold property. Highlights of this drilling program include the following mineralized intersection (estimated true width):

Drill hole URB-02 with 32.0m at 0.91 g/t gold, including 18.0m at 1.22 g/t gold

Pacapausa, Peru

On November 5, 2007, the Company purchased the 25% interest in the Pacapausa property owned by its joint venture partner IAMGOLD Corp. ("IAMGOLD"), for $1.0 million. This purchase resulted in the Company owning an undivided 50% interest in the Pacapausa property, the remaining 50% being held by the original property owner, Southwestern Resources ("Southwestern"). IAMGOLD remains entitled to receive a 0.5% Net Smelter Return ("NSR") royalty on all commercial production from the Pacapausa property.

Also on November 5, 2007, the Company agreed with Hochschild to transfer its 50% interest in the Pacapausa property to Suyamarca (the jointly owned owner and operator of the Pallancata mine) for $1.2 million of payments from Hochschild to the Company. Suyamarca agreed to assume the 0.5% NSR royalty to IAMGOLD. To date, Hochschild has paid $200,000 and $1,000,000 remains to be paid.

Suyamarca now holds a 50% interest in the Pacapausa property, with Southwestern holding the remaining 50%. All future exploration and other costs associated with developing the Pacapausa property will be shared 50% by Southwestern and 50% by Suyamarca (with Suyamarca's share funded as to 60% by Hochschild and 40% by the Company), subject to straight-line dilution of either party's interest for non-contribution to proposed work programs. Suyamarca is the operator of the joint venture.

On May 8, 2007, the Company announced in a news release the results of a drilling program in the eastern part of the Pacapausa property comprising 11 core drill holes totaling 2,082 m. Silver mineralization was encountered in all 11 drill holes. True widths are unknown at this time. Highlights of the drill results include intersections of:

- 10.8m grading 212 g/t silver in hole PACA-09
- 1.5m grading 548 g/t silver in hole PACA-01
- 4.5m grading 205 g/t silver in PACA-09

Suyamarca has approved an $817,000 exploration budget for calendar year 2008, including an additional 1,500m of drilling, with $163,000 (20%) to be funded by the Company. Southwestern's approval of its 50% contribution is pending.

IAMGOLD Joint Venture Agreement ("Aster"), Southern Peru

On March 19, 2004, the Company and IAMGOLD signed a binding Heads of Agreement (as amended on March 6, 2006) (the "Agreement") with respect to a joint venture for the acquisition and exploration of mineral properties within a mutually-agreed-upon area of interest ("Aster Joint Venture Area") in southern Peru.

After the year ended, the Agreement was terminated by the parties. Both parties have agreed to retain two remaining mining concessions of interest, each party owning a 50% interest. The Company has written-off to operations the cost of exploration costs incurred to date (approximately $1.3 million).

Risk Factors

Risk factors affecting the Company's business and its ability to raise new financing are discussed in detail in the Company's Annual Information Form ("AIF") as filed on SEDAR. See also "Risk Factors" below.

DISCUSSION OF OPERATING RESULTS AND FINANCIAL CONDITION

SELECTED ANNUAL INFORMATION

The following table provides a brief summary of selected financial data for the Company's financial years ended June 30, 2008, 2007 and 2006. For more detailed information refer to the accompanying Audited Annual Consolidated Financial Statements as at June 30, 2008.

	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2006
Other income	$ 7,913,709	$ 6,012,387	$ 1,326,296
Net loss from continuing operations	168,763	3,012,982	309,746
Net loss	168,763	3,012,982	309,746
Basic and diluted (loss) per share	(0.002)	(0.03)	(0.01)
Total assets	159,000,647	150,746,621	133,679,048
Total long-term liabilities	36,111,085	33,507,969	30,858,701
Current dividends	-	-	-

The Company has no present intention of paying dividends on its common shares as it anticipates that all available funds will be invested to finance the growth of its business.

DISCUSSION OF OPERATING RESULTS AND FINANCIAL CONDITION

SUMMARY QUARTERLY INFORMATION

The following table summarizes pertinent financial and other information which is required to be disclosed by the Company, together with other information for the last eight financial quarters ending June 30, 2008 that the management of the Company considers being useful to an understanding of the financial condition and the results of the operations of the Company. For more detailed information, refer to the accompanying Audited Annual Consolidated Financial Statements as at June 30, 2008.

	30-Sep-06	31-Dec-06	31-Mar-07	30-Jun-07	30-Sep-07	31-Dec-07	31-Mar-08	30-Jun-08
1. Other Income $	1,163,935	(1,069,069)	4,989,373	(862,893)	(217,089)	(378,142)	5,868,432	2,640,508
2. Total Income $	1,163,935	(1,069,069)	4,989,373	(862,893)	(217,089)	(378,142)	5,868,432	2,640,508
3. Net Income (Loss) $	(1,455,922)	(2,391,976)	2,761,293	(1,926,377)	(2,731,455)	(2,155,610)	4,115,827	602,475
4. Net Income (Loss) per Common Share $	(0.02)	(0.03)	0.03	(0.02)	(0.03)	(0.02)	0.04	0.006
5. Cash Dividends $	0	0	0	0	0	0	0	0
6. Cash, Cash Equivalents Short Term Investments & Securities Held for Trade $	80,590,651	74,059,157	85,612,803	84,545,557	80,130,621	72,745,716	67,429,919	62,262,556
7. Working Capital $	80,502,291	72,908,362	84,358,611	81,113,980	77,886,337	71,066,148	65,485,575	58,355,051
8. Total Assets $	132,921,011	129,698,313	146,494,026	150,746,621	150,692,390	150,699,732	154,976,870	159,000,647
9. Long Term Liabilities $	31,226,043	30,026,549	30,500,858	33,507,969	35,999,427	36,665,780	35,429,840	36,111,085
10. Capital Stock – Number of Shares	91,860,001	91,937,501	94,809,501	95,194,501	95,223,001	95,653,001	96,030,001	96,030,001
11. Capital Stock - $	112,605,932	112,975,548	125,306,384	126,117,325	126,256,960	127,389,673	128,748,151	129,850,285
12. Shareholders' Equity $	99,633,088	97,728,204	113,867,408	113,684,414	112,223,564	111,168,002	116,346,883	118,694,212
13. Mineral Resource Expenditures (Cumulative since inception) $	42,723,031	47,186,040	52,442,155	57,982,008	62,627,315	68,613,118	73,273,234	71,965,109
14. Investment in Joint Venture $	5,500,710	5,680,272	5,681,292	6,270,221	6,067,542	6,595,045	10,303,303	22,972,335

Year Ended June 30, 2008

The consolidated net loss for the year ended June 30, 2008 was $168,763 ($0.002 per share) compared to a net loss of $3,012,982 ($0.03 per share) for the equivalent period in 2007. The significant decrease in the loss this period is due principally to the following: a) a significant increase in the consolidated portion of equity gain on earnings of Suyamarca joint venture for $4,199,616 (2007 - loss of $318,558) and equity gain on capital contributions by Suyamarca joint venture for $6,270,237 (non-cash) which represents the Company's 40% share of the 100% funded investment made by joint venture partner, Hochschild, on the Pallancata Mine; b) interest income for the twelve-month period of $2,828,050 (2007-$3,431,394); and c) a lower foreign exchange loss of $1,081,606 due to a strengthened Canadian dollar against the U.S. dollar for part of the period (2007-a loss of $1,897,912). Offsetting this income were: a) write-off of the Antabamba, Aster and Acos mineral properties for $4,833,850 (2007 - the write-off of the Vetaspata mineral property for $1,648,732); b) interest and financing costs of $3,564,049 (2007 - $3,114,754) relating to a prospectus offering of convertible debentures completed in May, 2006; c) increased activity in investor relations of $689,676 (2007 - $292,299) due primarily to the opening of the Pallancata Mine in Peru in November 2007; extensive time and travel spent by senior management with regards to conferences, road shows and investor tours; design of website and presentation materials; the hiring of a new Vice President of Investor Relations Vice President; and communications and public relations costs associated with the April 2008 Mandate ($200,000); d) an increase in professional fees of $881,757 (2007 - $470,826) due primarily to legal costs associated with preparing and submitting a complaint against UBS Financial Services Inc. (see subsequent events note for additional details) and increased audit fees; e) an increase in salaries and benefits of $801,115 (2007 - $513,868) reflecting additions to senior management in the past year (offset by salary charge-outs of $146,806 (2007 - $72,300) due to a significant increase of activity in Peru pursuant to services agreements with Ventura Gold Corp).

The Pallancata joint venture company, Suyamarca, has not yet distributed cash dividends to the joint venture partners at the Pallancata Mine, but the Company has realized equity earnings of approximately $4.2 million for the year ended June 30, 2008, which includes a $318,000 reversal of equity losses estimated in the previous fiscal year. Interest earned was lower ($2,828,050) for the period when compared to the same period last year ($3,431,394) as interest rates for US dollar accounts decreased during the year and account balances went down due to the use of funds for operations. The Company also earned $400,885 (2007-$187,635) in management fees from the Ventura Gold Corp services agreements (see "Related Parties" section below for details) and an unrealized gain on securities held for trade of $130,377 (2007-$Nil). This income helped to partially offset increased total expenses in this period of $8,082,472 (2007-$7,234,328).

Capitalized resource property expenditures for year ending June 30, 2008 are $19,598,633 partially offset by a write-off of $4,833,850 related to the abandonment of the Antabamba, Aster and Acos properties in Peru and a reclassification of $781,682 to “Investment in Suyamarca Joint Venture” related to the Pacapausa project (see Note 5 “*Investment in Joint Venture Company*”) for a net change of $13,983,101 compared to a net change of $11,315,904 for the same period last year. The net change in 2007 reflected similar activity in that approximately $5.5 million was reclassified to “*Investment in Joint Venture Company*” and an offset from a write-off of approximately $1.6 million related to the abandonment of the Vetaspata property.

Due to the formation of Suyamarca, the joint venture company holding the Pallancata Mine, historical property expenditures are no longer included under “Resource Properties” and are now reported under “*Investment in Joint Venture Company*”. Additionally, with the reclassification of the Pallancata investment, the Company’s 40% interest in the current operating earnings of the mine is now consolidated and appears as “Equity gain on Suyamarca joint venture” on the income statement. See Note 5 “*Investment in Joint Venture Company*” to the accompanying Audited Annual Consolidated Financial Statements for additional information.

A brief discussion of the Ecuadorian project expenditures follows.

At the **Rio Blanco** gold project, expenditures for the current financial year of $9,111,514 were less than the expenditures for the comparable period last year ($11,053,927). The current period’s costs were mainly comprised of $1,680,503 in post-feasibility study drilling and assaying costs (2007-$2,325,771 in feasibility study drilling and assaying costs) and $7,431,011 in development costs, including metallurgical, engineering, environmental and sociological studies, land acquisition costs and other deferred post-feasibility costs (2007-$8,653,156).

At the **Gaby** gold project, expenditures for the current financial year total $6,328,290 (2007-$4,742,609), a significant increase from last year, primarily due to increased costs related to ongoing definition drilling and related activities as part of a preliminary feasibility study completed by the Company in February 2008.

Total expenditures on the Company’s other capitalized resource projects for the current financial year amounted to $4,158,827 (2007-$2,761,789), primarily for exploration activities in Peru related to the Urbaque ($1,314,208) project joint venture with Barrick and to costs incurred for both the Antabamba ($1,653,565) and Aster projects ($798,867). See “Overview” section above.

<u>Three-Month Period Ended June 30, 2008</u>

The consolidated net income for the three-month period ended June 30, 2008 was $602,475 ($0.006 per share) compared to a net loss of $1,926,377 ($0.02 per share) for the equivalent period in 2007. The change this period is due principally to equity gains from the Suyamarca joint venture company (Pallancata related) of $7,602,895 (2007 - loss of $318,558) and lower expenses of $2,038,033 (2007 - $2,694,904), offset by a) increased resource property write-offs of $4,833,850 for the Antabamba, Acos and Aster projects (2007 - $159,621 for the Calvario concession at Gaby); b) lower interest income of $442,306 (2007 - $1,300,089) resulting from falling interest rates; c) a larger foreign exchange loss for the quarter of $641,048 (2007-loss of $81,558) due to a strengthening Canadian dollar against the US dollar.

Capitalized resource property expenditures for the three-month period ending June 30, 2008 for all projects decreased by $1,523,806 to $4,307,408 compared to $5,831,214 for the same period last year, reflecting a lower level of exploration and development activity in the period primarily in Ecuador resulting from the April 18, 2008 mining mandate (“Mandate”) which halted mining activity in the country (See Ecuador section in Property Updates of MD&A). The Company continues its focus on feasibility studies and project development. A brief discussion of individual project expenditures follows.

At the **Rio Blanco** gold project in Ecuador, expenditures for the current three-month period of $1,844,932 are lower than the comparable period last year ($2,800,724) due to reduced activity because of the “Mandate”. The current period’s costs comprise $1,648,822 in development costs, including metallurgical, detailed engineering, environmental and sociological studies, land acquisition costs and other deferred costs (2007-$2,255,995 in feasibility costs) and $196,110 in post-feasibility drilling and assaying costs (2007-$469,729 in feasibility drilling and assaying costs).

At the **Gaby** gold project in Ecuador, expenditures for the current three-month period total $1,070,078 (2007-$1,504,713), a decrease of $434,635 from last year, primarily due to decreased costs related to scaled back activities due to the “Mandate”.

With the transfer of the Company’s 50% interest in the Pacapausa project into the Suyamarca joint venture company, expenditures for Pacapausa are also no longer included under “Resource properties” and are now reported under “Investment in Joint Venture”. See Note 5 to the accompanying Unaudited Interim Consolidated Financial Statements for additional information.

Total expenditures on the Company’s other capitalized resource projects for the current three-month period amounted to $1,392,396 (2007-$1,496,154), primarily for exploration activities in Peru related to the Urbaque joint venture with Barrick.

The Company’s cash and cash equivalents position during the current three-month period decreased by $6,682,584 to $60,447,985 compared to a decrease in the same period last year of $2,801,042. The additional cash decrease during the quarter resulted from a) increased investment in joint venture $1,877,986 (2007 - $54,476); b) pay off of accounts payable of $ 339,946 (2007 – increased accounts payable by $ 1,890,537) plus c) lower proceeds from sale of stock $ Nil (2007 - $678,339) and d) lower interest received $442,306 (2007 - $1,300,089). This drop was offset by lower resource property cash expenditures for the quarter of $4,113,104 (2007 - $4,907,614)

LIQUIDITY AND CAPITAL RESOURCES

In management's view, given the nature of the Company's activities, which consist of the acquisition, exploration, development and exploitation of mineral properties in South America, the most meaningful and material financial information concerning the Company relates to its current liquidity and capital resources.

The Company invests its cash treasury in high-quality, short-term, mainly US dollar denominated debt instruments with major Canadian chartered banks. The Company has no investments in, and no risk exposure, to asset-backed commercial paper. The Company does hold approximately $1.3 million in Auction Rate Securities which are current in interest payments and classified as short term investments (see Note 3 to the Audited Annual Financial Statements at June 30, 2008).

Working capital decreased by $22,758,929 from $81,113,980 at year-end June 30, 2007 to $58,355,051 at June 30, 2008, primarily as a result of a cash expenditures related to the continuing exploration and development activities and investment in capitalized resource property expenditures at the Company's Rio Blanco and Gaby projects, interest and financing costs, and higher general and administrative expenses, offset by interest income.

Long-term debt of $36,111,085 compared to $33,507,969 at June 30, 2007 relates to the Canadian dollar denominated convertible debentures (issued in May 2006) with the increase being due to the weaker US dollar relative to the Canadian dollar at June 30, 2008.

Management has estimated that existing working capital is sufficient to meet basic exploration, Pallancata joint venture participation and corporate requirements through at least the current fiscal year. Completion of a final feasibility study at Gaby in Ecuador, if warranted by the current economic optimization study in progress, will be funded by existing cash reserves. The construction of the mining operation at the Pallancata property has been funded entirely by the Company's joint venture partner, Hochschild, but 40% of replacement capital costs, exploration costs and the expansion of mine production above 1,000 tpd must be funded by the Company if the mine's cash flows are insufficient to pay such costs. The Pallancata Mine operation is increasing mine production to approximately 2,000 tpd by year end 2008 but final costs of this expansion have not been determined. It is anticipated that mine cash flow will cover the Company's share of this cost.

As a consequence of the recent suspension of exploration drilling and fieldwork at the Rio Blanco and Gaby projects due to the Mandate in Ecuador, the Company may not expend its anticipated exploration budgets for the remainder of calendar year 2008. However, the Company may incur severance costs and increased security and maintenance costs related to any possible future reduction in the workforce depending on the length of suspension of exploration and development activity in Ecuador.

When a final decision is reached to commence development and construction on the Rio Blanco project in Ecuador, the Company will need to complete additional financing for construction and development that could include new equity issues, project recourse debt, corporate debt, sale of a royalty, sale of a joint venture interest or a combination of these and other options. The total amount of the financing for Rio Blanco construction and development will be based on the detailed engineering and capital cost estimate (which is currently being updated), and the cash reserves and foreseeable cash demands in analyzing the optimum capital structure for the project and for the Company. The date for a development and construction decision for the Rio Blanco project depends upon the gold market, commodity prices, satisfactory resolution of legal and federal and local political situations in Ecuador, and a number of the other factors. The Company is unable, at this date, to predict at what point a construction development decision for Rio Blanco will be made.

The Company's current cash and equivalents may not be sufficient to fund all future property option payments on existing properties which are as follows: **Gaby** (at Papa Grande $11.4 million in option payments over a six year period ending February 2014; at Muyuyacu an amount and payment schedule as yet to be agreed upon); and **Rio Blanco** ($2.65 million over a variable period dependent upon commencement of commercial production). The Company has no remaining material property payments with respect to the Pallancata property.

In addition, should significant new project opportunities be realized, capital requirements may exceed working capital on hand and thus require additional funding. Due to the cyclical nature of the industry, there is no guarantee that when the Company needs to raise capital, there will be funds available at that time.

RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with related parties:

a) Paid or accrued legal and other service costs of $168,582 (2007 - $231,287) rendered by firms in which two directors of the Company are partners or principals. The Company allocated $92,665 (2007 - $123,826) of these costs to resource properties. As at June 30, 2008, the amounts payable to these firms totalled $14,743 (2007 - $31,366).

b) Charged salaries of $146,806 (2007 -$72,300) and management fees of $400,885 (2007 - $158,102) to Ventura Gold Corp. pursuant to service agreements whereby the Company provides administrative and exploration program management services to Ventura. Ventura is a public company which has officers and directors in common. In addition, the Company has paid certain costs on behalf of Ventura totalling $40,548 (2007 - $17,432). The amount due from Ventura at June 30, 2008, was $139,424 (2007 - $25,434).

c) At year end, the Company held 504,923 (2007 – 504,923) common shares of Ventura and 50,000 (2007-Nil) common shares of Santa Barbara Resources Limited as described in Note 5 and 6.

d) The summary of amounts payable due to/from related parties is as follows:

		2008		2007
Amounts payable to related parties for fees	$	(14,743)	$	(31,366)
Amounts due from related parties (Ventura)		139,424		25,434
	$	124,681	$	(5,932)

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties. The amounts due to related parties are non-interest bearing, with no fixed terms of repayment. The fair value of the amounts due to related parties cannot be determined as there are no specific terms of repayment.

CRITICAL ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and form the basis for the following discussion and analysis of critical accounting policies and estimates. The Company makes estimates and assumptions that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities, during the course of preparing these financial statements. On a regular basis, the Company re-evaluates estimates and assumptions. Long-lived assets are reviewed for impairment whenever events or changes indicate that carrying amounts may not be recoverable.

Estimates are based on historical experience and on various other assumptions that the Company believes to be reasonable. These estimates form the basis of judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

CHANGES IN ACCOUNTNG POLICY

Recent accounting pronouncements

The Canadian Institute of Chartered Accountants ("CICA") has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2008. The Company will adopt the requirements commencing in the interim period ended September 30, 2008 and is currently considering the impact this will have on the Company's financial statements.

Assessing Going Concern

The Canadian Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern.

Financial Instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments – Disclosures,* which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement,* Section 3863, *Financial Instruments – Presentation,* and Section 3865, *Hedges.*

The AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation,* which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Capital Disclosures

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed.

International Financial Reporting Standards ("IFRS")

In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Change in accounting policy

Effective July 1, 2007, the Company adopted the following new accounting standards issued by the CICA relating to financial instruments. As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

Financial Instruments – Recognition and Measurement (Section 3855)

This standard sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after January 1, 2007. This standard requires all financial instruments within its scope, including derivatives, to be included on the Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations or accumulated other comprehensive income, depending on the classification of the related instruments.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or liability. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to July 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

All financial instruments are classified into one of the following categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.

- Available-for-sale financial assets are measured at fair value. Changes in fair value are included in other comprehensive income until the gain or loss is recognized in income.

- Held for trading financial instruments are measured at fair value. All changes in fair value are included in net earnings in the period in which they arise.

- All derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. Changes in fair value are included in net earnings in the period in which they arise, except for hedge transactions which qualify for hedge accounting treatment, in which case gains and losses are recognized in other comprehensive income.

In accordance with this new standard, the Company has classified its financial instruments as follows:

- Cash and equivalents, short term investments, and securities held for trade are classified as held-for-trading.
- Financial Instruments – Recognition and Measurement (Section 3855)

- Receivables and due from related parties are classified as loans and receivables.

- Accounts payable and accrued liabilities, due to related parties and accrued interest payable on convertible debentures are classified as other liabilities.

- Deferred finance costs and convertible debentures are classified as held to maturity.

The carrying amounts of cash and equivalents, receivables, due from related parties, securities held for trading, reclamation bond, investments, accounts payable and accrued liabilities, due to related parties and convertible debentures approximate their fair values. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Hedging (Section 3865)

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any financial instruments which qualify for hedge accounting.

Comprehensive Income (Section 1530)

Comprehensive income is the change in the Company's shareholder equity account that results from transactions and other events not involving the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings.

This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity. The presentation of "accumulated other comprehensive loss" in the shareholders' equity section of the consolidated balance sheet is not required because the closing balance is nil. The Company had no "other comprehensive income or loss" transactions during the year end June 30, 2008 and no opening or closing balance or accumulated "other comprehensive income or loss".

FINANCIAL INSTRUMENTS

Cash and equivalents, short-term investments, securities held for trade, investments and convertible debentures are subject to market risk and currency risk arising from the fluctuations in the Canadian dollar and the United States dollar exchange rates and the degree of volatility in those rates. The Company does not use derivative instruments to reduce its exposure to these market and currency risks. The Company does not believe it is subject to any other credit risk although cash and equivalents are held in excess of federally insured limits, with major financial institutions.

The Company's other financial instruments, which consist of receivables, environmental bond, accounts payable and accrued liabilities, accrued interest payable on convertible debentures and due to or from related parties are not, in management's opinion, exposed to significant interest, currency or credit risks. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company currently holds $1.3 million in Auction Rate Securities that were previously classified as a cash equivalent and are now being carried as a short-term investment. During the year, these investments were the subject of several lawsuits by the New York Attorney General, the Massachusetts Securities Division, and other state agencies and the Securities and Exchange Commission as outlined in Note 3 of the Company's audited annual consolidated financial statements.

CONTINGENCY

On June 10, 2008, the Company filed a complaint against UBS Financial Services Inc. ("UBS") of Delaware and certain UBS current or former employees, relating to UBS' misrepresentation and mismanagement of certain investment instruments that were not in compliance with the Company's conservative investment guidelines as provided to UBS by the Company. The investments in questions were discontinued in September 2007. This legal action by the Company against UBS has no affect whatsoever on the current financial position or results of operations of the Company as at June 30, 2008. The Company seeks in the complaint an amount of no less than Cdn $5.7 million in compensatory damages, plus consequential and punitive damages. The prospects for any recovery of such amount(s) remain, at this point, uncertain.

OUTSTANDING SHARE, STOCK OPTION AND WARRANT DATA

Authorized share capital consists of an unlimited number of common shares without par value. Since the end of the year ended June 30, 2008, there were no changes in issued share capital:

	Number of Shares	Amount
Balance issued at June 30, 2008	96,030,001	$ 129,850,285
	-	-
Total	96,030,001	$ 129,850,285

The following stock options were outstanding at June 30, 2008:

Expiry date	Exercise Price ($Cdn)	Number of Options
February 11, 2009	$ 4.58	225,000
June 9, 2009	0.90	150,000
August 14, 2011	1.00	275,000
May 22, 2013	1.80	50,000
February 11, 2014	4.58	50,000
February 1, 2015	4.00	356,000
December 6, 2015	4.48	50,000
October 4, 2016	4.70	50,000
November 6, 2016	5.25	300,000
February 26, 2017	5.78	1,230,000
July 10, 2017	5.70	120,000
August 6, 2017	5.84	250,000
November 2, 2017	5.62	25,000
June 2, 2018	5.22	100,000
		3,231,000

The Company has no outstanding warrants as of June 30, 2008.

OUTLOOK

During the balance of fiscal year 2009, the Company's exploration and development efforts are expected to focus primarily on:

- Expanding mine production at the 40% owned **Pallancata silver-gold mine** in Peru, working with our 60% joint venture partner, Hochschild. Pallancata is producing positive cash and the joint venture is expected to commence distributing cash dividends to the joint venture partners in calendar first half 2009. At planned production levels for tonnage and grade and, at current silver and gold market prices, the joint venture should be capable of providing the Company with cash flow of more than $8.0 million per year.
- Obtaining required environmental and production permits for the construction and development of a gold-silver mining operation at **Rio Blanco** in Ecuador, subject to the expiry of the April 2008 Mandate and finalization of the pending mining law as well as additional required financing. Construction could commence about three months following granting of all the necessary permits. Given the pending new mining law in Ecuador, it is uncertain when the permits will be approved.
- Advancing an economic optimization study as a step towards a final feasibility study, if warranted, at the **Gaby** gold project in Ecuador. The optimization study is evaluating the potential for enhanced economics based on a significantly higher production rate than used in the preliminary feasibility study. The future status of Gaby will also depend on the pending new mining law in Ecuador.
- Continuing drilling at the **Urbaque** property in Peru under the joint venture agreement with Barrick and at the **Pacapausa** project in Peru under the agreement with Southwestern and Hochschild.
- Seeking new property acquisitions to continuously replenish our pipeline of projects, together with additional strategic joint venture alliances, such as that with Hochschild at Pallancata and Pacapausa, in order to advance projects with reduced additional cash outlays by the Company.

RISK FACTORS

Due to the fact that the Company's properties are located in South America, there are additional elements of risk not found in North America. These risks, inherent to developing countries, could impact the operation or profitability of the Company's projects.

The Company's mineral concessions in Ecuador, relating to the Rio Blanco and Gaby projects, may be subject to uncertainties as a consequence of the April 2008 Mandate and pending new mining law in Ecuador.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At present only two of the Company's properties have a known body of economic ore and the Company's proposed exploration programs are primarily an exploratory search for ore. Fires, power outages, labor disruptions, flooding, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labor are other risks involved in the operation of mines and the conduct of exploration programs. The Company has relied, and may continue to rely upon, consultants and others for construction and operating expertise. Substantial expenditures are required to establish mineral reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing gold and other mineral properties is affected by many factors including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, taxation, allowable production, importing and exporting of minerals and environmental protection. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short term factors relating to mineral resources or mineral 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 mining operations and on the results of operations. There can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale heap leaching. Material changes in mineral resources or mineral reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project. Depending on the price of gold or other minerals produced, the Company may determine that it is impractical to commence or continue commercial production. The validity of mining claims, which constitute most of the Company's property holdings, can be uncertain and may be contested and, although the Company has attempted to ensure satisfactory title to its properties, some risk exists that some titles may be defective. The Company's revenues and most of its expenditures are incurred in U.S. dollars, however, equity financings completed by the Company are primarily in Canadian dollars and, consequently, the Company is at risk to foreign exchange movements between these two currencies. See "Risks Specific to Operating in Ecuador" section below for information related to the new mining law in Ecuador and also the Company's 2007 Annual Information Form filed on SEDAR which discusses in detail these and other risk factors.

Risks Specific to Operating in Ecuador

The Company may continue to be affected by Ecuador's political environment and economic instability. Since the Company commenced operations in 1993, Ecuador has undergone numerous changes at the presidential and congressional levels.

Since the current President, Rafael Correa, took office in January 2007, his administration has focused on the creation of a new Ecuadorian Constitution, a final draft of which was completed in July 2008 by a temporary Constituent Assembly. A national referendum to approve this new Constitution will be held on September 28, 2008 with results announced in mid-October. Provided that the referendum approves the draft new Constitution, new Presidential and general elections are expected to be held in early 2009, with a new administration and President taking office in the second quarter of 2009. The consequences of non-approval of the draft new Constitution are unclear at this time, except for the fact that the current President would serve out the remaining two years of his presidency.

The Correa Administration has publicly acknowledged the potential contribution of responsible mining to the future development of the country and to the growth of the Ecuadorian economy to the benefit of the Ecuadorian people. Notwithstanding this declaration by the President, the Mandate issued in April 2008 suspended all mining activities in Ecuador, pending the drafting of a new mining law within six months. The Mandate expires in mid-October 2008.

A new mining law has been drafted by the Ministry of Mines and Petroleum and delivered to the President, which includes a sliding-scale production royalty, work requirements to hold concessions and strict environmental controls. This mining law is said to be a top-priority issue for approval by the Correa Administration. It is expected to be approved before the end of 2008 by an interim assembly (the "Congressillo") which will govern the country until the elected assembly takes office in 2009.

In addition, and unrelated to, the proposed new mining law, a windfall revenue tax is proposed to be applied to production from any mining operations. The mechanism of calculation of such a tax is unclear at this time this time, but it is expected to be based on 70% of any metal price above a negotiated base price multiplied by the number of metal units (ounces, pounds etc) produced. Mining companies, therefore, would retain only 30% of any metal price upside above the set base price.

While the Company believes that the current investment and political climate in Ecuador will continue to stabilize, there can be no certainty that this will be the case. As a result, the Company may be adversely affected by governmental amendments or changes to mining laws, tax laws, or other regulations and requirements in Ecuador, including the possibility of increased government participation in the mining sector or renegotiation of existing agreements. The effect on the mining industry of non-approval of the draft new Constitution is unclear, except that it would certainly delay the approval of a new mining law well into calendar year 2009.

To mitigate financial risk in Ecuador, the Company funds its Ecuadorian operations on an as-needed basis. The Company also works closely with the various ministries in the federal and regional governments and also with local community groups. The Company does not presently maintain political risk insurance in Ecuador.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a system of internal controls and procedures over financial reporting designed to safeguard assets and ensure the financial information is reliable. Pursuant to regulations adopted by the Canadian Securities Administrators, the Company's management, with the participation of its Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), have evaluated the effectiveness of the Company's internal controls and procedures over financial reporting and disclosure, as required. Based upon the results of that evaluation, the Company's CEO and CFO have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files or submits is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported, within the time periods specified. Because of the inherent limitations in all control systems, including resource constraints and costs, these systems cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected.

The Company also maintains internal control over financial reporting. The term "internal control over financial reporting," means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our Consolidated Financial Statements.

The management report on internal control over financial reporting is included below.

The Company's management, with the participation of the Company's CFO and the CEO has evaluated the effectiveness of the Company's disclosure, controls and procedures as of June 30, 2008. Based upon this evaluation, the CFO and the CEO concluded that as of June 30, 2008, the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company, including its consolidated subsidiaries, required to be included in reports that the Company files.

SUBSEQUENT EVENTS

The following events occurred subsequent to the twelve-month period ending June 30, 2008:

a) On August 25, 2008, the Company announced updated estimated proven and probable reserves at the Pallancata Mine of 5.8 million tonnes at an average grade of 329 grams per tonne ("g/t") silver and 1.2 g/t gold containing approximately 62.3 million ounces of silver and 232,000 ounces of gold on a 100% project basis (40% of which are attributable to the Company). This updated reserve estimate represents an 80% increase from the previously released reserve estimate of March 2008 and more than a 450% increase from the reserves estimated in a pre-feasibility study in August 2007.

b) 45,000 stock options at a price of Cdn$5.78 expired unexercised.

c) On July 14 and 21, 2008, the Company received payment from Ventura for a total amount of $139,424 pursuant to the service agreements between Ventura and the Company.