

INTERNATIONAL MINERALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

THREE MONTH PERIOD ENDED SEPTEMBER 30, 2008

*The following discussion and analysis has been prepared as of November 12, 2008 unless otherwise indicated and should be read in conjunction with the accompanying **Unaudited Interim Consolidated Financial Statements** and related notes as at September 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 (see "Risk Factors", page 15).

Highlights

During the quarter July 1, 2008 through September 30, 2008 and to date, International Minerals Corporation (the "Company") accomplished the following:

- Completed the quarter with \$57.2 million in cash and equivalents, aggregate working capital of \$54.9 million and total assets of \$162.4 million.
- Reported on November 5, 2008, 8% higher total silver production of 899,000 ounces at consistent total cash costs of \$5.77 per ounce silver, after gold by-product credit, at the 40% owned **Pallancata Mine**, Peru, for the quarter ended September 30, 2008, compared to \$5.72 per ounce for the prior quarter. Of this total production of silver and 3,350 ounces of gold, the Company's attributable 40% share was 359,600 ounces of silver and 1,340 ounces of gold.
- Commenced on October 17, 2008, a normal course issuer bid or share repurchase program to purchase through the market on the Toronto Stock Exchange 5.0 million of its common shares ("Shares"), representing 5.21% of the Company's 96,030,001 issued and outstanding Shares, as at October 8, 2008. As of November 12, 2008, a total of 527,900 shares had been repurchased at an average price of C\$2.69 per Share for a total cost of C\$1,421,796. Repurchased Shares will be cancelled.
- Announced on August 25, 2008, 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.

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 (symbol: IMZ). The Company's shares are also listed on the Frankfurt Stock Exchange in Germany (symbol: 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*”, page 14, 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) further increase mineral reserves and resources at the Company’s 40%-owned Pallancata Mine, (b) increase production at Pallancata (100% project basis) from over 4 million ounces silver equivalent estimated in calendar 2008 to over 6 million ounces of silver equivalent in calendar 2009 (based on a silver to gold ratio of 70:1);
- Develop and operate the 100% owned Rio Blanco gold-silver project in Ecuador, targeting production start-up in 2012, subject to enactment of the proposed new mining law in Ecuador, obtaining production permits, arranging additional required financing and completing construction;
- Advance the Gaby Project in Ecuador towards a targeted production start-up in 2014, 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 2014;
- 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 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 mine. The Pallancata Mine is jointly-owned by the Company (40%) and Hochschild (60%), with Hochschild’s wholly-owned subsidiary, Compañía 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 second half 2009, the Company expects to commence receiving cash dividends from the Pallancata joint venture, which to date has reinvested mine cash flow to fund the capital costs of mine expansion. Hochschild funded 100% of the initial start-up capital costs for the mine and these costs are only recoverable from Hochschild’s share of joint venture cash flow. Current capital costs of mine expansion are funded as to 60% by Hochschild and 40% by the Company.

The planned production ramp-up to approximately 2,000 tonnes per day by year-end 2008 is proceeding on schedule. The Company's share of the cost of this expansion program is approximately \$4.8 million and is being funded by mine cash flow. The capital required for the expansion of Hochschild's Selene processing plant to accommodate the increase in mine production will be funded 100% by Hochschild, with a corresponding increase per tonne in the toll processing fee to US\$24.47 per tonne of ore charged to the Pallancata Mine.

As a result of the ongoing aggressive capital expansion program, to date there have been no cash dividends distributed to the Pallancata joint venture partners. Cash dividends, however, are expected to commence in the second half of calendar year 2009, dependent upon metal prices and capital cost requirements.

The Company uses an equity accounting basis to record its interest in the Pallancata Mine.

Quarterly production statistics, for the Pallancata Mine (100% basis) are summarized below:

Table 1: Pallancata Mine Production Highlights (100% Basis)

100% basis	Quarter Ended 9/30/08	Quarter Ended 6/30/08¹	Calendar YTD 2008
Ore mined (tonnes)	154,301	88,033	240,172
Ore processed (tonnes)	88,247	83,517	222,657
Average head grade silver (g/t)	337	339	339
Average head grade gold (g/t)	1.6	1.7	1.6
Concentrate produced (tonnes)	909	847	2,297
Silver grade in concentrate (kg/t)	30.8	30.5	30.3
Gold grade in concentrate (kg/t)	0.11	0.12	0.12
Silver produced ² (oz)	899,000	829,000	2,228,000
Gold produced ² (oz)	3,350	3,230	8,510
Silver sold (oz)	824,000	796,000	2,011,000
Gold sold (oz)	3,020	3,130	7,590
Direct Site Costs per oz silver (after gold by-product credit)^{1,3} (\$/oz)	\$ 3.15	\$ 3.08	\$ 3.13
Total Cash Costs per oz silver (after gold by-product credit)^{1,4} (\$/oz)	\$ 5.77	\$ 5.72	\$ 5.76

Table 2: Pallancata Mine Production Highlights (the Company's 40% Share)

The Company's 40% Share	Quarter Ended 9/30/08	Quarter Ended 6/30/08	Calendar YTD 2008
Silver produced ² (oz)	359,600	331,600	891,200
Gold produced ² (oz)	1,340	1,292	3,404
Silver sold (oz)	329,600	318,400	804,400
Gold sold (oz)	1,208	1,252	3,036

Notes to tables 1 and 2 above:

1. Direct site costs per ounce of silver produced and total cash costs per ounce of silver produced for the calendar second quarter of 2008 were initially reported as US\$3.30 and US\$5.89 respectively in the Company's October 2, 2008 news release. They have been revised above to reflect a "mined ore inventory adjustment". The Company believes that this calculation more accurately matches costs with ounces of production. (Also see notes 3 and 4 below.)
2. The difference between "produced" metal ounces and "sold" metal ounces remains largely in in-process concentrate. Production is shown rounded to thousands of ounces for silver and tens of ounces for gold.
3. Direct site costs per ounce silver comprise direct mining, mined ore inventory adjustment, toll processing and mine general and administrative costs (net of gold by-product credit).
4. Total cash costs, using the Gold Institute's definition, include: mine operating costs, mined ore inventory adjustment, toll processing costs, mine general and administrative costs, Hochschild's management fee, concentrate transportation and smelting costs, mining taxes and the Peruvian government royalty (currently 1% of gross revenue for Pallancata).

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 accompanying unaudited interim consolidated financial statements.

Mineral Reserves and Resources

On August 25, 2008, the Company announced a substantial increase in the mineral reserve estimate for the Pallancata 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 3 below shows estimated mineral reserves and resources for the Pallancata Mine (effective date of September 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 filed a Technical Report on SEDAR in support of this disclosure on October 9, 2008.

Table 3: Pallancata Mine – Mineral Reserve and Resource Estimates (as of September 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	Average Grade	Average Grade	100% Basis - -Contained Silver Ounces	100% Basis - -Contained Gold Ounces	Company's 40% Attributable Silver Ounces	Company's 40% Attributable Gold Ounces
Resource Category	Tonnes	(g/t silver)	(g/t gold)	Ounces	Ounces	Silver Ounces	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 process 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 Mandate established 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 mining law was to be issued within a period of 180 days. It is believed that the mandate will expire in early January 2009. In October 2008, a mini-Assembly or "Congressillo" was formed and this body will consider ratification of the proposed mining law in the coming months.
- 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.

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, pending issuance of a new mining law.

During this period the Company has 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. With the continued delay, the Company is currently reassessing its personnel needs.

- **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.
- **September 28, 2008** – Referendum held to approve the new Constitution.
- **October 2008** – Official results of Referendum show that the new Constitution was approved by a more than 60% majority. The new Constitution requires that the government participate and share in new mining resource projects in an amount not less than that received by the mining companies.
- **Late October 2008** – Proposed mining law was released for public comment. The proposed law has a proposed production royalty of not less than 5%. Elements of the proposed mining law could still change until approved as law.
- **October 18, 2008** – Period of mandate extended to January 5, 2009 (basis 180 business days from April 18, 2008, not 180 days as originally stated).
- **November 2008** – Announcement of General Elections for a new legislative Assembly and President is expected.
- **January 2009** - Congressillo expected to approve the new mining law as its first or second priority legislation and then send to the President for approval.

- **February / March 2009** – General Elections. New mining law approved.
- **April 2009** – Results of elections (depends if additional Presidential run-off rounds are needed).
- **May 2009** – New President and Assembly in power and Congressillo dissolved.

The new mining law is not expected to address the details of two critical issues: the specifics of the production royalty and a windfall revenue tax:

- The **production royalty** is now proposed to be not less than 5%. The type of royalty is not known at this time but is expected to be some form of modified Net Smelter Return (NSR) royalty.
- The **windfall revenue tax** (passed in December 2007) is now proposed 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 base price is proposed to be determined on the economics of each project on a case-by-case basis.

The above issues are expected to be dealt within a specific contract to be signed by each company at the time that a project moves into the exploitation phase, as defined by the mining law.

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 update of 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 2012 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 but it is clear that anticipated capital cost increases will require the Company to obtain additional production 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 \$750 per ounce of gold.

On June 24, 2008, the Company reported high-grade drill results (including 2.2 meters ('m') at 30.8 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.

Reserve Category	Tonnes	Gold		Silver	
		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 on the Alejandra North Vein deposit in January 2006. The feasibility 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, it 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 rights to a 100% interest in the concession that hosts the Papa Grande Deposit. The Company has been 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 NI 43-101 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 Ecuadorian 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 g/t). 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 g/t).

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 recently completed prefeasibility study 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 Company's Pallancata property and Antabamba is about 65 km to the northeast.

Antabamba

Based on a thorough evaluation of the drill results from the core drilling programs, 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

At September 30, 2008, the Company has completed approximately 2,400m of drilling as it progresses towards earning in 51% interest in the Urbaque project. The Company can acquire the 51% interest from Barrick by completing 9,000m of drilling by September 2009.

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 property, the remaining 50% being held by the original property owner, Southwestern Resources Ltd. ("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 Peruvian company which is 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 the \$1.2 million to the Company.

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 2,000m of drilling, with \$163,000 (20% of the budget) 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 in southern Peru.

The Agreement was terminated by the parties effective on June 30, 2008. Both parties have agreed to retain two remaining mining concessions of interest, each party owning a 50% interest. The Company wrote-off to operations the cost of exploration costs incurred as at June 30, 2008 (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", page 15.

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 September 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 Unaudited Interim Consolidated Financial Statements as at September 30, 2008.

	31-Dec-06	31-Mar-07	30-Jun-07	30-Sep-07	31-Dec-07	31-Mar-08	30-Jun-08	30-Sep-08
1. Other Income \$	(1,069,069)	4,989,373	(862,893)	(217,089)	(378,142)	5,868,432	2,640,508	5,353,403
2. Total Income \$	(1,069,069)	4,989,373	(862,893)	(217,089)	(378,142)	5,868,432	2,640,508	5,353,403
3. Net Income (Loss) \$	(2,391,976)	2,761,293	(1,926,377)	(2,731,455)	(2,155,610)	4,115,827	602,475	3,729,914
4. Net Income (Loss) per Common Share \$	(0.03)	0.03	(0.02)	(0.03)	(0.02)	0.04	0.006	0.04
5. Cash Dividends \$	0	0	0	0	0	0	0	0
6. Cash, Cash Equivalents Short Term Investments & Securities Held for Trade \$	74,059,157	85,612,803	84,545,557	80,130,621	72,745,716	67,429,919	62,262,556	58,986,156
7. Working Capital \$	72,908,362	84,358,611	81,113,980	77,886,337	71,066,148	65,485,575	58,355,051	54,973,918
8. Total Assets \$	129,698,313	146,494,026	150,746,621	150,692,390	150,699,732	154,976,870	159,000,647	162,364,622
9. Long Term Liabilities \$	30,026,549	30,500,858	33,507,969	35,999,427	36,665,780	35,429,840	36,111,085	35,430,223
10. Capital Stock – Number of Shares	91,937,501	94,809,501	95,194,501	95,223,001	95,653,001	96,030,001	96,030,001	96,030,001
11. Capital Stock - \$	112,975,548	125,306,384	126,117,325	126,256,960	127,389,673	128,748,151	129,850,285	129,850,285
12. Shareholders' Equity \$	97,728,204	113,867,408	113,684,414	112,223,564	111,168,002	116,346,883	118,694,212	122,543,048
13. Mineral Resource Expenditures (Cumulative since inception) \$	47,186,040	52,442,155	57,982,008	62,627,315	68,613,118	73,273,234	71,965,109	74,196,540
14. Investment in Joint Venture \$	5,680,272	5,681,292	6,270,221	6,067,542	6,595,045	10,303,303	22,972,335	27,059,155

Three- Month Period Ended September 30, 2008

The consolidated net gain for the three-month period ended September 30, 2008 was \$3,729,914 (\$0.04 per share) compared to a net loss of \$2,731,455 (loss of \$0.03 per share) for the equivalent period in 2007. This gain is due principally to the equity gain in the Pallancata mine joint venture of \$3,819,184 (2007 – loss of \$292,442) and the increased foreign exchange gain of \$1,217,181 due to a weakening Canadian dollar against the US dollar which compares to a significant loss in 2007 of \$1,763,805. There was also a large decrease in stock based compensation expense to \$118,924 as compared to \$1,161,645 for the same period in 2007.

The Pallancata joint venture company, Suyamarca, has not yet distributed cash dividends to the joint venture partners at the Pallancata Mine due to continuing capital investments, but the Company has realized cumulative equity earnings of approximately \$3.7 million up to the period ended September 30, 2008. For the three-month period ended September 30, 2008, the equity earnings were \$313,904 due primarily to lower metal prices in the current period. The amount due to equity partner (Hochschild) in the Joint Venture Company, Suyamarca, totaling \$1,870,533 represents the Company's 40% share of mine expansion above 1,000 tpd and will be eliminated when Suyamarca offsets the payable against the Company's share of retained earnings in the next quarter. Income was primarily limited to interest earned on cash and equivalents and other miscellaneous income received from the management fees from the Ventura management services agreements (see "*Related Parties*" section below for details). This income helped to partially offset decreased total expenses in this period of \$1,623,490 (2007 - \$2,514,366).

Interest earned was lower (\$366,742) for the period when compared to the same period last year (\$1,594,262) as interest rates for US dollar accounts decreased during the year and account balances were reduced due to the use of funds for operations. The Company also earned \$138,216 (2007 - \$80,800) in management fees from the Ventura management services agreements (see "*Related Parties*" section below for details).

Capitalized resource property expenditures for the three-month period ending September 30, 2008 are \$2,231,432 compared to \$4,645,310 for the same period last year, reflecting a much reduced level of exploration and development activity in the current period primarily as a result of the April 18, 2008 Mandate in Ecuador which halted mining activity in the country. A brief discussion of individual project expenditures follows:

Due to the formation of the joint venture company at the **Pallancata** project in Peru, historical property expenditures are no longer included under "Resource Properties" and are now reported under "Investment in Joint Venture". Additionally, with the reclassification of the Pallancata investment, the Company's 40% interest in the current operating gain of the mine is now consolidated and appears as "Equity gain (loss) on joint venture" on the income statement. See Note 6 "*Investment in Joint Venture*" to the accompanying Unaudited Interim Consolidated Financial Statements for additional information.

At the 100% **Rio Blanco** gold project in Ecuador, expenditures for the current three-month period of \$1,055,803 were less than the expenditures for the comparable period last year (\$1,817,528) as a result of the Mandate. The current period's costs were

mainly comprised of \$1,046,066 in field wages, consulting fees and site costs in wrapping up activities following the Mandate (2007 - \$1,352,994).

At the **Gaby** gold project in Ecuador, expenditures for the current three-month period total \$861,304 composed of primarily site costs and concession payments (2007 - \$1,820,514), a significant decrease from the same period last year primarily due to the Mandate.

Total expenditures on the Company's other capitalized resource projects for the current three-month period amounted to \$314,325 (2007-\$1,007,269), primarily for exploration activities in Peru related to the **Urbaque** gold property of \$142,758 (2007-\$271,016). Resource property write-offs for the quarter consisted of additional costs identified in Peru associated with the Aster, Acos and Antabamba projects which were written off in the previous quarter at fiscal year end June 30, 2008. (See also "Overview" page 1.)

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 a major Canadian chartered bank. 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 Unaudited Interim Consolidated Financial Statements at September 30, 2008).

Working capital decreased by \$3,381,133 from \$58,355,051 at year-end June 30, 2008 to \$54,973,918 at September 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.

On October 17, 2008, the Company commenced a share repurchase program to purchase 5.0 million of its common shares, representing 5.21% of the Company's 96,030,001 issued and outstanding shares, as at October 8, 2008.

Shares are being purchased on the open market through the facilities of the TSX and the purchase and payment for the acquired shares are made by the Company in accordance with the requirements of the TSX. The price paid by the Company for any acquired shares is the market price at the time of acquisition. All shares purchased by the Company under the repurchase program will be cancelled. Funding for the repurchase program will be from the Company's working capital.

The Company and Board of Directors have confidence in the Company's future outlook and balance sheet strength. The share repurchase program helps to improve the near-term liquidity in the Company's shares and represents a good investment since a portion of working capital will be used to achieve an attractive risk adjusted return on capital. As of November 12, 2008, a total of 527,900 common shares have been purchased at a cost of C\$1,421,796.

Long-term debt of \$35,430,223 compared to \$36,111,085 at June 30, 2008 relates to the Canadian dollar denominated convertible debentures (issued in May 2006) with the decrease being due to the recent strength of the US dollar relative to the Canadian dollar.

Management has estimated that existing working capital is sufficient to meet basic exploration, any required 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, would 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 the Company's 40% share of replacement capital costs, exploration costs and the expansion of mine production from 1,000 tpd to 2,000 tpd must be funded by the Company if the mine's cash flows are insufficient to pay such costs. 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 will not expend its anticipated exploration budgets for the remainder of calendar year 2008. However, the Company is currently reassessing its personnel needs in Ecuador and 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 expected to be completed in January 2009), 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** (\$1.7 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 quarter ended September 30, 2008, the Company entered into the following transactions with related parties:

- (a) Paid or accrued legal and other fees of \$34,516 rendered by firms in which two directors of the Company are partners or principals (2007-\$42,777). As at September 30, 2008, the amounts payable to these firms totaled \$32,692 (2007-\$14,757).
- (b) Charged salaries of \$40,760; management fees of \$138,216; and administrative and other exploration costs of \$42,182 for a total of \$221,158 (2007 total for all categories is \$128,935) to Ventura Gold Corp. ("Ventura"), a related company with common officers and directors, pursuant to administrative and exploration management services agreements. The total amount due from Ventura at September 30, 2008 was \$156,248 (2007-\$128,935).
- (c) 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 Notes 5 and 7 of Unaudited Interim Consolidated Financial Statements.
- (d) The summary of accounts payable to / from related parties is as follows:

	Period Ended 9/30/08	Period Ended 6/30/08
Amounts payable to related parties for fees	\$ (32,692)	\$ (14,743)
Amounts due from related parties (Ventura)	156,248	139,424
Due (to) from related parties	\$ 123,556	\$ 124,681

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 from 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 ACCOUNTING POLICY

Recent accounting pronouncements

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“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

(i) Assessing going concern (Section 1400)

The AcSB amended Section 1400, to include requirements for management to assess an entity’s ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity’s ability to continue as a going concern. The adoption of the standard did not have an impact on our financial statements.

(ii) Capital disclosures (Section 1535)

This new pronouncement establishes standards for disclosing information about an entity’s capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences. The adoption of the standard did not have an impact on our financial statements. (See Note 12 to the accompanying Unaudited Interim Consolidated Financial Statements)

(iii) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)

These new standards require additional disclosures to enable users to evaluate the significance of financial instruments for an entity’s financial position and performance. In addition, qualitative and quantitative disclosures are provided to enable users to evaluate the nature and extent of risks arising from financial instruments (see “*Financial Instruments Risk Exposure and Management*” section below).

(iv) Determining whether a contract is routinely denominated in a single currency

This new standard considers 1) how the term “routinely denominated” in Section 3855.A34(d) should be interpreted, and 2) what factors can be used to determine whether a contract for the purchase or sale of a non-financial item such as a commodity is routinely denominated in a particular currency in commercial transactions around the world. The adoption of this standard did not have an impact on our financial statements.

Effective January 1, 2009, the Company is required to adopt the following accounting standards update issued by the CICA:

(i) Goodwill and intangibles assets (Section 3064)

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets”. This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, EIC 27, “Revenue and Expenditures in the Pre-operating Period”, will be withdrawn. The Company is currently assessing the impact of this new accounting standard on its consolidated financial statements.

FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(i) Liquidity risk

Liquidity risk is managed by the Company by maintaining sufficient cash balances to meet current working capital requirements. The Company is considered to be in production in Peru but remains dependent on obtaining regular funding in order to continue its other exploration and development programs in Peru and Ecuador in future. Despite previous success in acquiring this funding, there is no guarantee of obtaining future funding. The Company’s cash and cash equivalents are invested in business accounts with quality financial institutions primarily in Canada and are available on demand for the Company’s programs. Long term investments are held as an interest in a joint venture

company operated by an established public mining company in Peru. The Company is not invested in any asset backed commercial paper but does hold \$1.3 million in Auction Rate Securities, which are now being carried as short term investments. An offer has been received from the issuing bank to buy back the securities at face value over a two year period commencing in January 2009.

(ii) Credit risk

The Company's credit risk is primarily attributable to its liquid financial assets and would arise from the non-performance by counterparties of contractual financial obligations. The Company limits its exposure to credit risk on liquid assets by maintaining its cash, cash equivalents and environmental reclamation bond with high-credit quality financial institutions. Receivables are minimal at this time and are not considered a material credit risk. Securities held for trading currently include only two quality junior exploration companies, but the securities remain subject to market fluctuations and changing market values.

(iii) Currency risk

While the Company's funds are held in both US and Canadian dollars, its operations are in the United States, Ecuador and Peru. Foreign exchange or currency risk results from multiple currency transactions and the Company's financial statements which are reported in US dollars. The largest risk involves the Company's convertible debentures and the required biannual interest payments which are transacted in Canadian dollars. The Company does not use derivative instruments to reduce its currency risk. Ecuador is a US dollar based economy and accordingly there is limited currency risk.

(iv) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash, cash equivalents and short term investments. Cash has been invested in short-term investments to maintain liquidity and achieve a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of the decrease in the fair value of any banker's acceptance or term deposit included in cash equivalents as they are held with large high-quality credit financial institutions primarily in Canada.

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 effect whatsoever on the current financial position or results of operations of the Company as at September 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 period ended September 30, 2008, there were no changes in issued share capital:

	<u>Number of Shares</u>	<u>Amount</u>
Balance issued at September 30, 2008	96,030,001	\$ 129,850,285
	-	-
Total	<u>96,030,001</u>	<u>\$ 129,850,285</u>

As at September 30, 2008, stock options to purchase common shares were outstanding as follows:

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	1,165,000
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
		3,166,000

The Company has no share purchase warrants outstanding.

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 flow, which is currently funding mine expansion costs. The joint venture is expected to commence distributing cash dividends to the joint venture partners in calendar second half of 2009.
- 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 timing of approval of 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 between Southwestern and Suyamarca.
- 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 2008 Annual Information Form filed on SEDAR on September 29, 2008, 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 was held on September 28, 2008 and officially approved in mid-October. 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 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 was extended and now expires in early January, 2009.

A new mining law has been drafted by the Ministry of Mines and Petroleum and delivered to the President, which includes a 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 in early 2009 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, but it is expected to be based on 70% of the revenues resulting from a 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.

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 September 30, 2008. Based upon this evaluation, the CFO and the CEO concluded that as of September 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 three-month period ending September 30, 2008:

- a) In October 2008, the Company received payment from Ventura for a total amount of \$149,265 pursuant to the management service agreements between Ventura and the Company.
- b) In October 2008, the Company received the remaining \$1.0 million payment (of a total of \$1.2 million) from Hochschild for the transfer of its 50% interest in the Pacapausa property to Suyamarca. This amount has been credited to the Company's investment in the Suyamarca joint venture account.
- c) On October 17, 2008, the Company commenced a normal course issuer bid or share repurchase program for the purchase of 5.0 million of its common shares ("Shares"), representing 5.21% of the Company's 96,030,001 issued and outstanding Shares, as at October 8, 2008. (See "*Liquidity and Capital Resources*", page 10, for more complete description.)