

INTERNATIONAL MINERALS CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
THREE MONTH PERIOD ENDED SEPTEMBER 30, 2009

The following discussion and analysis has been prepared as of **November 16, 2009**, unless otherwise indicated and should be read in conjunction with the accompanying **Unaudited Interim Consolidated Financial Statements** and related notes as at September 30, 2009. 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 17).

Operating and Financial Highlights for the First Quarter ended September 30, 2009:

During the quarter July 1, 2009 through September 30, 2009, International Minerals Corporation (the "Company") accomplished the following:

- Completed the quarter with approximately **\$42.6 million in cash** and equivalents, aggregate working capital of approximately \$41.1 million and total assets of approximately \$162.4 million.
- Received its **first cash dividend payment of approximately \$1.2 million** on August 13, 2009, from its 40% participating interest in the Pallancata Mine in Peru. An **additional dividend payment of approximately \$6.0 million**, representing the Company's 40% share, has been approved for payment by the joint venture and the Company expects to receive the dividend in late November 2009.
- Realized net income of approximately \$1.23 million (\$0.01 per share) compared to net income of \$3.73 million (\$0.04 per share) for the same period in fiscal year 2008. Net income for the current quarter included a non-cash foreign exchange loss of approximately \$1.6 million, compared to a non-cash \$1.2 million foreign exchange gain for the same period last year.
- Net equity earnings from the 40% owned Pallancata Mine were approximately \$5.0 million.
- Reported **total production (100% project basis) of approximately 2.51 million ounces of silver and 9,622 ounces of gold** from the Pallancata Mine, an increase of 33% when compared to 1.9 million ounces of silver and 7,170 ounces of gold in the prior quarter ended June 30, 2009. Of this total production, the Company's 40% share was approximately 1.0 million ounces of silver and 3,849 ounces of gold. The increase in ounces produced results from the 2009 mine capacity expansion program that has progressively, since 2008, increased daily tonnage throughput from 1,000 tonnes per day ("tpd") to 3,000 tpd.
- Reported direct onsite costs at the Pallancata Mine of \$2.72 per ounce ("oz") silver (after gold by-product credit) and total cash costs (as defined by the Gold Institute) of \$5.30/oz silver (after gold by-product credit). These costs are an improvement of 27% and 15% respectively from the \$3.73/oz direct onsite cost of silver and \$6.20/oz total cash cost of silver reported for the prior quarter ended June 30, 2009.
- The Company was accepted for **inclusion in the SIX Swiss Exchange's (the stock exchange in Zurich, "SIX") prestigious Swiss Performance Index** (the "SPI") on August 24, 2009. The Company is currently the only precious metal mining company listed on the SIX and the first ever gold company to be included in the SPI. In addition, the Company is one of only 11 foreign companies listed on the SPI.
- Announced the signing of a binding letter agreement for the Company to **acquire, in an all-share transaction**, all of the issued and outstanding shares of **Ventura Gold Corp.** ("Ventura") by way of a statutory plan of arrangement. Consideration to be paid to Ventura shareholders comprises approximately 13.7 million shares of the Company. Upon completion of the Ventura transaction the Company will add to its existing assets Ventura's 51% interest in the Inmaculada gold-silver project in Peru (49% Hochschild) which can be increased to a 70% participating interest by the delivery of a feasibility study by mid-2012. See "Acquisitions" section for additional details.
- Subsequent to the end of the quarter, announced that the Company had entered into an arrangement agreement whereby the Company will **acquire, in a cash and share transaction**, all of the issued and outstanding shares of **Metallic Ventures Gold, Inc.** ("Metallic") by way of a statutory plan of arrangement. Consideration to be paid to Metallic shareholders will consist of \$24 million in cash and 8.5 million common shares of the Company. Upon completion of the Metallic acquisition, the Company will add to its existing assets: a 3% net smelter return royalty (approximately \$3-\$4 million per year) from Barrick's Ruby Hill gold mine in Nevada; a 100% interest in the Converse gold project which lies in the Battle Mountain/Cortez mineralized trend of Nevada; and a 100% interest in the Goldfield gold project in central Nevada near the historic gold mining town of Goldfield. See "Acquisitions" section for additional details.

Corporate Overview

The Company is a Yukon Territory registered Canadian corporation with its common shares dually listed and traded on the Toronto Stock Exchange (TSX: IMZ) and the Swiss Stock Exchange in Zurich (SIX: IMZ). The Company's shares are also secondarily 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, Ecuador and US. The Company produces silver and gold from the 40%-owned Pallancata Mine in Peru (60%-owned

and operated by Hochschild Mining). The Company recently began to receive cash dividends from Pallancata operations as all current construction, mine development and capacity expansion capital costs since inception of production have been covered either by Hochschild or from operating cash flows.

It is a significant accomplishment that the Company is receiving cash dividends from the Pallancata Mine and reporting income, distinguishing itself from other exploration and junior producer companies. With the pending closing of the two recently announced acquisitions, the Company will add Ventura's Inmaculada gold project and Metallic's royalty cash flow and the Goldfield and Converse gold projects as new exploration and development projects to the Company's pipeline of projects in mining-friendly Peru and Nevada. The Company already has an attractive pipeline of advanced projects in Ecuador (Rio Blanco and Gaby), that will be advanced pending clarification of the new mining law in Ecuador, permitting, financing and metal prices.

Corporate Objectives and Strategy

The Company intends to deliver value to shareholders by growing its mineral resources and reserves and low-cost production in silver and gold to generate positive cash flow. The Company's goal is to increase production to mid-tier precious metal producer levels (approximately 300,000 gold equivalent ounces per year) by 2014. Over time, the Company intends to further diversify its current asset base (in Ecuador and Peru), thereby mitigating its geopolitical and production 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 Mining and Barrick Gold Corporation); and
- seeking investment opportunities in precious metals properties in the Americas, where the Company believes it can increase the value of such properties using its technical, development, financing and administrative abilities, as well as in-country knowledge and economies of scale.

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) from approximately 4.2 million ounces of silver and 16,165 ounces of gold produced in calendar 2008 to approximately 8 million ounces of silver and 30,000 ounces of gold in calendar 2009, and approximately 10 million ounces of silver and 35,000 ounces of gold in 2010 (production figures are the Company's estimates);
- upon completion of the Metallic acquisition, expected in the quarter ending March 31, 2010, to advance the 100%-owned Goldfield gold project in Nevada to a feasibility study with a view to potentially achieving commercial production over the next 4 to 5 years;
- upon completion of the Metallic acquisition, aggressively conduct exploration drilling at the 100%-owned Converse gold property in Nevada to expand mineral resources;
- upon completion of the Ventura acquisition, advance the Inmaculada project (in which Ventura holds 51% ownership) towards completion of a feasibility study in order to earn a 70% interest in the project;
- develop and operate the 100%-owned Rio Blanco gold-silver project in Ecuador, subject to clarification of the new mining law in Ecuador, obtaining production permits, arranging additional required financing and completing construction;
- advance the Gaby project in Ecuador to positive feasibility study status, subject to gold prices stabilizing above \$1,000 per ounce for an extended period, and pending clarification of the new Ecuadorian mining law;
- Increase the Company's overall 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 other exploration projects currently in the Company's pipeline; and
- seek property and/or corporate 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 ("SIX") in Zurich and received approval for a primary listing on the SIX on March 16, 2009. 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%). Compañía Minera Ares S.A.C. ("Ares"), a subsidiary of Hochschild, is the mine operator. In December 2007, the first silver-gold flotation concentrate was shipped to a custom smelter for processing and sale.

The Company uses the equity method to record its interest in the Pallancata Mine.

Property Updates

Pallancata Mine, Peru

Ore from the Pallancata Mine is toll-processed to produce a silver-gold flotation concentrate at Hochschild's wholly-owned Selene processing plant, located 22 kilometers ("km") north of the Pallancata Mine. Hochschild funded 100% of the initial start-up capital costs for the mine up to the 1,000 tpd production level and these costs were only recoverable from Hochschild's 60% share of profit distribution. Capital costs of the recently completed mine expansion program to increase tonnage from 1,000 tpd to the current 3,000 tpd were funded 60% by Hochschild and 40% by the Company.

The Pallancata Mine expanded ore production in calendar 2009 from 2,000 tpd to 3,000 tpd, thereby increasing the Company's estimated projected production for the mine (100% project basis) to approximately 8.0 million ounces of silver and 30,000 ounces of gold for calendar 2009. The Company's 40% attributable share of this projected production would be approximately 3.2 million silver ounces and 12,000 gold ounces at estimated total cash costs of approximately \$6.50 per ounce of silver produced (net of gold by-product credit) to the Company. This compares to calendar 2008 production of 4.2 million silver ounces and 16,162 gold ounces (1.7 million silver ounces and 6,464 gold ounces attributable to the Company) at total cash costs of \$6.24 per ounce of silver produced (net of gold by-product credit).

The Company's share of the cost of the 2009 capital expansion program, largely for underground development of the Central Zone and a paste back-fill plant, is expected to be approximately \$13 million and funded by mine cash flow. Capital expenditure estimates for calendar 2010 have not yet been received from Hochschild, the mine operator. At the current 3,000 tpd mining rate, Pallancata ore currently accounts for 100% of the capacity at Hochschild's Selene processing plant.

The Company received the first cash dividend from the Pallancata joint venture of approximately \$1.2 million in August 2009. This dividend essentially marked the completion of the aggressive mine expansion capital program and the commencement of significant operating cash flow available for dividend distribution to the joint venture partners. Through August 2009, a significant portion of cash flow generated at the Pallancata Mine had been entirely reinvested to fund the Company's estimated \$13 million share of 2009 capital expansion expenditures. A further dividend of approximately \$6.0 million, representing the Company's 40% share, has been approved by the joint venture for payment and is expected to be received by late November 2009.

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

SEE TABLE ON NEXT PAGE

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

On 100% project basis	Quarter Ended 9/30/2009	Quarter Ended 06/30/09	Quarter Ended 03/31/09	Quarter Ended 12/31/08	Quarter Ended 9/30/08
Ore mined (tonnes)	249,094	208,426	171,413	209,297	154,301
Ore processed (tonnes)	269,128	220,288	155,552	245,468	88,247
Average head grade silver (g/t)	335	306	297	288	337
Average head grade gold (g/t)	1.5	1.4	1.3	1.4	1.6
Concentrate produced (tonnes)	2,160	1,781	1,223	1,968	909
Silver grade in concentrate (kg/t)	36.1	32.9	33.1	31.0	30.8
Gold grade in concentrate (kg/t)	0.14	0.13	0.13	0.12	0.11
Silver produced ² (oz)	2,507,000	1,883,000	1,299,000	1,959,000	899,000
Gold produced ^c (oz)	9,620	7,170	4,939	7,655	3,350
Silver sold (payable oz)	2,351,000	2,054,000	1,137,000	1,841,000	824,000
Gold sold (payable oz)	8,780	7,360	4,080	7,220	3,020
Direct Site Costs per oz silver (after gold by-product credit)^{1,3} (\$/oz)	\$ 2.72	\$ 3.73	\$ 4.16	\$ 4.48	\$ 3.15
Total Cash Costs per oz silver (after gold by-product credit)^{1,4} (\$/oz)	\$ 5.30	\$ 6.20	\$ 6.62	\$ 6.80	\$ 5.77

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

IMZ's 40% Share	Quarter Ended 9/30/2009	Quarter Ended 06/30/09	Quarter Ended 03/31/09	Quarter Ended 12/31/08	Quarter Ended 9/30/08
Silver produced ² (oz)	1,002,900	753,200	519,600	783,600	359,600
Gold produced ^c (oz)	3,849	2,868	1,976	3,062	1,340
Silver sold (oz)	940,400	821,600	454,800	736,400	329,600
Gold sold (oz)	3,512	2,944	1,632	2,888	1,208

Notes to Tables 1 and 2:

1. Direct Site Costs per ounce silver and Total Cash Costs per ounce silver 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 is a combination of the smelter metal payability factors (96% for both silver and gold in the current period) and timing for final smelting of in-process concentrate. Quarterly production is shown rounded to hundreds of ounces of silver.
3. Direct Site Costs per ounce silver comprise direct mining costs, 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, taxes (other than federal income taxes) and the Peruvian government royalty (currently 1% of gross revenue).
5. The head grades for silver and gold are based on the overall metallurgical balance for the process plant.

Non-GAAP Measure Caution

Direct site costs and total cash costs (as defined by the Gold Institute) per ounce of silver produced, net of gold by-product credit, are non-GAAP financial measures, which management believes are useful to measure the operational performance of the Pallancata Mine. Readers should not rely on these non-GAAP financial measures in isolation and are encouraged to refer to the accompanying Unaudited Interim Consolidated Financial Statements.

Mineral Reserves and Resources

On May 14, 2009, the Company reported estimated Proven and Probable Reserves ("Reserves") for the Pallancata Mine (on a 100% project basis) comprised of 4.3 million tonnes at an average grade of 366 grams per tonne ("g/t") silver and 1.5 g/t gold, containing a total of 50.6 million ounces of silver and 209,000 ounces of gold (or approximately 64.5 million ounces of silver equivalent using \$12 per ounce silver and \$800 per ounce gold for a gold:silver ratio of 70:1).

Estimated Measured and Indicated Resources ("M&I Resources"), on a 100% basis, comprise 4.3 million tonnes at an average grade of 415 g/t silver and 1.7 g/t gold, containing a total of 57.5 million ounces of silver and 238,000 ounces of gold. The M&I Resources include the estimated Reserves. An additional 1.2 million tonnes at an average grade of 395 g/t silver and 1.6 g/t gold containing a total of 15.5 million ounces of silver and 62,000 ounces of gold are estimated in Inferred Resources.

The Company has a 40% share of these resources and reserves.

Table 3 below shows updated estimated mineral reserves and resources for the Pallancata Mine (effective date of December 31, 2008) based on information supplied by the mine operator, Hochschild. Resources and Reserves are reported at a cut-off grade of 158 g/t silver equivalent, which reflects a marginal economic cut-off value of \$46 per tonne using metal prices of \$12 per ounce of silver and \$800 per ounce of gold.

Hochschild's data and methodology have been reviewed by Toronto-based independent consultants, Micon International, and its Qualified Person, Geraint Harris, for the reserve estimates and Reno Pressacco for the resource estimates. Both are Qualified Persons as defined by National Instrument 43-101. The Company filed a Technical Report on SEDAR in support of this disclosure on June 26, 2009.

Table 3: Pallancata Mine – Mineral Reserve and Resource Estimates (as of December 31, 2008)

Estimate Category	Tonnes	Average Grade (g/t silver)	Average Grade (g/t gold)	100% Basis Contained Silver Ounces	100% Basis Contained Gold Ounces	IMZ 40% Attributable Silver Ounces	IMZ 40% Attributable Gold Ounces
Proven Reserves	1,965,000	380	1.6	24,011,000	101,000	9,605,000	40,000
Probable Reserves	2,337,000	354	1.4	26,595,000	107,000	10,638,000	43,000
Total Reserves	4,302,000	366	1.5	50,606,000	209,000	20,242,000	83,000

Resource Category	Tonnes	Average Grade (g/t silver)	Average Grade (g/t gold)	100% Basis Contained Silver Ounces	100% Basis Contained Gold Ounces	IMZ 40% Attributable Silver Ounces	IMZ 40% Attributable Gold Ounces
Measured Resources	1,968,000	431	1.8	27,270,000	115,000	10,908,000	46,000
Indicated Resources	2,336,000	402	1.6	30,194,000	122,000	12,077,000	49,000
Total Measured and Indicated Resources	4,304,000	415	1.7	57,464,000	238,000	22,985,000	95,000
Inferred Resources	1,224,000	395	1.6	15,543,000	62,000	6,217,000	25,000

1. Measured and Indicated Resources include Proven and Probable Reserves.
2. Metal prices used are \$12/oz for silver and \$800/oz for gold.
3. The estimated reserves include 12% for ore loss during mining and 13% for dilution assigned using zero grade.
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 major vein units and inverse distance to the power of three for peripheral veins.
7. The mineral reserves were estimated from the Life of Mine plan, which defined sustaining capital requirements and mine operating costs, to demonstrate that these reserves can be economically extracted and processed. Mining losses and dilution were determined based on sub-surface geotechnical conditions, the mining method employed and equipment capabilities for each area of the mine.
8. Contained metal in estimated reserves remains subject to process recovery losses.
9. The resource and reserve estimates reflect the deposit at Pallancata as of December 31, 2008.

The technical information reported was reviewed by the Company's Qualified Person, Technical Manager, Nick Appleyard.

Ecuador

Following the suspension of all exploration and mining activities in April 2008, as a result of the Ecuadorian government's Mining Mandate, the Company maintained the majority of its technical and administrative staff and community workers in Ecuador in order to continue with various Mining Mandate-compliant off-site technical studies and on-site maintenance activities at its Rio Blanco and Gaby projects. Due to continuing delays with the implementation of the Mining Law and related regulations, the Company significantly reduced staff in December 2008.

On January 29, 2009, the new Mining Law was approved by Ecuador's President Rafael Correa. Among the significant aspects of the new Mining Law are:

- A royalty payable to the government of not less than 5% based on sales.
- Titles for mining concessions under the exploitation contract extend for a 25-year period and are renewable for another 25 years. There is no limit to the number of concessions held by a company. However, there is a limit of 5,000 hectares for all concessions in the "exploitation phase".
- Each company must negotiate an exploitation contract prior to commencement of production.
- There is an option to negotiate a service contract in lieu of an exploitation contract whereby the contract will stipulate the compensation method and concessionaire's obligations, but with no requirement for a mining royalty or windfall tax.
- The following taxes: 25% corporate income tax, 15% employee profit sharing tax, 12% value-added tax (non-refundable). Mining is also subject to a windfall revenue tax (details not specified) under the Ecuadorian Tax Law.
- Ecuadorians must make up at least 80% of the workforce. There are exceptions for specialized workers.
- A national mining company will be established with special rights in priority areas, which are not defined to date.
- Transfers of concession titles are allowed, provided the transfer is approved and registered with the government.

The mining regulations to supplement and provide parameters for the new mining law were issued on November 4, 2009, after several months of delay. The Ministry of Mines and Petroleum ("MMP") has up to 120 days to establish procedures to implement the regulations.

A chronology of actual and expected events since the Assembly adopted the Mining Mandate on April 18, 2008, and the approval of the new Mining law on January 29, 2009, is provided below. The 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 – Mining Mandate implemented. All mining and exploration activities suspended for 180 days, pending issuance of a new mining law.

- July 28, 2008 – Proposed new Constitution completed.
- September 28, 2008 – Referendum held to approve the new Constitution.
- October 2008 – Official results of Referendum showed that the new Constitution was approved by a more than 60% majority. The new Constitution (Article 408) requires that the government participate and share in new mining resource projects in an amount not less than that received by the mining companies (i.e. at least 50% of the “benefits” [not defined] of any mining operations).
- October 18, 2008 – Period of Mandate extended to January 5, 2009.
- January 29, 2009 – Ecuador’s President approved the new Mining Law.
- April 26, 2009 – General Elections for President and Congress. President Rafael Correa was re-elected for a four-year term and his political party (Alianza Pais) is the majority party in the Congress.
- May 31, 2009 – Deadline (since passed) to issue new regulations clarifying how mining and exploration activities will operate under the new Mining Law.
- August 10, 2009 – President inaugurated and new government officially took office.
- November 4, 2009 – Mining regulations issued.

Three remaining critical issues which need to be addressed in the implementing of procedures for the new Mining Law include the form of the exploitation contract, the production sales royalty, and the windfall revenue tax:

1. Specific exploitation contracts need to be negotiated and signed by each company at the time that a project moves into the exploitation phase, as defined by the new Mining Law.
2. The sales royalty is not to be less than 5%. The type of production royalty is not known at this time but is expected to be some form of Net Smelter Return (NSR) royalty.
3. The windfall revenue tax, which is not part of the Mining Law, was passed in a new Tax Law in December 2007. It is to be calculated as 70% of any metal price above a negotiated reference price multiplied by the number of metal units (ounces, pounds etc) produced. The reference price is proposed to be determined on the economics of each project on a case-by-case basis. No other details are available at this time.

Rio Blanco, Ecuador

At the Company’s 100%-held Rio Blanco gold-silver project in southern Ecuador, the Company has not yet recommenced exploration activities pending formal approval by the Ecuadorian government.

Subject to confirmation of the status of the Company’s mineral concessions and other issues required to be clarified under the new Mining Law, the targeted production date for the project is uncertain as a result of: a) implementation of the new Mining Law delaying permitting; b) further engineering work being required (due to a modified mine plan and plant and tailings locations); and c) delivery times for critical capital purchases.

Currently at Rio Blanco, the Company has estimated proven and probable reserves for the Alejandra North and San Luis veins 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, as part of a feasibility study completed in 2006.

Rio Blanco Reserve Estimate – January 2006

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	61	3,896,000
Proven and Probable	2,147,448	8.8	605,000	62	4,306,000

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

The mineral reserves were estimated effective January 2006, 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 consulting work undertaken by AraWorleyParsons/Mas Errazuriz, Metalica Consultores, and the Company was supervised by Qualified Person, former Operations Manager, Gordon Grams, P. Eng.

Gaby, Ecuador

At the Company's approximately 60%-held Gaby gold project in Ecuador, the Company has not yet recommenced exploration activities pending formal approval by the Ecuadorian government. The Gaby gold project is located in southwestern Ecuador, approximately 350 km southwest of Quito and 130 km south of Guayaquil.

Mineralization at Gaby represents a large disseminated gold porphyry system, which could be mined by open pit methods and is substantially different from the Pallancata and Rio Blanco epithermal vein deposits, which are underground mining scenarios.

While the Company holds property rights and interests ranging from 55% to 100% in the Gaby project area, the Company controls approximately 60% of the total currently-known gold resources. The property comprises 10 mineral concessions totalling 3,408 hectares (approximately 34 sq.km).

In addition, the Company owns 476 hectares of surface lands, which cover the area of the Gaby field office together with the majority of the surface area of the mineral resources on the Gaby property.

Mineral Resources:

As at July 2009, combined measured and indicated resources (on a 100% project basis) were estimated by FSS Canada, an independent consulting firm, at approximately 356 million tonnes at an average grade of 0.61 g/t gold, containing 6.9 million ounces of gold, as part of a pre-feasibility study ("PFS"). Approximately 4.11 million ounces (59%) of gold are 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 143 million tonnes at an average grade of 0.62 g/t gold containing an additional 2.9 million ounces of gold, of which approximately 1.76 million ounces (62%) of gold are currently attributable to the Company, based on the Company's ownership interests in the mineral concessions comprising 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 preliminary feasibility study (see information below) 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 as of January 2009 – showing July 2009 updated attributable ounces)

Resource Estimate Category	Cut-Off (g/t gold)	Tonnes (Mt)	Gold Grade (g/t)	Contained Gold Ounces (100% Project)	IMZ Attributable Gold Ounces
Measured	0.3	122.8	0.57	2,250,000	1,350,000
	0.4	91.6	0.64	1,900,000	1,140,000
	0.5	61.1	0.74	1,460,000	870,000
Indicated	0.3	419.3	0.50	6,770,000	4,030,000
	0.4	264.8	0.59	5,040,000	2,960,000
	0.5	157.6	0.69	3,500,000	2,040,000
Measured and Indicated	0.3	542.1	0.52	9,020,000	5,390,000
	0.4	356.4	0.61	6,940,000	4,110,000
	0.5	218.7	0.71	4,960,000	2,910,000
Inferred	0.3	245.2	0.51	3,980,000	2,470,000
	0.4	143.2	0.62	2,850,000	1,760,000
	0.5	86.1	0.73	2,030,000	1,250,000

Notes:

- Numbers are rounded to reflect the precision of a resource estimate.
- The estimated mineral resources are not mineral reserves and do not have demonstrated economic viability.
- To limit the influence of individual high-grade gold samples, grade cutting was used. Gold assay grades were capped at 30 g/t.
- Average dry bulk densities of 2.77 tonnes per cubic meter ("t/m³") for intrusive rocks, 2.97 t/m³ for volcanic rocks and 1.36 t/m³ for the saprolite (oxidized zone) were applied to block volumes.
- The grades were interpolated using the "Probability Assisted Constrained Kriging" estimation technique within the sulfide geologic domain and ordinary kriging within the saprolite.
- The contained metal estimates remain subject to factors such as mining dilution and process recovery losses.
- Previously released resource estimates have included grades for copper. Copper recovery has been eliminated from the process flowsheet as the contained copper values at consensus long-term copper prices of approximately \$1.50 per pound do not meet the requirement of a "reasonable prospect for economic extraction" under NI 43-101 and therefore are no longer included in the Company's resource inventory for the Gaby project.
- These mineral resources were classified in accordance with CIM guidelines by FSS Canada's Qualified Person, R. Mohan Srivastava (P. Geo).

The PFS and the addendum were compiled by the Company's technical staff, with significant contributions from several independent mining, engineering and environmental consulting companies. The Company's Qualified Person is Technical Manager, Nick Appleyard.

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 17.

ACQUISITIONS

Ventura Gold Corp.

On September 23, 2009, the Company announced the signing of a binding letter agreement to acquire, in an all-share transaction, all of the issued and outstanding shares of Ventura by way of a statutory plan of arrangement. Upon completion of the Ventura transaction, the Company will add to its existing assets Ventura's 51% interest in the Inmaculada gold-silver project in Peru (49% Hochschild) and its right to increase this interest to 70% by completing a feasibility study.

Details of the Transaction:

- Under the transaction, Ventura shareholders will receive one common share of the Company for every 10 Ventura common shares held, or 0.1 share of the Company for every one Ventura share held.
- The Company will issue approximately 13.7 million of its common shares to Ventura shareholders pursuant to the transaction, representing approximately 12% of the Company's total issued and outstanding shares after the closing of the Ventura and Metallic acquisitions. The Company's fully diluted share capital will increase by approximately 1.3 million shares, based on the Company assuming the Ventura convertible securities.
- Ventura will receive a non interest-bearing loan of up to \$2.0 million from the Company (\$500,000 advanced subsequent to period end) to enable Ventura to continue its ongoing drill program at Inmaculada. The loan will, however, accrue interest at a rate of 10% per annum and the loan and interest will be immediately repayable should Ventura accept a superior proposal.
- A break fee of \$500,000 is payable by Ventura to the Company in the event that a superior unsolicited offer is accepted by Ventura and is payable by the Company to Ventura in the event that the Company determines not to proceed with the transaction.
- The transaction is subject to, among other things, receipt of regulatory, court and shareholder approval, completion of legal due diligence and completion of definitive documentation. The Ventura shareholder meeting to consider the transaction is expected to be held on or about December 17, 2009, with the transaction anticipated to close shortly thereafter.

Ventura's Main Asset: Inmaculada Project

The Inmaculada property hosts multiple, classic, low-sulfidation epithermal vein systems, located 25 km southwest of the Pallancata silver-gold mine. Since optioning the property from Hochschild in 2007, Ventura's drilling to date has focused primarily on the Angela Vein, one of the more than 11 known significant vein systems identified so far on the 14,672-hectare Inmaculada property. These veins are relatively under-explored and are exposed on surface for more than 25 km in aggregate strike length.

In January 2009, Ventura defined an initial mineral resource estimate for the Angela Vein based on approximately 15,000 meters ("m") of core drilling that is detailed in an independent National Instrument 43-101 compliant technical report available under Ventura's name at www.sedar.com. The estimated inferred resources comprise 483,000 ounces of gold and 16.6 million ounces of silver, contained in 3.7 million tonnes at 4.0 grams per tonne ("g/t") gold and 139 g/t silver (on a 100% basis) at a cut-off grade of 3.0 g/t gold equivalent. These resources represent 690,000 gold equivalent ounces using a gold-silver ratio of 80:1 and metal prices per ounce of \$750 for gold and \$12.00 for silver and the then estimated metallurgical recoveries of 90% for gold and 70% for silver. Metallurgical testwork is underway to verify these recovery rates.

In August 2009, Ventura announced initial results from a follow-up 7,000 m core drilling program on the Angela Vein, including one of the best drill intercepts to date with an estimated true width of 11.0m at an average grade of 4.1 g/t gold and 324 g/t silver (including 4.5 m grading 6.7 g/t gold and 554 g/t silver). The new drill results have extended the strike length of the Angela Vein to more than 1,100 m and to a depth of approximately 450 m below surface. The deposit remains open at depth and along strike to the northeast. An updated mineral resource estimate is expected in early 2010.

The Inmaculada project is a joint venture with Compañía Minera Ares S.A.C., a wholly-owned subsidiary of Hochschild. Ventura is the project operator and has already earned a 51% interest and can acquire a 70% interest by completing a feasibility study at its sole cost by September 2013 and by issuing 2.0 million Ventura common shares to Hochschild over a five year period.

The technical information above was reviewed by the respective qualified persons of the Company and Ventura: Nick Appleyard, Technical Manager and Mark Cannuli, Exploration Manager.

Metallic Ventures Gold, Inc.

Subsequent to the end of the quarter on November 2, 2009, the Company announced that it had entered into an arrangement agreement whereby the Company will acquire, in a cash and share transaction, all of the issued and outstanding shares of Metallic by way of a statutory plan of arrangement.

Details of the Transaction

- Consideration to be paid to Metallic shareholders will consist of \$24 million in cash and 8.5 million common shares of the Company.
- Assuming no exercise of Metallic stock options, each common share of Metallic will be exchanged for (i) a cash payment in the amount of \$0.4615 and (ii) 0.1635 of a common share of the Company. Stock options held by Metallic option holders (an aggregate of 545,000 common shares) will be exchanged for stock options of the Company on similar terms.
- Post-transaction and completion of the Company's pending acquisition of Ventura (see below), the shareholders of Metallic are expected to hold approximately 7.4% of the issued and outstanding share capital of the Company.
- A break fee of \$2.5 million is payable by Metallic to the Company in the event that a superior unsolicited offer is accepted by Metallic or is payable by the Company to Metallic in the event that the Company determines not to proceed with the transaction.
- The transaction is subject to, among other things, receipt of regulatory, court and Metallic shareholder approvals. The arrangement agreement provides for the closing of the transaction by February 28, 2010.
- The arrangement agreement is accompanied by support agreements with two shareholders and directors of Metallic representing approximately 66% of the issued and outstanding common shares of Metallic agreeing to vote in support of the transaction.

Metallic's Assets

- A 3% Net Smelter Return (NSR) royalty from Barrick Gold's Ruby Hill gold mine in Nevada, which produced 98,000 ounces of gold in 2008. At December 31, 2008, the mine had published proven and probable gold reserves of 831,000 ounces and additional measured and indicated gold resources of 480,000 ounces. Metallic has been receiving approximately \$3-\$4 million per year in royalty payments.
- Two advanced gold exploration projects in Nevada with significant measured and indicated resources:
 - (1) The Goldfield gold project, located in the historic Goldfield mining district, which, according to the Nevada Bureau of Mines, has historical district production of approximately 4.2 million ounces of gold from 1903 to 1960. Goldfield has estimated measured and indicated resources of approximately 28.3 million tonnes at an average grade of 1.2 g/t gold containing approximately 1.1 million ounces of gold.
 - (2) The Converse gold-silver project, which lies in the prolific Battle Mountain/Cortez mineralized trend, with estimated measured and indicated resources of approximately 214 million tonnes at an average grade of 0.52 g/t gold and 2.6 g/t silver containing approximately 3.6 million ounces of gold and 18 million ounces of silver.

Upon completion of the Metallic acquisition, the Company intends to immediately advance the Goldfield project into the feasibility study stage with a goal of potential production within the next four to five years. The Company also intends to aggressively commence drilling at the Converse project to expand resources.

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, 2009, that the management of the Company considers 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, 2009.

	31-Dec-07	31-Mar-08	30-Jun-08	30-Sep-08	31-Dec-08	31-Mar-09	30-Jun-09	30-Sep-09
1. Pallancata JV Company Gains & Earnings \$	(500,000)	3,659,400	7,602,895	3,819,184	1,048,401	3,274,000	3,390,399	4,983,164
2. Cash Dividends Received \$	-	-	-	-	-	-	-	1,228,250
3. Total Income \$	(378,142)	5,868,432	2,640,508	5,353,403	6,329,136	4,000,751	1,050,223	3,460,556
4. Net Income (Loss) \$	(2,155,610)	4,115,827	602,475	3,729,914	4,829,610	1,996,343	(1,884,881)	1,229,314
5. Net Income (Loss) per Common Share - Basic \$	(0.02)	0.04	0.006	0.04	0.05	0.02	(0.02)	0.01
6. Cash, Cash Equivalents, Short Term Investments & Securities Held-for-Trading \$	72,745,716	67,429,919	62,262,556	58,986,156	51,579,029	47,144,564	43,911,811	42,841,719
7. Working Capital \$	71,066,148	65,485,575	58,355,051	54,973,918	49,938,221	45,078,311	41,922,062	41,109,731
8. Total Assets \$	150,699,732	154,976,870	158,012,177	162,364,622	155,752,305	156,624,236	157,984,317	162,356,956
9. Long Term Liabilities \$	36,665,780	35,429,840	35,122,555	35,430,223	30,307,106	29,879,446	31,756,199	34,222,351
10. Capital Stock – Number of Shares	95,653,001	96,030,001	96,030,001	96,030,001	96,030,001	93,768,801	92,982,001	92,982,001
11. Capital Stock - \$	127,389,673	128,748,151	129,850,285	129,850,285	125,862,302	124,105,317	125,678,141	125,678,141
12. Shareholders' Equity \$	111,168,002	116,346,883	118,694,212	122,543,048	123,441,310	124,184,072	123,418,137	125,440,802
13. Mineral Resource Expenditures (Cumulative since inception) \$	68,613,118	73,273,234	71,965,109	74,196,540	76,788,966	79,078,685	80,097,809	81,530,984
14. Investment in Joint Venture \$	6,595,045	10,303,303	22,972,335	27,059,155	25,404,940	28,439,973	32,396,735	36,317,126

Three-Month Period Ended September 30, 2009

The consolidated net income for the three-month period ended September 30, 2009, was \$1,229,314 (\$0.01 basic and diluted per share) compared to a net income of \$3,729,913 (\$0.04 basic and diluted per share) for the equivalent period in 2008.

The reduction in income between the comparative periods resulted primarily from the impact of changes in foreign exchange rates. In the same period last year, the US dollar was stronger versus the Canadian dollar and a \$1.2 million foreign exchange gain occurred. This period the US dollar weakened and a \$1.6 million foreign exchange loss was recorded. This change in relative foreign exchange rates between comparative periods resulted in a differential of \$2.8 million in net income.

The current period net income is due principally to the net equity gain in the Pallancata Mine joint venture of \$4,983,164 (2008 - a gain of \$3,819,184) offset by \$3,753,850 in expenses and other items, comprised primarily of the following: a) a foreign exchange loss of \$1,616,606 (2008 - a gain of \$1,217,181); b) increased stock-based compensation expense of \$793,351 (2008 - \$118,923); and c) a drop in interest income to \$111,877 (2008- \$366,742). The foreign exchange loss relates to the current weakness of the US dollar. Stock-based compensation expense for the current period related to options granted in February 2009. Continued lower interest rates which reflect the current economic environment and lower bank balances produced the decrease in interest income.

The Company realized equity income from the Pallancata joint venture for the period of \$5,246,800 (2008 – \$313,904). Equity income was greater in the current period as the mine was operating at higher production rates than in the comparative period of 2008. Offsets to the equity income included expenses for joint venture monitoring costs of \$164,348 which had been capitalized in previous years and amortization of \$99,288 for similar non-reimbursable costs previously capitalized.

The Pallancata Mine joint venture company, Suyamarca, distributed its first cash dividend of \$1,228,250 during the period to the Company reflecting its 40% interest. An additional dividend payment of approximately \$6.0 million, representing the Company's 40% share of an approximate \$15 million dividend payment to the joint venture partners, has been approved for payment by the joint venture committee and the Company expects to receive the dividend in late November 2009.

Other income was limited to interest earned on cash and equivalents, and management fees from the Ventura management services agreements (see "Related Parties" section for details). The Company earned \$120,368 (2008 - \$138,216) in management fees from the Ventura management services agreements in the quarter.

Capitalized resource property expenditures for the three-month period ending September 30, 2009, were \$1,433,176 (net of write-offs) compared to \$2,231,431 for the same period last year, reflecting a much reduced level of exploration and development activity in the current quarter primarily as a result of the April 2008 Mining Mandate which suspended exploration and mining activities. Approximately \$1.7 million has been spent to date on employee severance costs due to the reduction in the workforce in Ecuador leaving a remaining accrual of approximately \$900,000 for future severance related costs as a result of the employee layoffs at Rio Blanco and continuing uncertainties associated with mining activities in Ecuador. A brief discussion of individual project expenditures follows:

At the 100% **Rio Blanco** project in Ecuador, expenditures for the current three-month period of \$675,819 were less than the expenditures for the comparable period last year (\$1,055,802) as a result of a significant reduction in most activities and adjustment of previously accrued severance costs. The current period's costs include approximately \$500,000 (2008 - \$Nil) in employee severance costs (as discussed above), and the balance of approximately \$176,000 for sustaining field wages and camp costs.

At the **Gaby** project in Ecuador, expenditures for the current three-month period total \$335,555 (2008 - \$861,304) primarily for sustaining site costs, a significant decrease from the same period last year due to the suspension of exploration activities as a result of the 2008 Ecuadorian Mining Mandate.

Total expenditures on the Company's other capitalized resource projects for the current three-month period amounted to \$421,803 (2008 - \$314,325) primarily for general exploration activities on the **Reese River** project in Nevada of \$210,000 (2008 - \$Nil) and the Tambo project in Peru of \$100,947 (2008 - \$Nil). Resource property write-offs for the quarter were \$237,856 (2008 - \$111,180) and consisted of additional costs associated with the Rubi project (\$234,367) in Peru and the Cañicapa project (\$3,489) in Ecuador, which projects the Company resolved to relinquish at fiscal year end June 30, 2009.

The Company's cash and cash equivalents position during the current three-month period decreased by \$1,169,701 to \$42,606,294 compared to a decrease in the same period last year of \$3,199,360. The smaller cash reduction during the quarter resulted primarily from lower resource property expenditures for the quarter and the cash dividend received from the Pallancata Joint Venture Mine.

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 North and South America, the most meaningful and material financial information concerning the Company relates to its current liquidity and capital resources.

The Company finished the September 30, 2009 quarter with \$42.6 million in cash. The Company invests its funds in high-quality, short-term, mainly US dollar denominated, financial instruments with major Canadian chartered banks. The Company has no investments in, and no risk exposure, to asset-backed commercial paper.

On August 13, 2009, the Company received its first cash dividend payment of approximately \$1.2 million from its 40% interest in the Pallancata Mine. An additional dividend payment of approximately \$6.0 million, representing the Company's 40% share of an approximate \$15 million dividend payment to joint venture partners, has been approved for payment by the joint venture committee and the Company expects to receive the dividend in late November 2009, to bring the total cash dividends received in 2009 to approximately \$7.2 million. The Company does not expect to receive any other dividends in calendar year 2009.

Working capital decreased by \$882,331 from \$41,922,062 at year-end June 30, 2009, to \$41,109,731 at September 30, 2009, primarily as a result of: a) expenditures related to the continuing sustaining activities at the Company's Rio Blanco and Gaby projects; b) lower interest income with the decline in interest rates; and c) severance payments totaling approximately \$500,000 made in July and August 2009 to terminated employees in Ecuador. These factors were offset by the Pallancata Joint Venture Mine dividend received.

On October 17, 2008, the Company commenced a TSX-approved share repurchase program to purchase 5.0 million of its common shares, representing 5.2% of the Company's 96,030,001 issued and outstanding shares as at October 8, 2008. As of September 30, 2009, a total of 3,198,000 common shares had been purchased at a cost of \$6,209,144 (Cdn\$7,626,438). Subsequent to the end of the quarter, on October 16, 2009, a total of 199,700 common shares were repurchased at Cdn\$4.22 per share for a cost of \$811,726 (Cdn\$842,734). A total of 3,397,700 common shares were purchased under the share repurchase program for a total cost of \$7,020,870 (Cdn\$8,469,172). With the exception of the 199,700 shares purchased on October 16, 2009, all repurchased shares have been cancelled. The remaining repurchased shares will be cancelled by November 30, 2009. The share repurchase program ended on October 16, 2009.

The long-term debt of \$34,222,351 compared to \$31,756,199 at June 30, 2009, relates to the Canadian dollar denominated convertible debentures (issued in May 2006). The increase in the debt is a direct result of the foreign exchange differential caused by the strengthening of the Canadian dollar relative to the US dollar during the current three month period.

Management has estimated that existing working capital, together with the Pallancata Joint Venture dividend to be received in November, 2009, is sufficient to meet exploration plans, property carrying costs, any required Pallancata joint venture participation costs, current acquisitions costs and corporate administrative requirements through at least the current fiscal year.

Upon completion of the acquisition of Ventura, the Company intends to move aggressively on exploration and in-fill development drilling to support completion of a feasibility study at the Inmaculada project by mid-2012. Delivering the feasibility study before September 2013 will complete Ventura's earn-in of an additional 19% participating interest in the project to an aggregate 70% participating interest. The Company estimates the feasibility study will cost less than \$7.0 million, including the cost of drilling, assaying, metallurgical testing, conceptual engineering and external consultants.

Upon completion of the acquisition of Metallic, the Company intends to immediately advance the Goldfield project into the feasibility study stage with a goal of potential production within the next four to five years. The Company estimates the feasibility study costs at Goldfield, including drilling and independent technical analysis, to total approximately \$14 million through the end of calendar 2012. The Company also intends to carry out further drilling at Metallic's Converse project at an estimated cost of \$4 million in 2010 and 2011. The Company does not expect to require additional financing to complete its planned feasibility and exploration programs at Inmaculada, Goldfield and Converse projects through calendar 2010 - 2011 based on the Company's current working capital, acquired cash reserves and anticipated Pallancata cash dividends and royalty payments from the Ruby Hill mine.

If a final decision is reached to commence production at the Inmaculada project and the Goldfield project, the Company will need additional financing for construction and development. This financing 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 required financing for Inmaculada and Goldfield construction and development will be based on: (a) detailed engineering and capital cost estimates; (b) cash dividends from the Pallancata Mine; (c) cash generated from the acquired royalty on Barrick's Ruby Hill Mine gold production; and (d) the cash reserves and foreseeable other cash demands of the Company, in analyzing the optimum capital structure for the projects and for the Company.

As a consequence of the suspension of exploration drilling and fieldwork at the Rio Blanco and Gaby projects due to the Mining Mandate and subsequent new mining law in Ecuador, the Company did not expend its anticipated exploration budgets for fiscal 2009. Together with other Canadian mining companies, the Company plans to continue to monitor developments and work cooperatively with the Ecuador government to implement the new mining law for responsible mining. Sustaining costs for the Ecuador projects in fiscal 2010 and 2011 are expected to be less than those costs incurred in fiscal year 2009. As conditions improve, the Company will seek to complete final permitting for development of the underground mine at the Rio Blanco project with such costs funded with existing cash reserves. Additional financing would be required for construction of the Rio Blanco project. The Company is also considering other strategic alternatives for the Ecuador properties in order to advance these projects toward production.

The Company's current cash and equivalents are expected to be sufficient to fund all future property option payments at **Gaby** (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 or its other resource properties. Upon completion of the Ventura and Metallic acquisitions, the Company's cash and equivalents are anticipated to be sufficient to fund all future property payments for the Inmaculada, Goldfield and Converse projects acquired as well as those for Gaby and Rio Blanco.

In addition, should significant new project opportunities be realized, capital requirements may exceed working capital then 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 to it at that time.

RELATED PARTY TRANSACTIONS

During the quarter ended September 30, 2009, the Company entered into the following transactions with related parties:

- a) Paid or accrued legal and other services of \$64,689 (2008 - \$34,516) provided by firms in which two directors of the Company are partners or principals. As at September 30, 2009, the accounts payable to these firms totalled \$ 40,557 (2008 - \$32,692).
- b) Charged salaries of \$48,021 (2008 -\$40,760) and management fees of \$121,356 (2008 - \$138,216 to Ventura pursuant to service agreements whereby the Company provides administrative and exploration program management services to Ventura. This public company has officers and directors in common with the Company. In addition, the Company has paid certain costs on behalf of Ventura, totalling \$11,032 (2008 - \$42,182). The amount due from Ventura at September 30, 2009, was \$586,103 (2008 - \$156,248).
- c) Held 504,923 (2008 – 504,923) common shares of Ventura and 90,000 (2008 - 50,000) common shares of Santa Barbara Resources Limited as described in Notes 4 and 6 to the accompanying Unaudited Interim Consolidated Financial Statements.
- d) Advanced total for property expenditures for the Reese River project in Nevada was \$210,000 (2008 - \$Nil) to New Dimension Resources which has a director in common with the Company.
- e) Made a loan of \$75,000 was made to an officer of the Company on May 29, 2009. Annual interest payments based on a 3% rate are paid monthly. Repayment in full is due no later than May 29, 2012.
- f) The summary of amounts payable (to) due from related parties is as follows:

	Period Ended 9/30/2009	Period Ended 6/30/2009
Short Term		
Accounts payable to related parties for fees	\$ (40,557)	\$ (18,087)
Amounts due from related parties (Ventura)	<u>586,103</u>	<u>395,415</u>
	545,546	377,328
Long Term		
Amount due from related party	<u>75,000</u>	<u>75,000</u>
Due from related parties	<u>\$ 630,546</u>	<u>\$ 452,328</u>

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.

CRITICAL ACCOUNTING POLICIES

The accompanying Unaudited Interim 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.

CAPITAL RISK MANAGEMENT

The objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders, benefits to other stakeholders and to have sufficient funds on hand to meet the Company's exploration and development plans to ensure the on-going growth of the business .

The Company considers as capital its shareholders equity, convertible debentures and cash and equivalents. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust capital structure, the Company may issue new shares through private placements, repurchase shares, sell assets, incur debt, or return capital to shareholders. As of September 30, 2009, the Company has debt in the form of convertible debentures (see Note 10 to the accompanying Unaudited Interim Consolidated Financial Statements), but is not subject to externally imposed capital requirements. The Company currently has sufficient capital resources to meet its planned operational and administrative overhead expenses for the next fiscal year. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. Due to the cyclical nature of the industry, there is no guarantee that when the Company needs to raise capital, there will be funds at that time.

Recent market events and the deterioration of general economic indicators have led to a loss of confidence in global credit and financial markets, restricted access to capital and credit, and increased counterparty risk. Access to financing has been negatively impacted by many factors as a result of the global financial crisis.

CHANGES IN ACCOUNTNG 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 changeover date affects interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 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.

A changeover plan is being established to convert to the new standards within the allotted timeline and is expected to consist of the following three key phases, which have not yet been initiated by the Company: a) Phase 1 – Raise awareness and assess; b) Phase 2 – Design; and c) Phase 3 – Implementation.

There will be two stages in phase one. The first stage will focus on raising awareness within the Company and provide an initial assessment of the impact of the IFRS conversion. The second stage will carry out a detailed assessment of the impact of the conversion to IFRS.

Phase two will build the tools required for the conversion based on management's decisions about accounting options and the related disclosures.

Phase three will roll-out the designed changes. The changes will include the development of the new accounting policies and consolidation templates, preparing the IFRS financial statements and related note disclosure.

Business combinations, non-controlling interest and consolidated financial statements

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Both sections are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

Changes in accounting policy

Effective July 1, 2009, the Company adopted the following accounting standards update issued by the CICA:

(i) Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and other intangible assets", and Section 3450, "Research and development costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

(ii) Credit risk and the fair value of financial assets and liabilities – EIC-173

The AcSB issued EIC-173 which requires the corporation to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The Company does not expect that the adoption of this standard will have a material impact on its 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.

Liquidity risk

Liquidity risk is managed by the Company by maintaining sufficient cash balances to meet current working capital requirements. The Company is in production in Peru but may require additional funding in order to continue other exploration and development programs in the 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 the U.S. and are available on demand for the Company's programs. Long term investments are held as an interest in a joint venture company in Peru managed by an established public mining company. The Company is not invested in any asset-backed commercial paper.

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 junior exploration companies, but the securities remain subject to market fluctuations and changing market values.

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 exposure to multiple currencies 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 bi-annual 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.

Sensitivity Analysis

The Company is exposed to foreign currency risk on fluctuations related to cash, securities held-for-trading, long term investments, convertible debentures and accounts payable and accrued liabilities that are denominated in Canadian dollars. As at September 30, 2009, net liabilities totalling \$22,853,803 were held in Canadian dollars.

Based on the above net exposure as at September 30, 2009, and assuming all other variables remain constant, a 15% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase/decrease of approximately \$4,181,710 in the Company's net income.

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 notes, GIC's, money market funds or term deposit included in cash equivalents as they are held with large high-quality credit financial institutions, primarily in Canada, and the USA.

Risk management

The Company's largest non-monetary assets are its minerals exploration interests in Ecuador and Peru. The Company could accordingly be at risk to foreign currency fluctuations and developing legal and political environments in Peru. The Company does not generally maintain significant monetary assets or liabilities in Ecuador and Peru.

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 question were discontinued in September 2007. This legal action by the Company against UBS has no effect on the current financial position or results of operations of the Company as at September 30, 2009. Commercial arbitration procedures are pending to resolve this dispute. The Company seeks in the complaint an amount of not less than Cdn\$4.1 million (\$3.8 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 September 30, 2009, changes in issued share capital were as follows:

	Number of Shares	Amount
Balance issued as at September 30, 2009	92,982,001	\$ 125,678,141
Options exercised	<u>10,000</u>	<u>34,620</u>
Total	92,992,001	\$ 125,712,761

A total of 199,700 shares were repurchased after the quarter ended September 30, 2009, under the share repurchase program and will be cancelled by November 30, 2009. The share repurchase program ended October 16, 2009.

As at September 30, 2009, stock options to purchase common shares were outstanding as follows:

Expiry date	Exercise Price (\$Cdn)	Number of Options
August 14, 2011	1.00	275,000
May 22, 2013	1.80	50,000
February 11, 2014	4.58	250,000
February 1, 2015	4.00	342,000
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	1,070,000
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
February 23, 2019	3.73	<u>1,002,500</u>
		3,884,500

The Company has no share purchase warrants outstanding.

OUTLOOK

During the balance of calendar year 2009 and fiscal year 2010, the Company's exploration and development efforts are expected to focus primarily on:

- Continuing **production at the 3,000 tpd mining rate**, which was achieved ahead of schedule in June 2009, at the Pallancata silver-gold mine in Peru, working with our 60% joint venture partner, Hochschild. Pallancata is expected to continue to produce significant operating cash flow from operations. The Company received approximately \$1.2 million as an initial cash dividend from the Pallancata joint venture in August 2009. An additional dividend payment of approximately \$6.0 million, representing the Company's 40% share, has been approved for payment by the joint venture and is expected to be received in late November, 2009.
- **Producing approximately 8 million ounces of silver and 30,000 ounces of gold from Pallancata for calendar 2009** (the Company's estimate on a 100% basis).
- **Producing approximately 10 million ounces of silver and 35,000 ounces of gold in calendar 2010 from Pallancata** (the Company's estimate on a 100% project basis). The Company expects to receive additional cash dividends from Pallancata in 2010, commencing in February or March, in an amount to be determined based on the year-end cash flow position of the joint venture.
- **Increasing mineral resources and reserves to extend the existing mine life at Pallancata** (approximately 4 years based on current reserves).
- **Completing the acquisition of Ventura** in January 2010 (see "Acquisitions" section) and aggressively drilling at the 51%-owned (49% Hochschild) Inmaculada project in Peru towards completion of a feasibility study by mid-2012 to earn a 70% interest in the project.
- **Completing the acquisition of Metallic** in the calendar first quarter of 2010 (see "Acquisitions" section). Quarterly royalty payments (of approximately \$1.0 million at current metal prices) are anticipated to be received from Barrick's Ruby Hill Mine in Nevada following closing of the acquisition.

Upon completion of the Metallic acquisition: a) immediately advancing the Goldfield gold project into the feasibility study stage with a goal of potential production within the next four to five years; and b) immediately commencing further drilling on the Converse gold-silver project.

- Continuing to monitor and cooperate with political developments in Ecuador in order to protect the Company's long-term interests in the 100%-owned Rio Blanco gold-silver project and the Gaby gold project (approximately 60% interest in estimated contained resource ounces). With the passing of the mining regulations by the government on November 4, 2009, and subject to clarification of certain provisions of the new Mining Law, the Company intends to look to obtaining environmental permits, production permits and consider construction financing and other activities required to advance the projects towards commercial production either on a stand-alone basis or with strategic partners.
- Continuing to seek additional strategic joint venture alliances, such as that with Hochschild at Pallancata and Pacapausa, in order to advance projects with reduced further cash outlays by the Company.

RISK FACTORS

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

The Company's planned acquisitions of Ventura and Metallic Ventures have not been completed and remain subject to satisfaction of a number of conditions and other risks that could prevent the transaction or increase the Company's acquisition costs.

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 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, landslides 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.

Recent market events and the deterioration of general economic indicators have led to a loss of confidence in global credit and financial markets, restricted access to capital and credit, and increased counterparty risk. Access to financing has been negatively impacted by many factors as a result of the global financial crisis. This may impact the Company's ability to obtain equity or debt financing in the future on favorable terms.

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 and silver, 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. Equity financings, however, are completed by the Company 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 2009 Annual Information Form as 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, which was approved in October 2008. Presidential and general elections were held on April 26, 2009, and President Correa was re-elected to a second term ending in 2013 and his political party (Alianza Pais) achieved a slight majority in the new Assembly.

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 for the benefit of the Ecuadorian people. A new Mining Law was approved on January 29, 2009, by the President and includes a minimum 5% production royalty, work requirements to hold concessions and strict environmental controls; however, regulations to implement the new Mining Law were delayed for several months and only recently enacted.

In addition, and unrelated to the new Mining Law, a windfall revenue tax will 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 negotiated 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, 2009. Based upon this evaluation, the CFO and the CEO concluded that as of September 30, 2009, 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 period ended September 30, 2009:

- a) On October 16, 2009, the Company repurchased 199,700 common shares at an average cost of Cdn\$4.22 for a total value of \$811,726 (Cdn\$842,734) under the share repurchase program. The TSX-approved share repurchase program expired October 16, 2009.
- b) On October 30, 2009, the Company issued 10,000 common shares pursuant to the exercise of stock options for gross proceeds of \$34,620 (Cdn\$37,300).
- c) On November 2, 2009, the Company announced it had entered into an arrangement agreement whereby the Company will acquire, in a cash and share transaction, all of the issued and outstanding shares of Metallic by way of a statutory plan of arrangement. Consideration to be paid to Metallic shareholders comprises \$24 million in cash and 8.5 million common shares of the Company valued at \$33.8 million. The acquisition is expected to close in February 2010, but remains subject to shareholder and regulatory approvals and other customary conditions (see "Acquisitions" section).