

INTERNATIONAL MINERALS CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
SIX MONTH PERIOD ENDED DECEMBER 31, 2009

The following discussion and analysis has been prepared as of **February 12, 2010**, unless otherwise indicated and should be read in conjunction with the accompanying **Unaudited Interim Consolidated Financial Statements** and related notes as at December 31, 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 Second Quarter ended December 31, 2009:

During the 3-month period from October 1, 2009 through December 31, 2009, International Minerals Corporation (the "Company") accomplished the following:

- Completed the current quarter with approximately **\$43.2 million in cash** and equivalents, aggregate working capital of approximately \$44.3 million and total assets of approximately \$167.9 million.
- Received a **cash dividend payment of \$6.4 million** on November 9, 2009, from its 40% joint venture interest in the Pallancata Mine in Peru, increasing the total cash dividends received in calendar 2009 to \$7.7 million. Subsequent to the end of the quarter, an **additional dividend payment of approximately \$10.0 million**, representing the Company's 40% share of an aggregate \$25 million dividend, has been approved for payment by the joint venture and the Company expects to receive the dividend in mid February 2010.
- Realized net income of approximately \$5.1 million (\$0.06 per share) compared to net income of approximately \$4.8 million (\$0.05 per share) for the same period in fiscal year 2008. The net income for the current quarter was due primarily to the significant increase in net equity income from the Pallancata Mine joint venture.
- Generated gross equity income totaled approximately \$8.1 million and net equity income was approximately \$7.6 million for the quarter from the 40%-owned Pallancata Mine. Offsets to the gross equity income included expenses for joint venture monitoring costs of \$105,127, which had been capitalized in the prior year and amortization of \$399,245 for similar non-reimbursable costs also previously capitalized.
- Produced **approximately 2.7 million ounces of silver and 10,244 ounces of gold** from the Pallancata Mine (100% project basis), an increase of 9% when compared to 2.5 million ounces of silver and 9,620 ounces of gold (100% project basis) in the prior quarter ended September 30, 2009. Of this total production, the Company's 40% share was approximately 1.1 million ounces of silver and 4,098 ounces of gold. The increase in ounces produced results mainly from an increase in tonnes processed and in silver head-grade mined.
- Realized **direct onsite costs at the Pallancata Mine of \$1.72 per ounce ("oz") silver** (after gold by-product credit) and **total cash costs (as defined by the Gold Institute) of \$4.69/oz silver** (after gold by-product credit). These costs are an improvement of 37% and 12% respectively from the \$2.72/oz direct onsite cost of silver and \$5.30/oz total cash cost of silver reported for the prior quarter ended September 30, 2009.
- Announced entering 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.** (TSX:MVG)("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 ("NSR") royalty (approximately \$3 million per year) from Barrick's Ruby Hill gold mine in Nevada; a 100% interest in the Converse gold exploration project which lies in the Battle Mountain/Cortez mineralized trend of Nevada; and a 100% interest in the Goldfield gold exploration project in central Nevada, near the historic gold mining town of Goldfield. See "Acquisitions" section for additional details. Subsequent to the end of the quarter on January 25, 2010, Metallic mailed an information circular and proxy materials to its shareholders, and a Metallic shareholder meeting is scheduled for Monday, February 22, 2010, to consider approving the acquisition. In addition to Metallic shareholder approval, the transaction remains subject to regulatory and court approvals.
- Subsequent to the end of the quarter on January 12, 2010, the Company **completed the acquisition of Ventura Gold Corp.** (TSX:V:VGO)("Ventura") by way of a statutory plan of arrangement. Consideration paid to Ventura shareholders comprised approximately 13.7 million shares of the Company valued at \$57.7 million. The Company added to its existing assets Ventura's 51% joint venture interest in the Inmaculada gold-silver project in Peru (49% Hochschild) which can be increased to a 70% interest by completing a feasibility study by September 2013, and issuing 200,000 common shares of the Company over a five year period commencing in 2011. See "Acquisitions" section for additional details.
- Subsequent to the end of the end of the quarter, on January 19, 2010, announced some of the best drill results to date from the Angela Vein at the Company's newly acquired Inmaculada Project, including 3.5 meters ("m") at an average grade of 37.1 grams per tonne ("g/t") gold and 270 g/t silver. The Angela Vein is now defined over a strike length of more than 1,400m and a vertical extent of up to 300m and it remains open along strike to the northeast.

- On February 3, 2010, the Company announced an updated mineral resource estimate for Inmaculada on a 100% project basis of:
 - An indicated resource of 154,000 ozs gold and 4.9 million ozs silver, contained within 1.2 million tonnes (“mt”) at an average grade of 3.9 g/t gold and 122 g/t silver), and
 - An inferred resources of 512,000 ozs gold and 22.1 million ozs silver, contained within 4.7 mt at an average grade of 3.4 g/t gold and 147 g/t silver.

This new resource estimate, which includes indicated resources for the first time, represents a significant increase in both the confidence level of the resource estimate and the overall gold and silver content of the Angela Vein deposit from the previously-reported, independently-calculated, inferred mineral resource estimate (see Ventura Gold Corp’s news release dated January 20, 2009) of 483,000 ozs gold and 16.6 million ozs silver (contained within 3.7 mt at an average grade of 4.0 g/t gold and 139 g/t silver. See the Company’s news release of February 3, 2010, for further details of the updated resource estimate.

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). On August 24, 2009, the Company was accepted for **inclusion in the Swiss stock exchange’s prestigious Swiss Performance Index** (the “SPI”). 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.

The Company is engaged in precious metal exploration, development and mining of gold and silver deposits in Peru, Ecuador and the USA. The Company produces silver and gold from its 40%-owned Pallancata Mine in Peru (60%-owned and operated by Hochschild Mining plc). The Company recently began to receive cash dividends from Pallancata operations as all to-date 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 many other exploration and junior producer companies. With the recent closing of the Ventura acquisition and the pending Metallic acquisition, the Company is adding Ventura’s Inmaculada gold-silver 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 tax and royalty issues related to the new mining regulations in Ecuador.

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 2015.

Over time, the Company hopes to further diversify its current asset base (in Ecuador, Peru and the USA), thereby mitigating its geopolitical and production risks by:

- acquiring producing assets in low-risk political and environmental jurisdictions in the Americas;
- 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
- seeking investment opportunities through joint ventures 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 40%-owned Pallancata Mine; (b) continue to increase production at Pallancata (100% project basis) from approximately 8.2 million ounces of silver and 32,000 ounces of gold produced in calendar 2009 to approximately 10 million ounces of silver and 35,000 ounces of gold in calendar 2010 (production figures are the Company’s estimates);
- upon completion of the Metallic acquisition (expected by the end of February 2010) to (a) 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; and (b) complete a scoping study at the 100%-owned Converse gold property, also in Nevada;
- advance the newly acquired Inmaculada gold-silver project (51%-owned) towards completion of a feasibility study in order to earn a 70% interest in the project and advance towards production;
- develop and operate the 100%-owned Rio Blanco gold-silver project in Ecuador, subject to clarification of certain tax and royalty issues pertaining to the new mining law in Ecuador, obtaining production permits, arranging additional required financing and completing construction;

- advance the Gaby project in Ecuador to feasibility study status, subject to gold prices stabilizing above \$1,000 per ounce for an extended period, and pending clarification of certain issues under 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 2015;
- 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") 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. On August 24, 2009, the Company was accepted for inclusion in the Swiss stock exchange's Swiss Performance Index (the "SPI").

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 approximately 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 distributions. 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 from mine cash flow.

The Pallancata Mine expanded mine production in calendar 2009 from 2,000 tpd to 3,000 tpd, thereby increasing production from the mine (100% project basis) to approximately 8.4 million ounces of silver and 32,000 ounces of gold for calendar 2009. The Company's 40% attributable share of this estimated production is approximately 3.4 million silver ounces and 12,800 gold ounces. 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).

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, was approximately \$13 million and was funded by mine cash flow. Capital expenditure estimates for calendar 2010 have not yet been finalized. 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 and a second dividend of approximately \$6.4 million in November 2009. These dividends 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, essentially all cash flow generated at the Pallancata Mine had been reinvested to fund capital expansion expenditures. A further dividend of approximately \$10.0 million, representing the Company's 40% share of an aggregate \$25 million dividend, has been approved for distribution by the joint venture partners and is expected to be received by mid February 2010.

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

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

On 100% project basis	Quarter Ended 12/31/2009	Quarter Ended 9/30/2009	Quarter Ended 06/30/09	Quarter Ended 03/31/09	Quarter Ended 12/31/08
Ore mined (tonnes)	275,514	249,094	208,426	171,413	209,297
Ore processed (tonnes)	277,552	269,128	220,288	155,552	245,468
Average head grade silver (g/t)	352	335	306	297	288
Average head grade gold (g/t)	1.5	1.5	1.4	1.3	1.4
Concentrate produced (tonnes)	2,520	2,160	1,781	1,223	1,968
Silver grade in concentrate (kg/t)	33.7	36.1	32.9	33.1	31.0
Gold grade in concentrate (kg/t)	0.13	0.14	0.13	0.13	0.12
Silver produced ² (oz)	2,731,274	2,507,000	1,883,000	1,299,000	1,959,000
Gold produced ^c (oz)	10,244	9,620	7,170	4,939	7,655
Silver sold (payable oz)	2,605,000	2,351,000	2,054,000	1,137,000	1,841,000
Gold sold (payable oz)	9,560	8,780	7,360	4,080	7,220
Direct Site Costs per oz silver (after gold by-product credit)^{1,3} (\$/oz)	\$ 1.72	\$ 2.72	\$ 3.73	\$ 4.16	\$ 4.48
Total Cash Costs per oz silver (after gold by-product credit)^{1,4} (\$/oz)	\$ 4.69	\$ 5.30	\$ 6.20	\$ 6.62	\$ 6.80

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

IMZ's 40% Share	Quarter Ended 12/31/2009	Quarter Ended 9/30/2009	Quarter Ended 06/30/09	Quarter Ended 03/31/09	Quarter Ended 12/31/08
Silver produced ² (oz)	1,092,400	1,002,900	753,200	519,600	783,600
Gold produced ^c (oz)	4,098	3,849	2,868	1,976	3,062
Silver sold (oz)	1,042,000	940,400	821,600	454,800	736,400
Gold sold (oz)	3,824	3,512	2,944	1,632	2,888

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% to 98% 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) as at December 31, 2008, comprised of 4.3 mt at an average grade of 366 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 mt 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 mt 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 estimated 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)

Reserve 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.

New mineral resource and reserve estimates for the Pallancata Mine are expected to be issued by Hochschild in late March 2010.

The technical information reported was reviewed by the Company's Qualified Person, V.P. Corporate Development, 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 the continuing delays with the implementation of the Mining Law and related regulations, the Company significantly reduced staff in December 2008 and has maintained its low staffing levels pending clarification of certain tax and royalty issues related to the new Mining Law.

On January 29, 2009, the new Mining Law was approved by Ecuador's President Rafael Correa.

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.

Three remaining critical issues which need to be addressed in the implementing of procedures for the new Mining Law regulations 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 and its regulations.
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 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 regulations 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 mt 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 prepared in accordance with NI 43-101 by Wardrop (Qualified Person, Mining Engineer Ivan Arriagada, P. Eng) with an effective date of October 12, 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 9 mineral concessions totalling 1,829 hectares (approximately 18 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 mt 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 mt 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.

Most technical activities at Gaby are currently on hold pending not only formal government approval to re-start activities but also stabilization of gold prices above \$1,000 per ounce due to the low-grade nature of the Gaby deposit.

The Company's Qualified Person is V.P. Corporate Development, 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.

With completion of the Ventura transaction on January 12, 2010, the Company added to its existing assets a 51% joint venture interest in the Inmaculada gold-silver project in Peru (49% Hochschild) and a right to increase this interest to 70% by completing a feasibility study by September 2013.

Summary of the Transaction:

- Ventura shareholders received 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 issued 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 the pending Metallic acquisitions (see below). The Company's fully diluted share capital also increased by approximately 1.3 million shares, based on the Company assuming Ventura's options and warrants.

- Ventura received approximately \$1.9 million loan from the Company that allowed Ventura to continue the drill program at Inmaculada. The loan will not be repaid and the outstanding amount will be added to the Mineral Properties balance on closing of the Ventura transaction. Approximately \$770,000 of accrued management fees owed by Ventura to the Company for services and costs under certain management service agreements (see “Related Parties Transactions” below) will also not be repaid and will be added to the Mineral Properties balance.

Inmaculada Project

The Inmaculada property, located 25 km southwest of the Company’s Pallancata silver-gold mine, hosts multiple, low-sulfidation epithermal vein systems. Since optioning the property from Hochschild in 2007, Ventura’s drilling 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 the Company’s name at www.sedar.com. The estimated inferred resources comprised 483,000 ounces of gold and 16.6 million ounces of silver, contained in 3.7 mt at 4.0 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 represented 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.

Subsequent to the end of the quarter, on January 20, 2010, the Company announced some of the best drill results to date from the Angela Vein, including 3.5m at an average grade of 37.1 g/t gold and 270 g/t silver. With these latest results, the Angela Vein has been defined over a strike length of more than 1,500m and a vertical extent of up to 300m and it remains open along strike to the northeast.

Also subsequent to the end of the quarter on February 3, 2010, the Company announced an updated mineral resource estimate for Inmaculada (on a 100% project basis) at a 3.0 g/t gold equivalent cut-off grade, of:

- Indicated resources of 154,000 ozs gold and 4.9 million ozs silver, contained within 1.2 mt at an average grade of 3.9 g/t gold and 122 g/t silver; and
- Inferred resources of 512,000 ozs gold and 22.1 million ozs silver, contained within 4.7 mt at an average grade of 3.4 g/t gold and 147 g/t silver.

This February 2010 resource estimate, which includes indicated resources for the first time, represents a significant increase in both the confidence level of the resource estimate and the overall gold and silver content of the Angela Vein deposit compared to Ventura’s January 2009 estimate.

Table 1: Inmaculada Project, Angela Vein - Mineral Resource Estimate – February 3, 2010

Resource Estimate Category	Cut-Off (g/t gold Equiv)	Tonnes	Gold Grade (g/t)	Silver Grade (g/t)	100% Project Contained Ounces			
					Gold	Silver	Gold Equivalent	Silver Equivalent
Indicated	5	683,000	5.0	145	109,000	3,173,000	162,000	9,694,000
	4	1,030,000	4.2	131	139,000	4,337,000	212,000	12,699,000
	3	1,238,000	3.9	122	154,000	4,870,000	236,000	14,140,000
	2	1,247,000	3.9	122	155,000	4,886,000	236,000	14,170,000
Inferred	5	2,796,000	4.2	172	377,000	15,460,000	634,000	38,057,000
	4	3,808,000	3.7	158	458,000	19,391,000	781,000	46,862,000
	3	4,686,000	3.4	147	512,000	22,072,000	880,000	52,807,000
	2	5,500,000	3.1	136	545,000	24,032,000	946,000	56,711,000

1. Resources are shown on a 100% project basis. The Company owns a 51% interest and can earn a 70% interest by completing a feasibility study by September 2013 at its sole cost and issuing to Hochschild 200,000 Company shares.
2. Metal prices used are US\$17/oz for silver and US\$1,000/oz for gold.
3. An overall average bulk density of 2.51 tonnes per cubic meter has been used for the tonnage estimation.
4. Gold equivalent grade is calculated at a silver:gold ratio of 60:1, using metallurgical recoveries of 85% for gold and silver and metal prices stated in Note 2.
5. The resources are reported at a 3 g/t gold equivalent cut-off grade that corresponds to an assumed \$70 per tonne cash operating cost. This case is shown in bold text in the Table above.
6. The estimated mineral resources are not mineral reserves and do not have demonstrated economic viability.
7. Numbers have been rounded in all categories to reflect the precision of the estimates.
8. The mineral resources were estimated with Micromine software using ordinary kriging to estimate metal grades into blocks of 10m by 1m by 10m in size, outlier high grades were top-cut to 25 g/t for gold and 750 g/t for silver.

The Inmaculada mineral resource estimate has been classified in accordance with CIM guidelines by FSS Canada’s R. Mohan Srivastava (P.Geo) and the estimate has an effective date of February 3, 2010. The mineral resource estimate is based on the results

of 84 core drill holes for approximately 25,000m of drilling, which have defined a strike length to the Angela Vein mineralization of over 1,500m (and which is still open to the northeast) and a vertical extent of over 300m.

The Company's 51% interest in the Inmaculada project is held by Minera Quellopata S.A.C., a joint venture with Compañía Minera Ares S.A.C., a wholly-owned subsidiary of Hochschild. The Company is the project operator and can acquire a 70% interest by completing a feasibility study at its sole cost by September 2013 and by issuing 200,000 common shares to Hochschild over a five year period. The Company is currently planning to complete the feasibility study by the end of 2011, two years ahead of the contract requirement, in order to complete the earn-in as soon as possible.

The technical information above was reviewed by the respective qualified persons of the Company and Ventura: Nick Appleyard, V.P. Corporate Development, and Mark Cannuli, Exploration Manager. See the Company's news release dated February 3, 2010, for further details.

Metallic Ventures Gold, Inc.

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.

Summary 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 (approximately 0.275 of a Company option for one Metallic option).
- Post-transaction, 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.

A "Notice and Management Information Circular for the Special Meeting of Shareholders to be held on February 22, 2010", dated January 19, 2010 and filed by Metallic on January 21, 2010 and is available for review at www.sedar.com. The Metallic circular provides details of the proposed arrangement and other pertinent documents, including information on the Company, a fairness opinion and pro-forma financial statements.

Metallic's Assets

- A 3% 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 million per year in royalty payments.
- Two advanced gold exploration projects in Nevada with significant measured and indicated resources:
 - a. The Converse gold project, which lies in the prolific Battle Mountain/Cortez mineralized trend and contains the following Independent mineral resource estimate:
 - i. 3.44 million ounces in the Measured resource category, contained in 226 million tons at a grade of 0.015 ounces per ton ("opt") gold.
 - ii. 0.49 million ounces in the Indicated resource category, contained in 37 million tons at a grade of 0.013 opt gold.
 - **3.94 million ounces of gold in Measured and Indicated resource categories, contained in 263 million tons at a grade of 0.015 opt gold**
 - iii. 0.50 million ounces in the Inferred resource category, contained in 3.5 million tons at a grade of 0.014 opt gold.
 - iv. Mineral Resources (using a 0.008 oz* Au/T** cutoff and 0.400 oz Au/T top cut)
* oz = Troy ounce, ** T = Short ton

Prepared by MVG - Audited by Watts, Griffis and McQuat Limited (September 2004)

- b. The Goldfield gold project, located in the historic Goldfield mining district, which, according to the Nevada Bureau of Mines, has historical production of approximately 4.2 million ounces of gold from 1903 to 1960. The current Independent mineral resource estimate is:
- i. 0.65 million ounces in the Measured resource category, contained in 16.9 million tons at a grade of 0.039 opt gold.
 - ii. 0.42 million ounces in the Indicated resource category, contained in 14.8 million tonnes at a grade of 0.028 opt gold
 - **1.07 million ounces of gold in the Measured and Indicated resource categories, contained in 31.7 million tons at a grade of 0.033 opt gold.**
 - iii. 0.11 million ounces in the Inferred resource category, contained in 3.3 million tons at a grade of 0.032 opt gold.
 - iv. Mineral Resources Gemfield, McMahon Ridge (using a 0.010 oz* Au/T** cutoff and 3.00 oz Au/T top cut)
Mineral Resources Goldfield Main (using a 0.01 oz* Au/T** cutoff)
- * oz = Troy ounce, ** T = Short ton
- Gemfield and McMahon Ridge prepared by MVG - Audited by Watts, Griffis and McOuat Limited (April 2005)
Goldfield Main prepared by Mine Development Associates (2002)

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 complete a scoping study at the Converse project by the end of calendar year 2010.

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 December 31, 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 December 31, 2009.

	31-Mar-08	30-Jun-08	30-Sep-08	31-Dec-08	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09
1. Expenses \$	(1,752,605)	(2,038,033)	(1,623,490)	(1,499,526)	(2,004,408)	(2,935,104)	(2,231,242)	(1,698,609)
2. Other Items \$	2,209,032	(4,962,389)	1,534,219	5,280,735	726,751	(2,340,176)	(1,522,608)	(736,830)
3. Pallancata JV Income \$	3,659,400	7,602,895	3,819,184	1,048,401	3,274,000	3,390,399	4,983,164	7,570,355
4. Net Income (Loss) \$	4,115,827	602,473	3,729,913	4,829,610	1,996,343	(1,884,881)	1,229,314	5,134,916
5. Net Income (Loss) per Common Share - Basic/Diluted \$.04	0.01	0.04	0.05	0.02	(0.02)	0.01	0.06
6. Cash Dividends Received \$	-	-	-	-	-	-	1,228,250	6,424,589
7. Cash, Cash Equivalents, Short Term Investments & Securities Held- for-Trading \$	67,429,919	62,262,556	58,986,156	51,579,029	47,144,564	43,911,811	42,841,719	43,434,160
8. Working Capital \$	65,485,575	58,355,051	54,973,918	49,938,221	45,078,311	41,922,062	41,109,731	44,327,261
9. Total Assets \$	154,976,870	158,012,177	162,364,622	155,752,305	156,624,236	157,984,317	162,356,956	167,911,630
10. Long Term Liabilities \$	35,429,840	35,122,555	35,430,223	30,307,106	29,879,446	31,756,199	34,222,351	35,828,778
11. Capital Stock – Number of Shares	96,030,001	96,030,001	96,030,001	96,030,001	93,768,801	92,982,001	92,982,001	92,797,301
12. Capital Stock \$	128,748,151	129,850,285	129,850,285	125,862,302	124,105,317	125,678,141	125,678,141	125,428,590
13. Shareholders' Equity \$	116,346,883	118,694,212	122,543,048	123,441,310	124,184,072	123,418,137	125,440,802	129,831,277
14. Mineral Resource Expenditures (Cumulative since inception) \$	73,273,234	71,965,109	74,196,540	76,788,966	79,078,685	80,097,809	81,530,984	83,118,369
15. Investment in Joint Venture \$	10,303,303	22,972,335	27,059,155	25,404,940	28,439,973	32,396,735	36,317,126	37,568,188

Six-Month Period Ended December 31, 2009

The consolidated net income for the six-month period ended December 31, 2009, was \$6,364,230 (\$0.07 basic and diluted per share) compared to a net income of \$8,559,523 (\$0.09 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 \$6.0 million non-cash foreign exchange gain was reported. This

period the US dollar weakened and a \$2.6 million non-cash foreign exchange loss was recorded. This change in relative foreign exchange rates between comparative periods resulted in a negative non-cash differential of \$8.6 million in net income for the period.

The current period net income is due principally to the net equity income from the Pallancata Mine joint venture of \$12,553,519 (2008 - a gain of \$4,867,585) offset by \$6,189,289 in expenses and other items, comprised primarily of the following: a) a non-cash foreign exchange loss of \$2,625,654 (2008 - a gain of \$6,065,928); b) increased stock-based compensation expense of \$793,351 (2008 - \$175,558); and c) a drop in interest income to \$189,275 (2008- \$736,311). The foreign exchange loss relates to the weakness of the US dollar during the current period. 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 gross equity income from the Pallancata Mine for the period of \$13,321,527 (2008 – \$950,913). 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 \$269,475 (2008 - \$Nil), which had been capitalized in previous years and amortization of \$498,533 (2008 - \$Nil) for similar non-reimbursable costs, also previously capitalized.

The Pallancata Mine joint venture company, Suyamarca, distributed its second cash dividend of \$6,424,589 during the period to the Company (reflecting its 40% interest) for total dividends received during the current period of \$7,652,839. An additional dividend distribution of approximately \$10 million, representing the Company's 40% share of an approximate \$25 million dividend payment to the joint venture partners, is expected to be received in mid-February 2010.

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 \$300,147 (2008 - \$282,771) in management fees from the Ventura management services agreements in the current period. Due to the Company's acquisition of Ventura, the management fees owed to the Company at December 31, 2009 (\$772,083), will not be repaid and will be added to the Mineral Properties balance on closing of the acquisition.

Capitalized resource property expenditures for the six-month period ending December 31, 2009, were \$3,020,560 (net of write-offs) compared to \$4,823,857 for the same period last year, reflecting a reduced level of exploration and development activity in the current period primarily as a result of the continuing legal uncertainty in Ecuador, as issues relating to the new Mining Law remain to be clarified. 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 six-month period of \$1,317,153 were less than the expenditures for the comparable period last year (\$2,767,385) 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 - \$750,000) in employee severance costs (as discussed above), and the balance of approximately \$817,153 for sustaining field wages and camp costs (2008-\$1,944,252).

At the **Gaby** project in Ecuador, expenditures for the current six-month period total \$588,839 (2008 - \$1,561,350) primarily for sustaining site costs, a significant decrease from the same period last year due to the suspension of most exploration activities as a result of the 2008 Ecuadorian Mining Mandate.

Total expenditures on the Company's other capitalized resource projects for the current six-month period amounted to \$1,114,568 (2008 - \$495,124) primarily for general exploration activities on the **Reese River** project in Nevada of \$341,879 (2008 - \$Nil) and the Tambo project in Peru of \$473,164 (2008 - \$Nil). Resource property write-offs for the period were \$237,694 (2008 - \$117,550) and consisted of additional costs associated with the Rubi project (\$233,039) in Peru and the Cañicapa project (\$4,655) in Ecuador, which projects the Company decided to relinquish at fiscal year-end June 30, 2009.

The Company's cash and cash equivalents position during the current six-month period decreased by \$592,139 to \$43,183,856 compared to a decrease in the same period last year of \$10,186,432. The smaller cash reduction during the period resulted primarily from lower resource property expenditures for the period and the cash dividends received from the Pallancata Mine offsetting other expenditures.

Three-Month Period Ended December 31, 2009

The consolidated net income for the three-month period ended December 31, 2009, was \$5,134,916 (\$0.06 basic and diluted per share) compared to a net income of \$4,829,610 (\$0.05 basic and diluted per share) for the equivalent period in 2008.

The increase in income between the comparative periods resulted primarily from the net equity income received from the Pallancata Mine joint venture of \$7.6 million compared to \$1.05 million in 2008, even with the impact of a non-cash foreign exchange loss. In the same period last year, the US dollar was stronger versus the Canadian dollar and a non-cash \$4.8 million foreign exchange gain occurred. This period the US dollar weakened and an approximate non-cash \$1.0 million foreign exchange loss was recorded. This change in relative foreign exchange rates between comparative periods resulted in a negative non-cash differential of \$5.8 million in net income for the period.

The Company realized gross equity income from the Pallancata Mine for the period of \$8,074,727 (2008 – \$637,009). 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 \$105,127 (2008 - \$Nil), which had been capitalized in previous years and amortization of \$399,245 (2008 - \$Nil) for similar non-reimbursable costs, also previously capitalized.

The Pallancata Mine joint venture company, Suyamarca, distributed its second cash dividend of \$6,424,839 during the period to the Company reflecting its 40% interest.

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 \$179,779 (2008 - \$144,555) in management fees from the Ventura management services agreements in the period.

Capitalized resource property expenditures for the three-month period ending December 31, 2009, were \$1,587,383 (net of write-offs) compared to \$2,592,425 for the same period last year, reflecting a reduced level of exploration and development activity in the current period primarily as a result of the April 2008 Mining Mandate which suspended exploration and 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 \$641,334 were less than the expenditures for the comparable period last year (\$1,711,583) as a result of a significant reduction in most activities. The current period's costs are primarily for sustaining field wages and camp costs.

At the **Gaby** project in Ecuador, expenditures for the current three-month period total \$253,285 (2008 - \$700,045) primarily for sustaining site costs, a significant decrease from the same period last year due to the suspension of most 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 \$692,765 (2008 - \$191,475) primarily for general exploration activities on the **Reese River** project in Nevada of \$131,879 (2008 - \$Nil) and the Tambo project in Peru of \$345,295 (2008 - \$Nil). Resource property write-offs for the period were \$Nil (2008 - \$111,180).

The Company's cash and cash equivalents position during the current three-month period decreased by \$577,562 to \$43,183,856 compared to a decrease in the same period last year of \$6,987,072. The smaller cash reduction during the period resulted primarily from lower resource property expenditures for the period and the cash dividends received from the Pallancata Mine offsetting other expenditures.

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 December 31, 2009 period with \$43.2 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 \$6.4 million was received in November 2009 and an additional dividend payment of approximately \$10 million (representing the Company's 40% share of an approximate \$25 million dividend distribution to the joint venture partners) has been approved for payment and the Company expects to receive this latest dividend in mid February 2010, to bring the total cash dividends received in fiscal year 2010 to approximately \$18 million.

Working capital increased by \$2,405,199 from \$41,922,062 at year-end June 30, 2009, to \$44,327,261 at December 31, 2009, primarily as a result of the cash dividends received by the Company from the Pallancata Mine, which also helped to offset expenditures during the period,

As part of the Ventura transaction, Ventura received approximately a \$1.9 million loan from the Company that allowed Ventura to continue the drill program at Inmaculada. The loan will not be repaid and the outstanding amount will be added to the Mineral Properties balance on closing of the Ventura transaction. Accrued management fees of \$772,083 owed by Ventura to the Company for services and costs under certain management service agreements (see "Related Parties Transactions" below) will also not be repaid and the amount will be added to the Mineral Properties balance.

On October 17, 2008, the Company commenced a TSX-approved share repurchase program to purchase 5.0 million of its common shares, representing at that time 5.2% of the Company's 96,030,001 issued and outstanding shares as at October 8, 2008. 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). All repurchased shares have been cancelled and the share repurchase program ended on October 16, 2009.

The long-term debt of \$35,828,778 compared to \$31,756,199 at June 30, 2009, relates to the Canadian dollar-denominated convertible debentures (Cdn\$40 million of debentures issued in May 2006). The increase in the debt is primarily a 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 Mine dividend distribution to be received in mid February 2010, 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.

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 end of 2011, which is expected to be funded by existing working capital. Delivering the feasibility study before September 2013 and issuing 200,000 common shares to Hochschild will complete the Company's earn-in of an additional 19% participating interest in the project, for an aggregate 70% participating interest. The Company estimates the feasibility study will cost approximately \$10 million, including the cost of drilling, assaying, metallurgical testing, conceptual engineering and external consultants.

Upon completion of the pending 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 \$8.7 million for calendar 2010. The Company also intends to undertake a scoping study at Metallic's Converse project at an estimated cost of approximately \$1.3 million in 2010. The Company does not expect to require additional financing to carry out its planned feasibility, exploration and development programs at Inmaculada, Goldfield and Converse projects through calendar 2010 based on the Company's current working capital, acquired cash reserves and anticipated Pallancata Mine cash dividends and royalty payments from Barrick's Ruby Hill mine in Nevada. Completion of feasibility studies at Goldfield and Converse, however, may require additional financing.

If a final decision is reached to commence production at the Inmaculada, Goldfield and Converse projects, the Company will need significant 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 and regulations 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 and regulations 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 Metallic acquisition, 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 period ended December 31, 2009, the Company entered into the following transactions with related parties:

- a) Paid or accrued legal and other services of \$209,539 (2008 - \$90,127) provided by firms in which two directors of the Company are partners or principals. As at December 31, 2009, the accounts payable to these firms totalled \$ 83,900 (2008 - \$20,022).
- b) Charged salaries of \$75,972 (2008 -\$69,891) and management fees of \$302,123 (2008 - \$282,771) to Ventura pursuant to service agreements whereby the Company provides administrative and exploration program management services to Ventura. In addition, the Company has paid certain costs on behalf of Ventura, totalling \$12,301 (2008 - \$69,446). The amount due from Ventura at December 31, 2009, was \$772,083 (2008 - \$200,950). The outstanding balance of accrued management fees will not be repaid to the Company but will be capitalized in the Mineral Properties balance on closing of the Ventura acquisition.
- 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 5 and 7 to the accompanying Unaudited Interim Consolidated Financial Statements.
- d) Advanced a total for property expenditures for the Reese River project in Nevada of \$340,000 (2008 - \$Nil) to New Dimension Resources which has a director in common with the Company.
- e) Made a loan of \$75,000 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) Advanced \$1,866,470 to Ventura in the form of a loan to continue its ongoing drill program at Inmaculada during completion of the Ventura acquisition transaction. The outstanding balance on the loan will not be repaid to the Company but will be capitalized in the Mineral Properties balance on closing of the Ventura acquisition.

During the three month ended December 31, 2009, the Company entered into the following transactions with related parties:

- a) Paid or accrued legal and other services of \$144,850 (2008 - \$55,611) provided by firms in which two directors of the Company are partners or principals.
- b) Charged salaries of \$27,951 (2008 -\$29,131) and management fees of \$180,767 (2008 - \$144,555) to Ventura pursuant to service agreements whereby the Company provides administrative and exploration program management services to Ventura. In addition, the Company has paid certain costs on behalf of Ventura, totalling \$1,269 (2008 - \$27,264). The outstanding balance amount of accrued

management fees will not be repaid to the Company but will be capitalized in the Mineral Properties balance on closing of the Ventura acquisition.

- c) Held 504,923 (2008 – 504,923) common shares of Ventura and 90,000 (2008 - 50,000) common shares of Santa Barbara as described in Notes 5 and 7 to the accompanying Unaudited Interim Consolidated Financial Statements.
- d) Advanced a total for property expenditures for the Reese River project in Nevada of \$130,000 (2008 - \$Nil) to New Dimension Resources, a company which has a director in common with the Company.
- e) Advanced \$1,866,470 to Ventura in the form of a loan to continue its ongoing drill program at its Inmaculada during completion of the Ventura acquisition transaction. The outstanding balance amount on the loan will not be repaid to the Company but will be capitalized in the Mineral Properties balance on closing of the Ventura acquisition.

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

	Period Ended 12/31/2009	Period Ended 6/30/2009
Short Term		
Accounts payable to related parties for fees	\$ (83,900)	\$ (18,087)
Amounts due from related parties (Ventura)	772,083	395,415
Advance to related parties (Ventura)	<u>1,866,470</u>	<u>-</u>
	2,554,653	377,328
Long Term		
Amount due from related party	<u>75,000</u>	<u>75,000</u>
Due from related parties	<u>\$ 2,629,653</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 December 31, 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 mining, 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 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 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 are common shares of a junior exploration company and these 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 December 31, 2009, net liabilities totalling \$25,847,038 were held in Canadian dollars.

Based on the above net exposure as at December 31, 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 \$4,630,695 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 (Ecuador is a dollar-based economy). 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 December 31, 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 (approximately \$3.9 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 December 31, 2009, changes in issued share capital were as follows:

	<u>Number of Shares</u>	<u>Amount</u>
Balance issued as at December 31, 2009	92,797,301	\$ 125,428,590
Options exercised	<u>144,843</u>	<u>500,369</u>
Total	<u>92,942,144</u>	<u>\$ 125,928,575</u>

As at December 31, 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	1,065,000
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>987,500</u>
		3,864,500

The Company has no share purchase warrants outstanding.

OUTLOOK

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

- At the **Pallancata Mine**:

Continuing **production at the 3,000 tpd mining rate**, working with our 60% joint venture partner, Hochschild.

Producing approximately 10 million ounces of silver and 35,000 ounces of gold in calendar 2010 (the Company's estimate on a 100% project basis).

Increasing mineral resources and reserves to extend the existing mine life (approximately 4 years based on current reserves).

- Continuing with the aggressive exploration and development drilling on the 51%-owned **Inmaculada Project**, in order to support delivering a feasibility study by the end of 2011 toward completing the earn-in of an additional 19% operating joint venture interest (aggregate 70% interest). See "Acquisitions" section.
- **Completing the acquisition of Metallic** on or about February 26, 2010 (see "Acquisitions" section). Annual royalty payments (of approximately \$3.0 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 the Company intends to: a) immediately advance 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 commence a scoping study on the **Converse** gold-silver project.

- Continuing to monitor 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 and regulations, the Company intends to seek 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 acquisition of Metallic remains 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 and regulations 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 will 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 of 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 (November 2009).

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 the Company's assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian 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 December 31, 2009. Based upon this evaluation, the CFO and the CEO concluded that as of December 31, 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 December 31, 2009:

- a) The Company issued 144,843 common shares pursuant to the exercise of incentive stock options for gross proceeds of \$500,369 (Cdn\$527,550).
- b) On January 12, 2010, the Company completed the transaction to acquire all of the issued and outstanding shares of Ventura by way of a statutory plan of arrangement. The Company issued 13,740,437 common shares in the all-shares transaction. As of January 12, 2010, former Ventura shareholders own approximately 12% of the Company's issued and outstanding common shares. In addition, a further 1,262,450 common shares of the Company are issuable to holders of Ventura common share purchase warrants and stock options.

The Company acquired Ventura for total consideration of approximately \$58.5 million, including the value of common shares issued and assumed share purchase options and warrants assumed. Mineral properties acquired, mainly the Inmaculada project, cost approximately \$65.9 million including an allowance for future income tax liability of approximately \$7.4 million. The Company issued approximately \$54.8 million in common shares and recorded \$1.8 million to reflect the deemed issuance of Company options and warrants. Transaction costs are estimated at \$1.0 million and will be included in the financial statements of the Company for the third fiscal quarter ending March 31, 2010.

The pro-forma Net Income impact of the Ventura acquisition will be increased expenses of approximately \$0.3 million per quarter, or \$1.2 million per year, not including losses and gains related to foreign exchange, changes in value of securities held-for-trading and other items. These costs result from non-property, administrative overhead and will likely continue at these levels. See "Acquisitions" section for additional details.

- c) On January 19, 2010, the Company announced some of the best drill results to date from the Angela Vein at the Company's newly acquired (from Ventura) Inmaculada Project, including 3.5m at an average grade of 37.1 g/t gold and 270 g/t silver. With these latest results, the Angela Vein has been defined over a strike length of more than 1,400m and to a depth below surface of as much as 460m, and it remains open along strike to the northeast. The Angela Vein is also only one of 11 known significant vein systems recognized at the Inmaculada Project, all of which are relatively under-explored and outcrop for more than 25km. Further drilling is planned for 2010 and 2011 as the Company is working to deliver a feasibility study by the end of 2011, toward completing the earn-in to a 70% operating interest in Inmaculada.
- d) On February 3, 2010, the Company announced an updated mineral resource estimate for Inmaculada comprising the following resources on a 100% project basis:
 - Indicated Resource: 154,000 ozs gold and 4.9 million ozs silver (contained within 1.2 mt at an average grade of 3.9 g/t gold and 122 g/t silver).
 - Inferred Resource: 512,000 ozs gold and 22.1 million ozs silver (contained within 4.7 mt at an average grade of 3.4 g/t gold and 147 g/t silver).

See "Acquisitions" section for additional details.