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Gold Hawk Resources Inc.

Management's Discussion & Analysis
For the Three Months Ended June 30, 2008 *(unaudited)*

CGK:TSXV

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of the operations of Gold Hawk Resources Inc. ("Gold Hawk" or "the Company") and its wholly owned subsidiaries constitutes management's review of the factors that affected the Company's financial and operating performance for the three months ended June 30, 2008.

This discussion dated August 29, 2008 should be read in conjunction with the Company's unaudited consolidated Financial Statements and associated Notes for the three months ended June 30, 2008. Please also refer to the cautionary statement of forward-looking information at the end of the MD&A. The Company's unaudited consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as fully described in Note 1 of the June 30, 2008 unaudited consolidated financial statements and reported in Canadian dollars unless otherwise noted.

Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be obtained from www.sedar.com.

OVERVIEW

Gold Hawk is a Canada-based precious and base metals producer with reserves and resources containing gold, silver, lead and zinc. Since the acquisition of the wholly owned Coricancha Mine in Peru in March 2006, the mine and concentrator have been refurbished and commercial production status was achieved on October 1, 2007. The rated capacity of the processing facility is approximately 600 tonnes of ore per day and is operated by its subsidiary Compañía Minera San Juan (Peru) S.A.

The Company also has exploration properties in Peru and Canada (Quebec), and although these properties have been previously written off, management continues to pursue joint venture partners to continue exploration and development of the properties.

Gold Hawk Resources Inc. is listed on the TSX Venture Exchange under the symbol CGK.

SECOND QUARTER 2008 HIGHLIGHTS

NOTE: Due to production suspension as of May 9, 2008, results related to mine production refer only to the period April 1, 2008 to May 8, 2008.

Major highlights and developments during the three-month period ended June 30, 2008 included:

- Generating second quarter revenue from metal sales of $3,289,476
- Average daily ore processed of 410 tonnes per day processing 15,587 tonnes of ore in the April 1-May 8 period, with production of 653 ounces of gold, 35,946 ounces of silver, 390,127 pounds of lead and 468,012 pounds of zinc;
- Improving recoveries in floatation and gold circuits with gold concentrate achieving budgeted recovery levels for the first time and lead and zinc metallurgical recoveries exceeding test grades;
- Completing US$2.0 million bridge financing in June and subsequent to quarter-end, raising $3.3 million in a private placement and received US$2.0 million advance on property insurance claim;
- Achieved slope stability in and around Coricancha tailings and processing plant following May 9 suspension of production due to ground displacement caused by a third party saturation irrigation system; and
- Rene Galipeau joins Board of Directors and appointed to Audit Committee.

Developments following suspension of operations May 9

On July 18, 2008, an Emergency Decree was issued by the Presidential Council of Ministers of Peru that declares a State of Emergency in the Tamboraque hillside near the Company's Coricancha tailing area and processing plant. The Decree states that due to the risk created by the saturation irrigation of the hillside by a third party irrigation system and calls for the relocation of these facilities. The Company is currently pursuing an insurance claim associated with business interruption and on assets affected by the unexpected ground displacement near its Coricancha facilities. On August 13, 2008, the Company received a US$2.0 million dollar advance on its insurance claim.

On May 9, Gold Hawk temporarily suspended operations at its Coricancha Mine in Peru due to unexpected ground displacement in and around its tailings area. Following an initial assessment performed by a major engineering and geotechnical consulting firm, the Company was advised that due to the limited monitoring data collected to date, more data will be required to make a decision regarding future actions to be taken. The Company was also advised that based on the available information collected to date, and considering the actions already taken by the Company to control the displacement, it is unlikely that a major failure could occur under current normal conditions.

In June, the Company arranged a US$2.0 million bridge financing and came to an agreement with the Peruvian government to cease development of the southern extension of its tailings handling area and would instead pursue an accelerated Permitting of the "Chinchan" tailings handling site located 30 kms from the Coricancha processing plant. The site is located on 40 hectares of near-level ground and has more than 20 years of capacity. In July, the Company completed a $3.3 million private placement of 55 million shares.

During the second quarter, an accounts receivable balance of approximately US$263,200 with a previous off-take customer was settled. The Company signed an agreement to accept a compensating balance of US$130,000 to close off the account. The balance originates from both final settlement of 2007 invoices (US$82,800) and from new sales during the first quarter (US$ $181,200). An allowance of US$133,200 is recorded in these statements to reflect the final settlement.

On July 16, the Company completed a non-brokered private placement of 55,000,000 common shares at a price of $0.06 per share for gross proceeds of $3,300,000. The Company will use the net proceeds of the private placement to finance expenditures related to its Coricancha mine, including moving tailings to the long-term Chinchan facility, and for general corporate purposes.

RESERVES AND RESOURCES

The Company released its most recent update of mineral reserve and mineral resource estimates for the Coricancha Mine as at January 31, 2007. The estimates were independently reviewed and verified by Mr. John W. Rozelle, of Gustavson Associates, LLC ("Gustavson") of Boulder Colorado in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"). A summary of the results are included in the accompanying table and a copy of the full Technical Report was filed on SEDAR (www.SEDAR.com) on April 20, 2007.

Proven and Probable Reserves		**January 31, 2007**				
	Tonnes	Au g/t	Ag g/t	Pb %	Zn %	Cu %
Proven	152,657	4.43	166.71	2.94	2.42	0.30
Probable	283,860	5.45	158.38	2.60	2.57	0.31
Total	**436,517**	**5.09**	**161.29**	**2.72**	**2.52**	**0.31**

Measured and Indicated Resources (*)		**January 31, 2007**				
	Tonnes	Au g/t	Ag g/t	Pb %	Zn %	Cu %
Measured	112,497	6.17	231.97	4.07	3.38	0.41
Indicated	538,733	6.57	193.81	2.98	3.94	0.44
Total	**651,230**	**6.50**	**200.40**	**3.17**	**3.84**	**0.44**

(*) Includes proven and probable reserves but excludes inferred resources.

Inferred Resources (**)		**January 31, 2007**				
	Tonnes	Au g/t	Ag g/t	Pb %	Zn %	Cu %
Constancia Vein	1,447,438	6.28	185.38	3.61	3.79	0.36
Wellington Vein	744,858	6.94	228.92	2.39	3.94	0.58
Escondida	193,688	4.85	282.11	2.92	3.85	0.43
San José	63,010	3.95	139.03	11.14	0.10	0.10
Colquipallana	170,253	9.49	219.28	3.59	4.10	0.00
Animas	907,405	2.36	457.53	0.30	0.48	0.11
Rocío	384,566	3.67	174.18	2.19	4.94	0.60
Total	**3,911,218**	**5.27**	**261.23**	**2.56**	**3.12**	**0.35**

(**) Mineral resources which are not mineral reserves do not demonstrate economic viability.

OPERATIONS UPDATE

A ground displacement detected near the Coricancha processing plant and tailings handling area prompted management to temporarily suspend production on May 9. Mining operations, as well as the crushing and grinding circuit, are not part of the affected area. Following extensive testing and analysis, the Company's geotechnical consultants determined that the cause of the movement was a third-party saturation irrigation system installed on neighboring property uphill from the tailings and processing plant. The irrigation system, which has a potential capacity of more than 1,000,000 litres per day, is now shut off by government order. In addition to Gold Hawk's facilities, several other facilities are at risk due to the water saturation of the hillside. A key commercial railway, a national highway and an hydroelectric power station are also at risk due to the ground displacement.

On July 18, 2008, the Peruvian government issued an emergency Decree declaring a State of Emergency in the District of San Mateo. Following directives included in this Decree, the Company is taking the necessary steps to stabilize the area and mitigate the landslide risk. Mitigation efforts and de-watering to date have been successful, with slope stability achieved by early August and ground movement slowed to a rate that is no longer detectable by instrumentation.

As a result of the ground displacement, the Company decided in early June it would no longer seek final approval of the Southern Extension tailings area adjacent to its existing tailings handling area. Instead, Gold Hawk is using an accelerated approach in cooperation with area communities and other stakeholders to establish a long-term tailings handling solution at the Chinchan site approximately 30 kms from Coricancha. Site preparation at Chinchan is underway with topsoil removal and the moving of existing tailings from the present impoundment into adjacent temporary staging areas. Plans for the design of the Chinchan tailings impoundment were submitted to the government for initial review in mid-August and permits are expected in the coming weeks. The Company has also received and is reviewing initial estimates of costs to relocate the tailings and the processing plant.

Prior to May 9, Gold Hawk attained a number of significant operational achievements in the three-month period ended June 30, 2008. Primary among these are the continued improvements in recoveries for all metals mined at the Coricancha Mine. An average throughput of 410 tonnes per day (tpd) was processed in the second quarter totaling 15,587 tonnes. Tonnes of ore milled improved throughout the period, from an average of 350 tonnes per day (tpd) in early April, to more than 500 tpd in the second half of April. On several occasions, more than 580 tpd of ore were processed. Mill throughput remained temporarily below capacity because of tailings handling limitations, which will be remedied with the installation of new filter press equipment that is on site and was under construction when production was halted.

Concentrate produced for the partial quarter was 314 tonnes and 409 tonnes of lead and zinc concentrate, respectively. Concentrate grades for lead and zinc have been improving since commercial production began, as well as compared to first quarter 2008 and fourth quarter 2007 results, with an average lead concentrate grade of 56.1% and zinc concentrate of 52.0% in the partial second quarter. Average mill head grades for gold and silver is showing improvement with gold improving from 3.13 g/t in the first quarter to around 3.70 g/t in the latter part of April.

The improvements in recoveries in both the floatation and gold circuits is a direct result of fine-tuning flow sheets to better suit the ore and grade for silver, lead and zinc. In the case of gold, an increase in the treatment process temperature directly improved recoveries by up to 30%, from approximately 40% to 70% immediately prior to the suspension of operations. Gold concentrate grade and recoveries in the Arsenopyrite concentrate achieved budget for the first time just prior to suspension on May 9. While the sample days when these recoveries were attained were not statistically deep, the Company believes it has the necessary information and results to attain its targeted 68% gold recovery rates when production re-starts.

The results for the three months ended June 30, 2008 (see "Results from Operations" below), were affected by temporary tailings handling limitations initially encountered in the fourth quarter of 2007 and due to the high-moisture output of the existing vacuum filtering equipment. The Company looks forward to the commissioning of the new filter press once in production and it is expected that rated production of 600 tpd will be reached. A second filter press is on order and will be used as a backup during maintenance and repairs.

The Dense Media Separation (DMS) plant under construction will reduce waste rock (dilution) from the run of mine ore before it is processed, leading to higher grade of ore to be milled. The DMS plant and filter press will both be installed prior to re-start.

Rehabilitation work to allow access to older areas of the Constancia Vein where higher grade resource stopes are located was continued in the second quarter and some of the less productive and less stable stopes in the Wellington Vein have been vacated to focus mining of the Constancia Vein stopes. It is the Company's intention to continue this approach once full operations have resumed.

EXPLORATION

Due to the suspension of operations and the Company's cost-control measures, the Company did not advance its exploration program during the second quarter. The primary exploration target remains in the lower area of the mine at the 3,140 meter level. Exploration is on two levels, the main 3,140 meter level and a sub-level located three meters above the main 3,140 meter level. Mineralogical comparisons between the Constancia Vein in the higher levels of the mine and the 3,140 meter level vein appear to correlate both geologically and physically and thus there is a high probability that the 3,140 meter level vein is in fact the downward extension of the Constancia Vein.

Projecting this vein southward to the property boundary gives approximately an additional 2,000 meters of potential strike length to be developed. With a vertical extent of 320 meters and the strike length of 2,000 meters, there is the potential to significantly increase the total resources in the Constancia Vein between the 3,140 and 3,460 meter levels. In addition, the vein is open at depth below the 3,140 meter level.

Mr. Rodney Lamond, P. Eng. is the Qualified Person as defined by National Instrument 43-101 for technical information contained in this MD&A, and Mr. Lamond has reviewed and approved all technical information contained in the MD&A.

RESULTS FROM OPERATIONS

For the three-month period ended June 30, 2008, the results from operations reflect April 1 to May 8 commercial production at the Coricancha Mine. For the three-month periods ended June 30, 2008, March 31, 2008 and December 31, 2007, the mine production is summarized as follows:

For the Quarter Ended	June 30, 2008	Mar 31, 2008	Dec 31, 2007
Ore processed/tonnes milled	15,587	36,908	35,207
Average tonnes milled per day *	410	405	382
Average gold grade (grams/tonne)	3.06	3.13	2.66
Gold recovery (%)	43	41	21
Gold ounces produced	653	1,511	647
Average silver grade (grams/tonne)	91	95	81
Silver recovery (%)	79	79	77
Silver ounces produced	35,946	81,622	70,676
Pounds of lead produced	390,127	804,616	561,076
Pounds of zinc produced	468,012	885,009	814,828

* For the 3 months ended June 30, production ceased on May 8.

Prior to the temporary suspension of crushing and milling operations, there were further improvements in the operating rate, metal recoveries, concentrate grades and production compared to first quarter results.

For the quarter ended June 30, 2008, revenues from the sale of gold and silver dore, and from lead and zinc concentrates, totaled $3,289,476 (Q2, 2007 $Nil) for the period, and direct operating costs totaled $5,295,076 (Q2, 2007 $Nil). Direct operating costs include non-cash expenses of depreciation and depletion of $634,728 (Q2, 2007 $Nil) and accretion of asset retirement obligation of $259,926 (Q1, 2007 $Nil).

Transportation costs to move wet tailings as well as dike maintenance costs for the tailings handling area added US$351,131 of direct costs for the three-month period ended June 30, 2008.

Summary of Quarterly Results

	June 30, 2008	Mar 31, 2008	Dec 31, 2007	Sept 30, 2007
Sales revenue	$ 3,289,476	$ 2,703,855	$ 1,665,525	$ -
Interest income	$ 4,327	$ 10,967	$ 57,695	$ 64,946
Net loss before extraordinary loss	$ (4,798,472)	$ (3,731,226)	$ (3,199,124)	$ (3,567,558)
Basic and diluted loss per share	$ (0.03)	$ (0.02)	$ (0.02)	$ (0.02)
Extraordinary loss	$ (16,542,015)	$ -	$ -	$ -
Basic and diluted loss per share	$ (0.10)	$ -	$ -	$ -
Net loss for the period	$ (21,340,487)	$ (3,731,226)	$ (3,199,124)	$ (3,567,558)
Basic and diluted loss per share	$ (0.12)	$ (0.02)	$ (0.02)	$ (0.02)

	June 30, 2007	Mar 31, 2007	Dec 31, 2006	Sept 30, 2006
Sales revenue	$ -	$ -	$ -	$ -
Interest income	$ 50,235	$ 99,073	$ 16,609	$ 23,704
Net loss for the period	$ (4,795,153)	$ (699,969)	$ (2,296,531)	$ (449,475)
Basic and diluted loss per share	$ (0.03)	$ -	$ (0.02)	$ -

Interest revenue of $4,327 for the three months ended June 30, 2008, was interest earned on cash deposited with Scotiabank Canada and in guaranteed investment accounts. Interest revenue of $50,235 in the comparable 2007 period was from interest earned on proceeds deposited in December 2006 from the exercise of 32,500,000 warrants. The Company has no exposure to asset backed commercial paper.

During the quarter, the Company recorded a net loss before extraordinary loss of $4,798,472 ($0.03 basic and diluted loss per share) as compared with a net loss of $4,795,153 ($0.03 basic and diluted loss per share) in 2007. The loss for the current year includes a loss from mining operations for the quarter ended June 30, 2008 of $2,900,254 (Q2, 2007 $Nil), incurred in the Company's April 1 – May 8 partial quarter of commercial production at its Coricancha Mine in Peru.

Additional items contributing to the quarterly loss included stock-based compensation expense of $50,000 (Q2, 2007 $529,000). During the period, a gain on the Company's lead and zinc derivative instruments of $324,297 (Q2, 2007 ($1,725,541)) was also incurred, consisting of both losses incurred on derivative settlements as they came due and a mark-to-market adjustment on the Company's existing derivative instruments prior to May 27, when the Company settled all instruments for proceeds of $348,175. Although the Company has entered into these derivatives with the intent of minimizing price risks associated with fluctuating metal commodity prices, the Company's derivative undertakings do not qualify for 'hedge accounting' treatment under Canadian GAAP. Also contributing to the first quarter loss was increased general and administration expenses of $1,353,502 (Q2, 2007 $615,437), which have increased as the Company strengthened its management team and incurred additional expenditures while actively pursuing its growth strategy.

Also contributing to the loss was a foreign exchange loss of $109,185 (Q2, 2007 $1,658,095), which resulted primarily from the weakening of the $Canadian/$US exchange rate on the Company's US dollar loan advances to its foreign subsidiary.

On May 9, the Company temporarily suspended operations at its Coricancha Mine in Peru due to ground displacement in and around its tailings area caused by a third-party saturation irrigation of the Tamboraque hillside.

Mitigation work has contributed to the stabilization of the hillside and has greatly reduced the risk of a landslide. To account for these measures the Company has written-down some of its related assets and recognized a current liability related to the mitigation efforts.

The third-party irrigation system responsible for the ground displacement and temporary suspension of mining operations and production has been classified as an extraordinary event as it is not expected to occur frequently, it does not typify the Company's normal business activities, and it does not depend primarily on decisions made by management. Details are summarized as follows:

		Amount
Value added tax receivable **(b)**	$	3,073,466
Property, plant and equipment		
Tailings extension **(c)**		398,694
Plant **(d)**		2,497,884
Asset retirement obligation (Coricancha processing plant and tailings)		
Tailings area mitigation **(e)**		7,137,900
Processing plant mitigation **(e)**		3,568,950
Effect of translation of foreign currencies		(134,879)
Extraordinary loss	**$**	**16,542,015**

a) The company intends to claim all expenses incurred due to the ground displacement caused by a third-party irrigation system. All funds received from insurance claims will be offset against the losses resulting from these write-downs.

b) Value added tax receivable can be offset against future sales. Due to the temporary suspension of mining operations and the resulting uncertainty of future sales, there is no assurance that the full value can be recovered.

c) Use of the planned Southern Extension to the current tailings facility will no longer occur due to the risks related to the ground displacement in the area. All related capitalized construction costs have been written off.

d) Due to the ground displacement in and around the tailings area and the related risks it poses to the processing plant located downhill, mitigation efforts may require the dismantling of all or part of the processing plant thus reducing its current value.

e) The Company recorded a current liability to account for the estimated mitigation costs related to ground displacement in the tailings area. The Company intends to offset these costs using future insurance funds received from the Company's current insurance claims.

An analysis of general and administration expenses for the quarter ended June 30, 2008, is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2008	**June 30, 2007**	**June 30, 2008**	**June 30, 2007**
Capital tax	$ 237,073	$ 31,711	$ 261,787	$ 31,711
Filing costs and shareholders' information	60,694	64,785	92,057	83,711
Insurance	10,102	37,395	19,993	75,219
Meals and entertainment	6,963	4,535	12,165	6,785
Miscellaneous	20,390	8,914	66,572	15,596
Office expenses	31,669	11,285	49,857	40,027
Professional and consulting fees	341,828	63,052	439,982	147,314
Rent	24,411	30,619	47,487	49,173
Salaries and benefits	501,328	233,313	911,270	453,431
Security	-	67,226	-	124,814
Telecommunications	24,305	5,798	42,634	10,984
Travel	94,739	56,806	165,994	152,004
	$ 1,353,502	**$ 615,439**	**$ 2,109,798**	**$ 1,190,769**

Insurance expense of $10,102 includes a policy covering the directors and officers of the Company. The comparable 2007 expense of $37,395 includes a comprehensive policy on the Coricancha Mine facility, which subsequent to the commencement of commercial production (October 1, 2007) has been classified as cost of sales and is no longer included in General and Administrative Expenses. Salaries and benefits costs of $501,328 (Q2, 2007 $233,313) have increased over the comparable 2007 period as the Company strengthened its leadership and operations teams in both Vancouver and Peru. Professional and consulting fees of $341,828 (Q2, 2007 $63,052) consist primarily of legal, accounting and audit costs. The Company now maintains an experienced team to manage the Coricancha project and as well to focus on additional growth opportunities. Security expenses primarily consist of contracted non-employee security workers at the Coricancha Mine and processing plant sites. At commencement of commercial operations (October 1, 2007), these costs, which had previously been considered general and administrative expenses, were classified as cost of sales. Travel expenses of $94,739 (Q2, 2007 $56,806) relate to visits to Peru by management and other travels to review mining equipment delivery progress.

The only component of the other comprehensive income was a loss of $216,240 (Q2, 2007 ($17,947)) relating to the Company's foreign currency translation adjustment of its foreign operation.

OUTLOOK

The Emergency Decree issued on July 18 by the Presidential Council of Ministers of Peru declared a state of emergency in the District of San Mateo, specifically the Tamboraque hillside near the Company's Coricancha tailings area and processing plant, and calls for the relocation of these facilities. The re-start of mining activities at Coricancha and processing production relies upon a number of pre-conditions, including adequate financing, geotechnical counsel regarding the ground displacement and approval and completion of the long-term Chinchan tailings impoundment area.

Subsequent to May 9, the Company has completed a US$2.0 million bridge loan, a $3.3 million private placement and received a US$2.0 million advance on its insurance claims. The claims are associated with business interruption and property insurance on assets affected by the ground displacement near its Coricancha facilities 90 kms east of Lima, Peru. The US$2.0 million advance on the Company's claim is part of total coverage of US$14.5 million included in the insurance policy. The company intends to claim all expenses incurred due to the ground displacement caused by a third-party saturation irrigation system, which led to Gold Hawk's decision to temporarily cease production in May 2008.

Gold Hawk expects to receive additional advances on its insurance claims following the completion of the insurance company's evaluation and as the Company submits relocation and mitigation cost estimates.

Engineering and business planning are underway and the Company is completing necessary documentation for submission to the Ministry of Energy and Mines for the construction permits to begin work at Chinchan. Gold Hawk anticipates permits to move the tailings and processing plant will be issued in the coming weeks, and that production will restart in the second quarter 2009.

Gold Hawk's management team was enhanced during the second quarter with the addition of Omar Salas as Vice President Finance and Chief Financial Officer effective May 1. Mr. Salas has extensive international experience in the mining industry with a focus on Latin America working for companies such as Placer Dome, Glencairn Gold and Rusoro Mining. He has held several senior finance positions in his more than 20 years in the industry and is fluent in Spanish, English and French. Mr. Salas was most recently the CFO of Rusoro Mining where he successfully completed all post-acquisition filings with regulatory bodies, organized the Treasury function and reinforced internal accounting controls.

Subsequent to the end of the quarter, the Board accepted the resignation of John D. Bracale as Director and appointed René Galipeau to the Board as Director. Mr. Galipeau is a CGA and a seasoned mining executive with more than 30 years of experience. He is currently the Vice Chairman and CEO of Nuinsco Resources Limited. and Victory Nickel Inc. and has been a director of 14 public mining companies and two private companies and currently sits on the Boards of Nuinsco, Wallbridge Mining Company Ltd., Campbell Resources Inc. and Victory Nickel. During his career, he has held the position of Chief Financial Officer of several mining companies, including nine years in that role at Breakwater Resources, and also has considerable experience in marketing, trading and corporate development. Mr. Galipeau has also been appointed to be a member of the Company's Audit Committee.

In addition to organic growth, it is management's objective to grow the Company and build value for shareholders by pursuing external opportunities.

RISKS AND UNCERTAINTIES

The following is an overview of the risk factors to be considered in relation to our business. Specific risk factors to be considered are as follows:

Going Concern

The Company's capability to continue as a going concern is dependent upon its ability to obtain additional debt or equity financing to meet its obligations as they come due, and to successfully achieve profitable operations in the future. If the Company were unable to continue as a going concern, then significant adjustments would be required to the carrying value of assets and liabilities, and to the balance sheet classifications currently used.

The Company's cash flow has been adversely affected by the temporary suspension of mine operations; consequently, management has initiated a strict cost control program to effectively control expenditures. In spite of these cost control measures, it is expected that cash on hand at August 29, 2008, will not be sufficient to fund the Company's needs for the near future. Management is currently reviewing several funding options including equity and debt financing and is in active discussions with its primary lenders. Specifically, the Company has negotiated a "standstill" agreement with its primary lender that postpones all scheduled payments until October 1, 2008.

Subsequent to the quarter ended June 30, 2008, the Presidential Council of Ministers of Peru issued an Emergency Decree declaring a State of Emergency in the Tamboraque hillside near the Company's Coricancha tailing area and processing plant. The Decree states that due to the risk created by the saturation irrigation of the hillside by a third party irrigation system and calls for the relocation of these facilities. The Company is currently pursuing an insurance claims associated with business interruption and on property affected by the unexpected ground displacement near its Coricancha facilities. Subsequent to the quarter ended June 30, 2008, the Company received a US$2.0 million dollar advance on its insurance claims.

While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. With additional financing and the restart of production at the Coricancha Mine, the Company believes that it will have sufficient funds for working capital based on the Company's current mine plan and budget, however, there is no assurance that additional funding and/or the restart of production will be achieved. Future cash flows generated will depend on volumes produced, commodity prices, exchange rates, the level of operating costs and other factors. If the company is unable to secure additional financing, repay liabilities as they come due, and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

LIQUIDITY AND CAPITAL RESOURCES

The Company expects to finance its cash flow needs through equity financing and loan facilities in 2008. The Company has also received a US$2.0 million advance from its current property insurance claim related to the ground displacement in the tailings area, and it is currently processing a business interruption claim. The Company intends to claim all admissible expenses incurred due to the ground displacement near its Coricancha facilities. While the Company has been successful in raising funds in the past, there is no assurance that it will continue to do so in the future. Although the Company achieved commercial production at the Coricancha Mine in Peru on October 1, 2007, it has not yet generated a profit from mining operations. The Company has incurred losses from inception including a net loss before extraordinary items of $4,798,472 for the three months ended June 30, 2008, and has a working capital deficiency of $22,628,174 as at June 30, 2008. The decrease in working capital is due to the ongoing expenditures made since January 1, 2007 relating to the development of the Coricancha Mine, the delays incurred in reaching full rated operating capacity, the fact that the Company's loan facility is now all current, and the added mitigation liability related to stabilizing the Tamboraque hillside and moving the tailings to a new location.

As the mine has limited history of operation there can be no assurance that the mine will generate positive cash flow and there can be no assurance that other sources of funding would be available. Failure to generate positive cash flow or obtain additional funding could result in the delay or indefinite postponement of the mining operations and further exploration and development of the Company's properties. The Company has negotiated a "standstill" agreement with its primary lender that postpones all scheduled payments until October 1, 2008. The Company is in discussions with its lending partners and intends to replace or renegotiate all of its existing loan facilities prior to them becoming due.

Cash on hand at August 29, 2008, and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. Therefore, the Company will need funding through equity or debt financing, and its insurance claims, or a combination thereof.

Investing activities

Peru – Coricancha Mine

During the three-month period ended June 30, 2008, the Company acquired plant and equipment in the amount of $544,615 (Q2, 2007 $1,183,538). The final payment of US$113,500 (total purchase price US$376,500) for two refurbished filter presses, ordered by the Company as the permanent solution to remove almost all of the moisture content in the tailings, was made during April 2008. In May, the first filter press arrived in Lima and is currently awaiting installation.

Ongoing rehabilitation work was continued in the areas of the mine scheduled for future production. The construction of the DMS plant was advanced with the completion of the concrete foundation installation and the surrounding structure. Due to the temporary suspension of mining operations caused by the ground displacement near its tailing area, the Company has placed many of its capital expenditure plans on hold as it focuses on mitigating the risks created by the ground displacement. Mitigation activities include the relocation of the processing plant as stated in the Emergency Decree. The work will involve the dismantling of all or part of the processing plant thus reducing its current value resulting in a write down of $2,497,884.

Commitments

The Company's loan payable, which totals US$9,687,500 as at August 29, 2008, is all current and due by October 1, 2008. On June 2, 2008, the Company made its US$937,500 scheduled repayment of its current short-term debt with the next payment being the full amount due on October 1.

The Company has commitments under various office, vehicle and equipment lease agreements, with minimum future payments as follows:

		Amount
2008	$	87,650
2009		98,041
2010		19,005
2011		-
Total	**$**	**204,696**

Financial commitments specific to the Coricancha Mine and mining in Peru are detailed in Note 16 of the June 30, 2008 unaudited Financial Statements.

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Peru and a portion of its revenues and expenses are incurred in US dollars and/or Nuevo Soles. A significant change in the currency exchange rates between the Canadian dollar relative to the other currencies could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

Asset Retirement Obligations

The Company has prepared a site reclamation and closure cost estimate and engaged an independent engineering firm to assess available alternative methods of restoration and assist in the preparation and implementation of an environmental management plan. Due to the ground displacement near the current tailings area, the Company is undertaking mitigation, safety and planning measures to stabilize the area and reduce the risk of a landslide. Management has estimated an approximate cost of $10,706,850 (US$10,500,000) to enact these measures. The

Company has estimated and recorded a liability for asset retirement obligations of $21,822,902 as at June 30, 2008 ($11,558,152, June 30, 2007). The estimated future cash flows have been discounted using a credit-adjusted risk-free rate of 9.0%. The asset retirement obligation represents the legal and contractual obligations associated with the reclamation and monitoring activities and the removal of tangible assets at the Coricancha Mine in Peru.

The mine closure obligation has been calculated on the basis of an estimated life of mine of six years. Like most narrow vein underground mines, the proven and probable reserves are limited, not because of a lack of resources, but rather because of the cost of converting resources to reserves. There are considerable measured, indicated, and inferred resources available at the Coricancha Mine at this time, and it is Managements' opinion that a significant portion of these resources will be converted into the proven and probable categories as the mine's development progresses. The six year life of mine used for estimating the asset retirement obligations is based on an estimated 33% conversion of these resources into proven and probable reserves.

Off-Balance Sheet Arrangements

The Company's only off-balance sheet arrangements include the commitments described elsewhere in this MD&A.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, various commitments including capital lease obligations, and debt facility. In management's opinion, the Company is not exposed to significant interest rate or credit risk arising from these financial instruments, with the exception of advances made to its self sustaining subsidiary denominated in US dollars, on which the Company could be exposed to a foreign exchange risk. The Company also has cash and certain liabilities denominated in Peruvian New Soles and in US dollars. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates. As of June 30, 2008, the Company has not yet reached targeted operations, and accordingly, has not entered into any forward exchange contracts or other instruments to fix the rate at which future anticipated flows of US dollars are exchanged into Canadian dollars.

The Company is also exposed to price risk due to changes in commodity prices related to its production. Changes in commodity prices may have a significant affect on potential future cash flows thus exposing the Company to the possibility of impairment write-downs.

The Company is exposed to credit risk through its cash and cash equivalents, restricted cash, and value added tax and trade receivables on concentrate sales. The Company manages this risk by requesting advances of up to 95% of the value of the concentrate shipped as per the terms of its off-take agreement. The Company deposits cash and cash equivalents and restricted cash with high credit quality financial institutions, and enters into derivative instruments with a large, well diversified multinational. Credit risk is considered to be minimal. As at June 30, 2008, the Company's maximum exposure to credit risk was the carrying value of value added tax receivables. Given the uncertainty of future sales due to the temporary suspension of mining operations, an allowance of $3,073,466 for value added tax receivable has been recorded.

The Company's short term debt bears interest at fluctuating rates. The Company believes it is not exposed to significant interest rate risks.

OUTSTANDING SHARE DATA

As at August 29, 2008, the Company had the following issued and outstanding common shares and unexercised stock options and warrants:

	Shares and Potential Shares
Common shares outstanding	226,122,144
Stock options (average exercise price $0.36)	11,395,000
Warrants (average exercise price $0.27)	8,482,061
Total common shares and potential common shares	245,999,205

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These interim consolidated financial statements are prepared in accordance with Canadian GAAP on a basis consistent with those followed in the most recent audited annual consolidated financial statements as at December 31, 2008, except as described in our consolidated financial statements. Certain of our accounting policies are recognized as critical because they require management to make subjective or complex judgments about matters that are inherently uncertain. Our critical accounting policies and estimates relate to:

- Recoverability of long-lived assets including mineral properties and deferred exploration expenditures;
- Fair value of net assets acquired in a business combination;
- Environmental and post-closure obligations;
- Depreciation and depletion of mineral properties, plant and equipment;
- Stock based compensation and other stock-based payments
- Future income taxes; and,
- Accrued and contingent liabilities.

Management believes it has made estimates that best reflect the facts and circumstances, however, actual results may differ from estimates.

NEW ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's objectives, policies, and processes for managing capital. This section has been adopted effective January 1, 2008. See Note 7 of the June 30, 2008, interim consolidated financial statements for additional details.

Effective January 1, 2008, the Company adopted Section 3031, Inventories, which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new section has been adopted effective January 1, 2008 and resulted in no material changes to the Company's financial position or results of operations.

Effective January 1, 2008, the Company adopted Section 3862, Financial Instruments – Disclosures ("Section 3862") and Section 3863, Financial Instruments – Presentation ("Section 3863"). Section 3862 requires disclosure of detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These sections have been adopted effective January 1, 2008. See Note 8 of the June 30, 2008, interim consolidated financial statements for additional details.

These standards have been adopted beginning January 1, 2008.

International Financial Accounting Standards

In February 2008 the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations on January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect our reported financial position and results of operations, and also affect certain business functions. The Company has not yet completed an evaluation of the adoption of IFRS and its impact on the financial position and results of operations. The Company plans to complete an evaluation of the impact of the IFRS standards during the remainder of 2008 and address the key elements of an implementation plan for the year end 2008 MD&A. The implementation plan may address the impact of IFRS on: (i) accounting policies, including choices among policies permitted under IFRS and implementation decisions such as whether changes will be applied on a retrospective or a prospective basis; (ii) information technology and data systems; (iii) internal control over financial reporting; (iv) disclosure controls and procedures, including investor relations and external communications plans; (v) financial reporting expertise, including training requirements; and (vi) business activities.

FORWARD-LOOKING INFORMATION

Information contained herein may constitute forward-looking statements within the meaning of applicable securities laws. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections that are included in these forward-looking statements. The Company believes that it has a reasonable basis for making such forward-looking statements, which may include estimates, plans, expectations, opinions, forecasts, projections, guidance, or other statements. However, forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Undue reliance should not be placed on forward-looking statements. They are not a substitute for the exercise of one's own due diligence and judgment. The outcomes anticipated in forward-looking statements may not occur and we do not undertake to update forward-looking statements. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.