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Gold Hawk Resources Inc.

Management's Discussion & Analysis
For the Three and Nine Months Ended September 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 and nine months ended September 30, 2008.

This discussion dated December 1, 2008 should be read in conjunction with the Company's unaudited consolidated Financial Statements and associated Notes for the three and nine months ended September 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 September 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, zinc and copper. 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.

In early May 2008, a ground displacement detected near the processing plant and tailings handling area prompted management to temporarily cease production. The Company's geotechnical consultants determined that the main cause of the movement was a third-party saturation irrigation system installed on neighbouring property uphill from the tailings and processing plant. An Emergency Decree was issued by the Presidential Council of Ministers of Peru that declared a State of Emergency in the Tamboraque area where our property is located. The decree stated that due to the risk created by the saturation irrigation of the hillside, the Company must begin both the transport of tailings to new facilities and the relocation of its processing plant. Mitigation work to drain the hillside has been successful with geotechnical measurements showing decreasing ground movement to a rate that is no longer detectable by instrumentation. The Company is currently pursuing an insurance claim associated with business interruption and on property affected by the ground displacement. During the quarter ended September 30, 2008, the Company received a US$2 million dollar advance on its insurance claim. Contingent on the issuance of the necessary permits and receipt of required financing, Gold Hawk expects to return to production in the second quarter of 2009.

In addition to organic exploration potential at its Coricancha Property, 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.

THIRD QUARTER 2008 HIGHLIGHTS

NOTE: Due to the production suspension as of May 9, 2008, the Company did not realize any sales or costs related to mining operations for the three months ended September 30, 2008.

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

- Completion of a US$3.3 million private placement financing in July;
- Achieved slope stability in and around Coricancha tailings and processing plant in late July; and
- Receipt of US$2.0 million advance on property insurance claim in August.

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 a hydroelectric power station are also at risk due to the ground displacement.

The Company undertook immediate mitigation and de-watering efforts, which to date have been successful, with slope stability achieved in early August and ground movement slowed to a rate that is no longer detectable by instrumentation.

On July 18, 2008, the Peruvian government issued an emergency Decree declaring a State of Emergency in the District of San Mateo. The Company has followed the Decree directives and taken additional steps to stabilize the area and mitigate the landslide risk.

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 permit and 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 near future. The Company has also received and is reviewing initial estimates of costs to relocate the tailings and the processing plant.

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 and use permits to begin placing tailings at Chinchan. Contingent on the issuance of the necessary permits and receipt of required financing, Gold Hawk expects to return to production in the second quarter of 2009.

Management and Directors Changes

During the quarter ended September 30, 2008, 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 and Wallbridge Mining Company Ltd. 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 and most recently been appointed as Chairman of the Audit Committee (see below).

Subsequent to the quarter end, Richard Godfrey resigned as a Director of the Company due to his expanded CFO role following the merger of Sherwood Copper and Capstone Mining. The Company thanks Mr. Godfrey for his invaluable contributions, particularly in his role as the Company's Audit Committee Chairman and for his leadership and guidance during the transition to a commercially producing company, as well as his leadership during the Company's CFO transition earlier this year. Following his departure the Board of Directors appointed Michel Tardif to the Audit Committee. Mr. Tardif is an investor involved in senior financial ventures and was formerly a financial analyst for brokerage firms in Montreal.

EXPLORATION

Due to the suspension of operations and the Company's cost-control measures, the Company did not advance its exploration program during the third quarter. The primary exploration target remains in the lower area of the mine at the 3,140 metre level. Exploration is on two levels, the main 3,140 metre level and a sub-level located three metres above the main 3,140 metre level. Mineralogical comparisons between the Constancia Vein in the higher levels of the mine and the 3,140 metre level vein appear to correlate both geologically and physically and thus there is a high probability that the 3,140 metre 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 metres of potential strike length to be developed. With a vertical extent of 320 metres and the strike length of 2,000 metres, there is the potential to significantly increase the total resources in the Constancia Vein between the 3,140 and 3,460 metre levels. In addition, the vein is open at depth below the 3,140 metre 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 periods ended September 30, 2008, June 30, 2008, March 31, 2008 and December 31, 2007, the mine production is summarized as follows:

For the Quarter Ended	Sept 30, 2008	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.

For the quarter ended September 30, 2008, the Company did not realize any revenues or operating costs due to the suspension of mining operations. Site maintenance and security costs totaled $382,681 and non-cash expenses included depreciation of $369,561 (Q3 2007 $Nil) and accretion of asset retirement obligation of $242,597 (Q3 2007 $257,994).

Summary of Quarterly Results

The following table presents our unaudited quarterly results of operations for each of the last eight quarters. The Company's interim consolidated financial statements are prepared in accordance with Canadian GAAP. All figures are in thousands of Canadian dollars except gain (loss) per share:

	Sept 30, 2008	June 30, 2008	Mar 31, 2008	Dec 31, 2007	Sept 30, 2007	June 30, 2007	Mar 31, 2007	Dec 31, 2006
Sales revenue - $	-	3,289	2,704	1,666	-	-	-	-
Interest income - $	5	4	11	58	65	50	99	17
Net loss before extraordinary loss - $	(1,792)	(4,798)	(3,731)	(3,199)	(3,568)	(4,795)	(700)	(2,297)
Basic and diluted loss per share - $	(0.01)	(0.03)	(0.02)	(0.02)	(0.02)	-	-	-
Extraordinary gain (loss) - $	2,084	(16,542)	-	-	-	-	-	-
Basic and diluted gain (loss) per share - $	0.01	(0.10)	-	-	-	-	-	-
Net gain (loss) for the period - $	292	(21,340)	(3,731)	(3,199)	(3,568)	(4,795)	-	-
Basic and diluted loss per share - $	-	(0.12)	(0.02)	(0.02)	(0.02)	(0.03)	-	(0.02)

Interest revenue of $4,887 for the three months ended September 30, 2008, was interest earned on cash deposited with Scotiabank Canada and in guaranteed investment accounts. Interest revenue of $64,946 in the comparable 2007 period was from interest earned on the deposit of proceeds from an issuance of shares.

During the quarter, the Company recorded a net loss before extraordinary items of $1,791,905 ($0.01 basic and diluted loss per share) as compared with a net loss of $3,567,558 ($0.02 basic and diluted loss per share) in 2007. In addition to the items detailed below, the loss included site maintenance and security costs of $382,681 (Q3, 2007 $NIL), depreciation of $369,561 (Q3, 2007 $NIL) and accretion of asset retirement obligation of $242,597 (Q3, 2007 $257,994).

Additional items contributing to the quarterly loss included stock-based compensation expense of $253,090 (Q3, 2007 $204,030), administration expenses of $824,332 (Q3, 2007 $596.948), which have increased as the Company strengthened its management team and incurred additional expenditures while actively pursuing its growth strategy, and interest and bank charges of $419,329 (Q3, 2007 ($32,456)), mainly consisting of interest payments on outstanding loan facilities.

Reducing the loss was a foreign exchange gain of $696,701 (Q3 2007 ($1,754,217)), which resulted primarily from the strengthening of the $Canadian/$US exchange rate on the Company's US dollar loan advances to its foreign subsidiary.

Extraordinary Loss

On May 9, the Company suspended operations at its Coricancha Mine in Peru due to an unexpected ground displacement in and around its tailings area caused by the saturation irrigation of the Tamboraque hillside by a third-party irrigation system. Ongoing mitigation work has stabilized the hillside and significantly reduced the risk of a landslide occurring. 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. Details are summarized as follows:

		Amount
Value added tax receivable **(a)**	$	3,207,593
Property, plant and equipment		
Tailings extension **(b)**		416,093
Plant **(c)**		2,606,892
Asset retirement obligation (Coricancha processing plant and tailings)		
Tailings area mitigation **(d)**		7,449,400
Processing plant mitigation **(d)**		3,724,700
Proceeds from insurance claim **(e)**		(2,129,281)
Effect of translation of foreign currencies		(817,645)
Extraordinary loss	**$**	**14,457,752**

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

b) The planned southern extension to the current tailings facility became unusable due to the risks related to the ground displacement in the area. All related capitalized construction costs have been written off.

c) Due to the ground displacement of 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.

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

e) The company intends to claim all expenses incurred due to the ground displacement. All funds received from insurance claims will be offset against the losses resulting from these write-downs. During the quarter ended September 30, 2008, the Company received a US$2.0 million advance on its insurance claims.

General and Administrative Expenses

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

	Three Months Ended		Nine Months Ended	
	Sept 30, 2008	**Sept 30, 2007**	**Sept 30, 2008**	**Sept 30, 2007**
Capital tax	$ 5,843	$ 28,550	$ 267,630	$ 60,261
Filing costs and shareholders' information	33,373	14,266	125,430	97,975
Insurance	12,188	51,250	32,181	126,469
Meals and entertainment	8,376	2,448	20,541	9,233
Miscellaneous	6,510	26,103	73,082	41,699
Office expenses	37,070	13,839	86,927	53,866
Professional and consulting fees	110,758	38,798	550,740	186,112
Rent	23,406	40,753	70,893	89,926
Salaries and benefits	480,928	255,027	1,392,198	708,458
Security	-	58,731	-	183,545
Telecommunications	25,364	6,241	67,998	17,225
Travel	80,516	60,942	246,510	212,946
	$ 824,332	**$ 596,948**	**$ 2,934,130**	**$ 1,787,715**

Insurance expense of $12,188 includes a policy covering the directors and officers of the Company. The comparable 2007 expense of $51,250 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 $480,928 (Q3, 2007 $255,027) 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 $110,758 (Q3, 2007 $38,798) 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 and site maintenance. Travel expenses of $80,516 (Q3, 2007 $60,942) 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 $580,483 (Q3, 2007 ($141,064)) relating to the Company's foreign currency translation adjustment of its foreign operation.

OUTLOOK

Subsequent to the quarter end, the Company's lenders agreed to an amendment of the terms on the Company's debt and have extended the repayment date to December 31, 2008. This is contingent on the Company receiving Environmental Impact Assessment approval on the new Chinchan permanent tailings handling area on or before November 30, 2008. The Company is currently in the process of acquiring, and expects to receive, a waiver from its Lenders regarding this requirement, however, if the Company is unable to obtain a waiver, a payment of USD$750,000 would become due December 1, 2008. The US$9.7 million total debt was scheduled for repayment on October 1, 2008. It is expected this extension will give the Company the necessary time to obtain the permit required for the new Chinchan permanent tailings handling area and other approvals necessary to resume production at the Coricancha mine.

In consideration for amending the repayment date, the Company agreed to pay the lenders an extension fee of US$100,000 on the Maturity Date and 3,000,000 Gold Hawk Common shares payable one month after the date of execution of the amendment to the loan agreement. In addition, the Company agreed to issue to the lenders 15,000,000 purchase warrants exercisable for common shares of Gold Hawk at an exercise price equal to $0.06 per share. The warrants have an expiration date of March 31, 2011 and are subject to applicable Canadian securities laws.

The amended agreement and associated fees and purchase warrants are subject to certain conditions, including receipt of final approval of the TSX Venture Exchange.

In response to the receipt of an unsolicited expression of interest regarding all or part of the Company's wholly owned subsidiary and due diligence being conducted on the property by two other parties under confidentiality agreements, the Board of Directors has formed a Special Committee and has retained an independent financial advisor in Lima and Fraser Milner Casgrain LLP in Vancouver as its legal advisors.

There is no assurance that a specific proposal will arise as a result of the expressions of interest. Negotiations resulting from an expression of interest may or may not result in any specific transaction and no timetable has been set for the completion of any potential transaction.

While the permitting process for a permanent tailings handling area at Chinchan has been lengthier than the Company initially anticipated, Gold Hawk is working closely with the Peruvian government, specifically the Ministry of Energy and Mines, Ministry of Environment as well as other government ministries, to expedite the process within the framework of Peruvian law. The Company is in the final stages of completion of an Environmental Impact Assessment (EIA) of the proposed Chinchan tailings handling area and initial preparations have been made at Chinchan to accept tailings. Gold Hawk has maintained all of its prior permits for operation, mining, water and other regulatory commitments at the Coricancha mine site and processing plant.

A recent decree by the Presidential Council of Ministers of Peru declared that should the Company achieve stability of the Tamboraque hillside, relocate the tailings and maintain safety and monitoring procedures, the dismantling and relocation of the processing plant may no longer be required.

Public meetings held in the area at the end of October were favourably received. The Company has strong support among the communities near the mine and proposed permanent tailings disposal sites and positive relationships with community members.

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 and it is expected that cash on hand at December 1, 2008, will not be sufficient to fund the Company's needs for ongoing activities. 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 an amendment agreement with its primary lender that postpones all scheduled payments until December 31, 2008. However, since there is no assurance the Company's financing efforts will succeed, there is substantial doubt regarding the "going concern" assumption.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of asset retirement obligations, future income taxes, recoverability of mineral properties, plant and equipment and the fair values of net assets acquired in business combinations. Actual results could differ from those estimates.

Liquidity and Capital Resources

The Company expects to finance its cash flow needs through equity financing and loan facilities in 2008. The Company 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 $1,791,905 for the three months ended September 30, 2008, and has a working capital deficiency of $20,027,555 as at September 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 an amendment agreement with its primary lender that postpones all scheduled payments until December 31, 2008. This is contingent on the Company receiving Environmental Impact Assessment approval on the new Chinchan permanent tailings handling area on or before November 30, 2008. The Company is currently in the process of acquiring, and expects to receive, a waiver from its Lenders regarding this requirement, however, if the Company is unable to obtain a waiver, a payment of USD$750,000 would become due December 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 December 1, 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, its insurance claims, or a combination thereof.

OTHER FINANCIAL INFORMATION

Commitments

The Company's loan payable, which totals US$9,687,500 as at December 1, 2008, is all current and due by December 31, 2008.

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

	Amount
2008	$ 44,988
2009	99,322
2010	19,005
2011	-
Total	**$ 163,316**

Financial commitments specific to the Coricancha Mine and mining in Peru are detailed in Note 16 of the September 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 $11,175,150 (US$10,500,000) to enact these measures. The Company has estimated and recorded a liability for asset retirement obligations of $21,636,698 as at September 30, 2008 ($11,773,916, September 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. During the three months ended September 30, 2008, the Company recorded asset retirement costs of $1,355,286 ($57,668, Q3 2007) with the increase from the comparable figure resulting from the mitigation, safety and planning measures required to reduce the risk of a landslide near the current tailings area.

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 Nuevo Soles and in US dollars. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates. As of September 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 September 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 $3,207,593 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 risk.

Share Capital Transactions

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.

During the quarter ended September 30, 2008, options were granted to purchase 3,085,000 shares in the capital stock of the Company at a price of $0.065 per share. An additional 160,000 options to purchase shares of capital stock were granted at a price of $0.08 per share. All options are exercisable for a period of five years.

Outstanding Share Data

As at December 1, 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 $0.32)	8,140,000
*Warrants (average exercise price $0.12)	22,382,061
Total common shares and potential common shares	256,644,205

*15 million warrants issued related to the October 2, 2008, loan amendment are subject to receipt of final approval of the TSX Venture Exchange.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There have been no changes in the Company's internal control over financial reporting during Q3, 2008 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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.

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.

NEW ACCOUNTING PRONOUCEMENTS ISSUED BUT NOT YET IMPLEMENTED

Goodwill and Intangible Assets

The Accounting Standards Board has issued a new Section 3064, "Goodwill and Intangible Assets", to replace current Section 3062, "Goodwill and Other Intangible Assets". The new section establishes revised standards for recognizing, measuring, presenting and disclosing goodwill and intangible assets. CICA 3064 is effective for fiscal years beginning on or after October 1, 2008, and will be adopted by the Company for the year ending December 31, 2009. Concurrent with the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-operating Period", will be withdrawn.

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

This document may contain "forward-looking statements" within the meaning of Canadian securities legislation. These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements. Forward-looking statements relate to future events or future performance and reflect management of the Company's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.