



Genco Resources Ltd.

**Management's Discussion and Analysis
For the Period Ended September 30, 2008**

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Introduction

The following Management's Discussion and Analysis ("MD&A") of Genco Resources Ltd. (the "Company" or "Genco") should be read in conjunction with the Company's consolidated financial statements for the period ended September 30, 2008 and audited consolidated financial statements for the year ended December 31, 2007 which are available, along with further information on the Company including any news releases and historical reports referred to in this MD&A, on the Company's web site www.gencoresources.com or the SEDAR website at www.sedar.com.

All information contained in this MD&A was prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) unless specifically stated otherwise. All dollar amounts are expressed in Canadian Dollars unless specifically stated otherwise.

Cautionary Note Regarding Forward Looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements that involve risks and uncertainties such as statements of the Company's plans, objectives, strategies, expectations, and intentions. The words "may", "would", "could", "will", "intend", "plan", "believe", "estimate", "expect" and similar expressions, as they relate to the Company, or its management, are intended to identify such forward-looking statements. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including those factors discussed below and in filings made with the Canadian securities regulatory authorities. Should one or more of these risk factors or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Company does not intend, and does not assume any obligation, to update these forward-looking statements.

Risks and uncertainties may include, but are not limited to, changes in general economic conditions, currency fluctuation, changes in the legal, social or political conditions, fluctuations in metals prices, changing costs of services and materials, difficulty in obtaining required equipment supplies and services in a timely manner, changes in reserve and resource estimates, changes in labour laws, access to capital, and other risks and uncertainties unique to the Company or common to public companies, mineral companies and companies doing business in multiple political jurisdictions.

Qualified Person

All scientific and technical information concerning the Company's projects which forms the basis for disclosure regarding such projects contained in this MD&A was prepared by or under the supervision of an independent consultant to the Company, Glenn R. Clark, P. Eng., a 'qualified person' for the purposes of National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101") of the Canadian securities administrators who has verified the data disclosed.

Financial Performance and Highlights

- Sales for the third quarter of 2008 were \$1,788,877, a decrease of 6% from the same period of 2007. Year to date sales for 2008 were \$6,125,063, an increase of 12% from the same period of 2007.

- Gross profit for the third quarter of 2008 was \$554,095 down 45% from the same period of 2007. Year to date gross profit for 2008 was \$1,221,832 down 51% from \$2,518,073 during the same period of 2007.
- Investment in exploration, new mine development and equipment totalled \$11,502,364 during the nine month period ended September 30, 2008.
- An extension was granted to Andover Ventures Inc. to sell to Andover the Company's shares in Chief Consolidated Mining Company. Genco now anticipates the transaction will close during the first quarter of 2009.

Overview

The Company's core asset is the producing La Guitarra silver/gold mine, located in the Temascaltepec Mining District ("the District") of Mexico. The Guitarra mine currently consists of two underground operation centres, La Guitarra and San Rafael, and a flotation mill with a nominal capacity of 340 tonne per day ("t/d") and a proven capacity of 320 t/d.

Genco believes significant potential exists to expand production within the 39,714 hectares of mining concessions it currently owns or leases in the District. Drilling conducted in the District since 2006 has identified significant mineralization and the possibility of developing multiple new underground and surface production centres. The Company has retained Kappes, Cassidy and Associates to prepare a Feasibility Study to assess the economics of expanding production.

Outlook

In July 2008, Genco added a third mill shift at the Guitarra Mine with a significant portion of the mill feed coming from development ore. At the time, it was expected that the Guitarra Mine would continue to operate at capacity with mill feed coming primarily from development ore as work proceeded to develop new areas for mining in advance of a significant production increase in 2010. Genco is currently re-evaluating the production and development plans in light of a significant change in market conditions with regards to metal prices and financing costs during the third quarter. Genco is evaluating several operating scenarios for the Guitarra mine taking into consideration current metal prices and financing options, and is committed to moving forward in the most cost-effective manner either through limiting development and processing only high grade ore, or the temporary suspension of operations until metal prices improve.

As of the date of this MD&A, the Guitarra Mine is closed due to a blockade of the Mine by workers of the primary contractor. The work stoppage appears to be an attempt by a minority of workers to unionize. Genco is using the work stoppage as an opportunity to reassess staffing requirements, production rates and revise the mine plan. If necessary, Genco will replace the existing contractor in order to reopen the Guitarra mine. As a result of the labour action, Genco expects fourth quarter production, sales and costs to be significantly lower than prior quarters.

The Feasibility Study, which was scheduled to be available to the Company in September, has been delayed. Upon release, Genco anticipates the study will offer a positive recommendation for expanding mining and milling at the Guitarra Mine, and the Company's primary focus remains significantly expanded production in the long term. The Company expects that general and administrative expenses will be lower in the future as the majority of work relating to the Feasibility Study has been completed. Investment in exploration, development and other infrastructure is expected to be significantly reduced from previous quarters until such time as the Feasibility Study is released and financing for mine expansion is secured.

Genco believes continued exploration of the Temascaltepec District will lead to significant increases in reserves and resources and the discovery of new areas of mineralization. The Company is confident the planned expansion of the Guitarra Mine is the first step in unlocking the District's potential.

Results of Mine Operations

Production

The mining rate increased during the three and nine month period ended September 30, 2008 compared to the same periods of 2007. All production during 2008 came from the underground Guitarra and San Rafael production centres.

Silver and gold grades during the first nine months of 2008 were lower than those during the same period of 2007 for three main reasons:

- an area of San Rafael produced unusually high gold grades in 2007 and this area was exhausted;
- higher metal prices resulted in lower grade ores becoming economic to exploit during 2008; and
- the processing of lower grade development ore during 2008.

During the three and nine month periods ended September 30, 2008 average mined gold grades were in line with reported estimated reserve grades and the Company expects this to remain true in the future.

Total equivalent silver ounces produced did not decline during the nine months ended September 30, 2008 when compared with the same period of 2007 as an increase in tonnes milled offset the decline in silver equivalent grades.

The following table summarizes metal production at the Guitarra Mine.

	Q3	Q3	%	YTD⁽¹⁾	YTD⁽¹⁾	%
	2008	2007	Change	2008	2007	Change
Tonnes ore milled	26,964	12,993	+108%	65,450	46,828	+40%
Tonnes ore milled per day	300	144	+108%	242	173	+40%
Silver equivalent grade (g/t)	223	418	-47%	256	359	-29%
Silver grade (g/t)	151	187	-19%	177	190	-7%
Gold grade (g/t)	1.26	4.29	-71%	1.48	3.31	-55%
Silver recovery (%)	86.73	88.03	-1%	88.89	84.39	+5%
Gold recovery (%)	78.08	90.29	-14%	82.83	84.67	-2%
eAg production (ounces ⁽²⁾)	146,082	161,244	-9%	457,163	443,517	+3%
Silver production (ounces ⁽²⁾)	103,523	70,405	+47%	321,722	236,593	+36%
Gold production (ounces ⁽²⁾)	750	1,692	-56%	2,527	4,064	-38%
eAg sales (ounces)	128,694	149,712	-14%	408,678	408,854	0%
Silver sales (ounces)	90,268	63,364	+42%	285,133	213,945	+33%
Gold sales (ounces)	677.18	1,608	-58%	2,305	3,827	-40%
Average realized silver price (US\$)	15.17	12.72	+19%	16.69	13.15	+27%
Average realized gold price (US\$)	860.83	682.90	+26%	894.54	669.76	+34%
Gold\$/silver\$ equivalency factor	56.75	53.69	+6%	53.60	50.93	+5%

⁽¹⁾Year to Date as of September 30

⁽²⁾Ounces contained in concentrate shipped during the period.

Production Costs

Cash costs and total production costs increased at La Guitarra during the nine month period ended September 30, 2008. The following table summarizes the mining costs at the Guitarra Mine for the period.

	9 Months Ended Sept 30, 2008	9 Months Ended Sept 30, 2007	12 Months Ended December 31, 2007
eAg sales (ounces)	408,678	408,854	520,064
Silver sales (ounces)	285,133	213,945	269,109
Gold sales (ounces)	2,305	3,827	4,839
Costs eAg Basis			
	US\$	US\$	US\$
Direct mining expenses	2,241,982	1,496,894	2,099,778
Third party processing & transportation	663,881	289,926	935,265
Cash operating cost per eAg ounce⁽¹⁾	6.36	4.37	5.84
Royalties ⁽²⁾	236,966	164,610	249,848
Total cash cost per eAg ounce⁽¹⁾	6.87	4.77	6.32
Amortization	719,424	626,717	862,471
Total production cost per eAg ounce⁽¹⁾	8.46	6.30	7.97
Costs net of Gold Credits			
	US\$	US\$	US\$
Direct mining expenses	217,138	(1,066,232)	(1,027,975)
Third party processing & transportation	663,881	289,926	935,265
Cash operating cost per Ag ounce⁽¹⁾	1.96	(1.90)	(0.19)
Royalties ⁽²⁾	224,444	164,610	249,848
Total cash cost per Ag ounce⁽¹⁾	2.46	(1.50)	0.32
Amortization	719,424	626,717	862,471
Total production cost per Ag ounce⁽¹⁾	4.05	0.03	2.11

(1) Cash Operating Cost, Total Cash Cost and Total Production Cost are non-GAAP measures.

(2) Royalties are a Net Smelter Royalty of 3.5% in accordance with an existing royalty agreement.

During the nine month period ended September 30, 2008 the Company experienced higher cash operating costs, total cash costs and total production costs compared with the same period of 2007. This was due to three main factors:

- higher oil prices, which in turn increased diesel fuel and explosives costs;
- production solely from underground operations, which is more costly than surface mining; and
- higher third party treatment charges.

During 2007, Genco renegotiated its mineral sales contract and the new contract came into effect over a period of time beginning in the second quarter of 2007. While the new contract is similar in terms and costs to what other mining companies in Mexico pay for smelting and refining, it is not as favourable to the Company as the previous arrangement. The Company will continue to explore alternative more cost effective smelting, refining and commercialization options.

Exploration and Mine Development

Estimated Resources and Reserves at La Guitarra Mine

By news release dated June 17, 2008 the Company reported the results of an independent audit of a new estimate of mineral reserves and resources for the Guitarra Mine and the Temascaltepec Mining District. Reserves and resources as of March 31, 2008 were audited by Glenn R. Clark, P. Eng., a qualified independent person for NI 43-101 purposes. The results were as follows:

Classification	Tonnes (,000s)	Silver (g/t)	Gold (g/t)	Silver (oz) (,000s)	Gold (oz) (,000s)	Silver Eq. (oz) (,000s)
<i>Underground Reserve</i>						
Proven	379	210	1.38	2,558	17	3,408
Probable	1,047	193	0.97	6,498	32	8,098
Proven + Probable	1,426	198	1.08	9,056	49	11,506
<i>Near Surface Resource</i>						
Measured	4,227	63	0.66	8,563	89	13,013
Indicated	8,824	52	0.57	14,754	161	22,804
Measured + Indicated	13,051	56	0.60	23,317	250	35,817
Inferred	3,469	48	0.71	5,350	79	9,300
<i>Underground Resource</i>						
Inferred	10,023	305	1.95	98,430	629	129,880

Underground reserves were calculated using a 135 equivalent silver grams per tonne (“g/t”) cut off and a 20% dilution factor at zero grade. Underground reserves were further reduced by 10% to reflect a mineable recovery estimate. The methodology used for the underground reserves was standard polygonal projections on longitudinal sections. Proven reserves were projected 0-10 metres from data points and Probable reserves were projected 10-25 metres for all areas except on the Santa Ana reserves at Mina de Agua. Proven reserves at Santa Ana were projected 0-10 metres and Probable reserves were projected 10–50 metres. Gold assays were cut to 15 g/t, and silver assays to 1,500 g/t. A 50 to 1 silver to gold ratio representing a gold price of US\$600/oz gold and a silver price of US\$12/oz was used in the eAg calculation. Silver and gold recoveries are essentially the same, 82%-89% using the existing flotation circuit averages and in test work using cyanide leaching. To Genco’s knowledge, the estimate of mineral resources or mineral reserves will not be materially affected by any known environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues.

Exploration

Genco remains committed to exploring the Temascaltepec Mining District. The Company has adopted a systematic approach to exploration which has involved the identification of potential economic mineralization through sampling at surface and underground followed by drill testing priority targets.

Since the third quarter of 2006, over 81,000 metres of core and reverse circulation drilling has been completed. Initial drilling has focused on developing reserves and resources near the existing Guitarra Mine. Additional drilling was conducted in the areas of Mina de Agua, Nazareno and Coloso with economic ore bodies being identified in each of these areas. The Company estimates that less than 5% of the identified vein system has been drill tested to date.

The Company is satisfied that sufficient drilling has been completed for the Feasibility Study. At this time no new exploration drilling is planned until capital markets improve or exploration drilling can be funded from operating cash flows.

Mine Development

With an envisioned production expansion incorporating a 3,000 tonne per day (“t/d”) mill the Company expects to develop three or more new underground production centres and one surface production centre. During the nine months ended September 30, 2008 over 3,500 metres of new development ramps and drifts were constructed in preparation for envisioned future expanded production. Genco has elected to curtail the accelerated rate of mine expansion until the Feasibility Study is completed and the capital markets improve.

To prepare for future production expansion and minimize development time following a positive Feasibility Study, Genco has taken a proactive approach to permitting, development and procurement. During the nine month period ended September 30, 2008 a total of \$11.5 million (including \$5.4 million during the third quarter) was invested in exploration, mine development, equipment and other projects related to expanding production at the Guitarra Mine. Genco has now curtailed all non-essential capital expenditures at the Guitarra Mine until the Feasibility Study is completed and the capital markets improve.

Quality Control and Assurance

Genco has implemented a quality assurance and control (QA/QC) program to ensure sampling and analysis of all exploration work is conducted in accordance with the best possible practices.

The drill core is sawn in half with one half being stored on site and the other half shipped to either the ALS Chemex Laboratories in Guadalajara, Mexico, or the SGS Laboratory in Durango for preparation of pulps. Some pulps are shipped to ALS Chemex's Vancouver, BC Canada laboratory for analysis using a three acid digestion for silver and fire assay with AA finish for gold. SGS employs gravimetric fire assay techniques for both gold and silver at their Durango laboratory.

The laboratory re-assays about 3% of all samples as a check and additional checks may be run on anomalous values. In addition, the La Guitarra Mine laboratory has an ongoing check assay program and routinely re-assays ALS Chemex's pulp and sample rejects and/or the retained core splits

Investment in Chief Consolidated Mining Company

On March 14, 2008, the Company announced that it had acquired approximately 64.71% of the outstanding shares of Chief Consolidated Mining Company ("Chief") for approximately US\$4.9 million. Chief is a publicly traded mining company which owns the past producing Burgin and Trixie Mines and mining concessions covering approximately 16,000 acres in the Tintic Mining District in Utah State.

The opportunity to purchase the Chief shares came to Genco via common directors with Andover Ventures Inc. ("Andover"). A majority of the independent [independent of Andover] members of Genco's Board of Directors at the time voted to enter into an agreement to purchase the shares and transfer them to Andover in a transaction with the following proposed consideration as outlined in a Genco news release dated March 14, 2008 and confirmed in an Andover news release dated March 17, 2008:

- Issuance of 10 million Andover common shares, representing approximately 20% of the outstanding shares of Andover, at a deemed price of \$0.50 per share.
- Grant Genco a royalty on silver production from all existing Andover properties.
- Grant Genco back in rights on Chief's mineral properties to the extent legally possible.
- Grant Genco the right of first refusal on Chief's mineral properties in the event of a sale to the extent legally possible.
- Grant Genco the right to maintain its *pro rata* share ownership in Andover.

Subsequent to announcing the proposed sale of Chief shares to Andover the independent directors of Genco's and Andover's boards negotiated a final agreement under which Genco would transfer the Chief shares to Andover for the following consideration:

- Andover will pay Genco US\$2,500,000 by July 31, 2008 which is non-refundable. A \$1 million advance against this payment has been made pending Andover's receipt of approval of the TSX Venture Exchange to the acquisition.

- Andover will pay a further US\$2,378,002 on September 15, 2008 together with associated legal, accounting and other costs incurred by Genco related to the purchase of the Chief interest. An interest cost of 8% per annum from the date of the formal signing of the Purchase Agreement will be paid by Andover to Genco on any outstanding balance.
- Andover will issue 1.5 million common shares to Genco on or before September 15, 2008.
- Andover will pay a 6% Net Profit Interest on its *pro rata* share (based on its percentage shareholding of Chief) of all metals produced by Chief from the Trixie and the Burgin Extension deposits.
- Genco can, at its sole discretion, exchange the Net Profit Interest for a further 1.5 million common shares of Andover at any time up until one year following the initiation of sustained production from either of the Trixie or Burgin Mine.
- Genco will have the right to share in Andover's profits from short term sales in whole or in part of the Chief common stock, convertible common stock, or the assets of Chief for a period of two years from the signing date of the Purchase Agreement.

The acquisition was accounted for using the purchase method whereby assets acquired and liabilities assumed were recorded at their fair market prices at the date of acquisition. Due to a shareholders' deficit in Chief, the Company does not reflect a non-controlling interest in its records. Accordingly, the Company has reflected the fair value of Chief's assets and liabilities in its records as if it were a wholly owned subsidiary.

Genco anticipated the transaction to close prior to the end of September 2008. However, due to current market conditions, the closing has been delayed and the Company has provided Andover with an extension under the following terms:

- Andover will pay the remaining balance on or before October 31, 2008.
- In consideration for the extension Andover issued 500,000 common shares to Genco.
- Prior to October 31, 2008 Andover has the right to pay US\$1 million and extend the payment of the remaining balance until January 31, 2009 by issuing Genco a further 250,000 common shares.
- If Andover elects to defer the final payment of approximately US\$2.3 million until January 31, 2009 all funds previously paid and shares issued to Genco will be non-refundable.

As of the date of this MD&A Genco has received 2 million common shares and CAD\$2 million in cash from Andover. The outstanding balance payable by Andover to Genco is approximately US\$3.3 million.

Annual General Meeting and Proxy Contest

Genco's Annual General Meeting ("AGM") held on June 26, 2008 was preceded by a proxy contest. Subsequent to the AGM, the Board voted that all proxy related expenses should be borne by the Company. The Company has recorded \$878,654 of proxy related expenses with the Company incurring approximately \$397,000 of these expenses. The majority of the expenses were for legal, proxy solicitation and public relations services.

Results of Operations

Total assets were \$55,841,901 at September 30, 2008, an increase of \$9,819,239 during the period. Asset growth reflects the ongoing development of the Guitarra Mine and District exploration, as well as the consolidation of Chief.

On September 30, 2008, current assets were \$7,746,747 (December 31, 2007 - \$16,169,407), a decrease of \$8,422,660, and the Company had a working capital deficit of \$3,255,374, a decrease of \$14,629,823 during the nine month period. Current liabilities increased \$6,207,163 during the nine month period to \$11,002,121 on September 30, 2008. The decrease in current assets and increase in current liabilities reflect investments made during the period at the Guitarra Mine and the investment in and consolidation of Chief. The receivable of approximately \$4 million from Andover to Genco for the purchase of the Chief shares is not reflected in the current assets or the working capital.

Long term liabilities were \$7,019,385 on September 30, 2008 an increase of \$3,910,701. The increase in long term liabilities was primarily attributable to the consolidation of Chief. With the sale of Chief to Andover the Company expects its cash and working capital position to improve and liabilities to decrease.

The following table summarizes Genco's balance sheet, statement of operations and statement of cash flows for the three and nine month periods ended September 30, 2008.

	Q3 2008	Q3 2007	YTD 2008	YTD 2007
	\$	\$	\$	\$
<u>Balance Sheet</u>				
Current cash	2,126,459	18,405,908	2,126,459	18,405,908
Working capital (deficit)	(3,255,374)	19,889,990	(3,255,374)	19,889,990
Long term debt	7,019,385	2,682,469	7,019,385	2,682,469
Shareholders' equity	37,820,395	40,981,805	37,820,395	40,981,805
<u>Statement of Operations</u>				
Sales	1,788,877	1,894,089	6,125,063	5,475,664
Cost of sales	1,234,782	890,777	4,903,231	2,927,591
Gross profit (loss)	554,095	1,003,312	1,221,832	2,518,073
Gross margin	31%	53%	20%	46%
Administration expenses	1,104,024	1,533,810	3,014,883	3,421,242
Stock based compensation	171,878	48,085	1,256,899	1,275,586
Operating income (loss)	(721,807)	(578,583)	(3,049,950)	(2,178,755)
Accretion on long term debt	(22,169)	(25,109)	(66,139)	(86,091)
Fair value adjustment on bonus payable	-	-	804,409	-
Adjustment to financial instruments	(137,500)	-	(137,500)	-
Interest and other income	20,077	114,715	182,509	124,751
Proxy dispute related fees	(11,679)	-	(878,654)	-
Net income (loss) before taxes	(873,078)	(488,977)	(3,145,325)	(2,140,095)
Income tax expense	20,926	348,944	57,099	372,280
Net income (loss)	(894,004)	(837,921)	(3,202,424)	(2,512,375)
Earnings (loss) per share – basic & FD	(0.02)	(0.02)	(0.08)	(0.08)
Weighted average shares basic and FD	41,436,222	39,319,259	41,097,286	31,927,955
<u>Statement of Cash Flows</u>				
Cash provided by operating activities	4,632,421	(1,964,634)	3,528,364	(2,111,745)
Cash provided by investing activities	(3,441,376)	(3,144,081)	(14,295,111)	(6,843,263)
Cash provided by financing activities	200,281	22,919,998	183,750	25,519,350
Increase (decrease) in cash for period	1,391,326	17,811,283	(10,582,997)	16,564,342

Sales during the nine month period ended September 30, 2008 were higher than the corresponding period of 2007 as a result of more tonnes milled, higher recoveries and higher metal prices. Lower average grade ores were economically mined during the period as higher prices permitted lower cut-off grades.

Gross profit for the third quarter ended September 30, 2008 was \$554,095, a decrease of 45% from \$1,003,312 a year earlier. Gross profit is derived from net sales at the Guitarra Mine less all direct and indirect mining costs and any other non capitalized expenses at La Guitarra. Overall the Company continues to be profitable on its Mexican operations, but gross margins have decreased as the Guitarra Mine incurs non capitalized expenses relating to mine expansion and exploration work. The Company anticipates that administrative expenses will decrease with the completion of the Feasibility Study and the curtailment of non essential capital expenditures.

During the period ended September 30, 2008, Genco recorded a fair value adjustment on management bonuses payable for calendar years 2006 and 2007. Under the terms of the management contracts, certain employees and consultants of the Company accrued bonuses payable in Genco common shares with the number of shares to be paid calculated on the respective year end average closing prices and the issuance of shares subject to shareholder approval. At the June AGM, shareholder approval was obtained for the payment of bonuses in shares. The carrying value of the bonus payable was reduced by \$804,409 to reflect the fair value in the share price on the date of shareholder approval versus the value at which the bonuses were originally carried.

During the three month period ended September 30, 2008, cash flows used in investing activities were \$3,441,376 (September 30, 2007 - \$3,144,081) with the funds coming from operations, partial proceeds received from the sale of Chief, VAT refunds in Mexico and cash. During the nine month period ended September 30, 2008 the total investment in exploration and development work at La Guitarra and the purchase of additional mining equipment and surface rights in the Temascaltepec Mining District was approximately \$11.5 million.

Summary of Quarterly Results

The following table summarizes selected Company financial information for the last eight completed fiscal quarters (in thousands, except per share).

	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	1,789	2,263	2,073	736	1,894	2,034	1,547	1,542
Operating profit	554	912	(245)	(2,385)	1,003	1,204	311	(335)
Net income (loss)	(894)	(1,023)	(1,285)	(3,226)	(838)	(836)	(839)	(945)
Net loss per share	(0.02)	(0.02)	(0.03)	(0.09)	(0.02)	(0.02)	(0.03)	(0.03)
Net loss per share FD*	(0.02)	(0.02)	(0.03)	(0.09)	(0.02)	(0.02)	(0.03)	(0.03)

*Fully diluted

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition including, without limitation, such considerations as liquidity and capital resources.

Liquidity and Capital Resources

On September 30, 2008, the Company had cash reserves of \$2,126,459, current assets of \$7,746,747 and a net working capital deficit of \$3,255,374. The Company is confident that its cash reserves, cash flow and the anticipated proceeds from the sale of the Chief interest are sufficient to meet its current financial obligations. During the quarter the Company received \$2,000,000 from Andover as partial proceeds from the sales of its interest in Chief. The balance remaining from Andover to complete the transaction is approximately US\$3,300,000.

The Company has recorded Value Added Tax receivable in Mexico in the amount of \$2,992,200. The Company received an assessment from the Service of Tax Administration advising that the refund was rejected. Management has appealed the decision and expects the remaining amount will be fully recoverable.

The following table summarizes the Company's contractual obligations on September 30, 2008.

Contractual Obligations	Payments Due by Period				
	Total	<1 Year	1-3 Years	4-5 Years	>5 Years
Long Term Debt	2,304,138	1,248,431	1,055,707	Nil	Nil
Capital Lease Obligations	15,182	9,118	6,064	Nil	Nil
Operating Leases	310,242	158,821	151,420	Nil	Nil
Other Long Term Obligations*	775,897	Nil	Nil	Nil	775,897
Total Contractual Obligations	\$3,405,458	\$1,416,370	\$1,213,191	Nil	\$775,897

Long term debt consists of debt incurred to purchase La Guitarra and heavy equipment loans. Leases include office equipment and office space. Other long term obligations consist of the present value of the estimated costs of mine closure and the labour severance liability in Mexico and Utah and future mine closure costs relating to Chief.

In order to implement long term plans for the Temascaltepec Mining District, and take advantage of other business opportunities, the Company will need to raise additional funds. At this time, the Company does not know of any demands, commitments, or future events which will materially affect its liquidity. As in many resource companies, cash flows are directly affected by the success and failure of exploration and development work, and until such time that prices, grades, throughput, reduced costs or a combination of these factors provides sufficient cash flows to support all exploration and development work the Company may be required to look for alternate sources of financing. No assurance can be given that if additional funding is required it will be available, or if available, will be on terms acceptable to the Company.

Transactions with Related Parties

In addition to related party transactions disclosed elsewhere in this MD&A, during the nine month period ended September 30, 2008 the Company paid or accrued \$956,297 in consulting fees, management fees, and bonuses to a director, officers and a consultant (September 30, 2007 - \$369,975). Included in accounts payable at the period end is \$1,179,458 owing to directors and officers of the Company (December 31, 2007: \$1,750,000). Also, during the period the Company agreed to reimburse a director \$470,000 in accrued expenses related to a proxy dispute.

During the nine month period ended September 30, 2008, directors and officers of the Company exercised 475,000 options total proceeds of \$355,000. During the same period the Company issued 315,328 common shares to settle bonuses relating to the 2006 and 2007 fiscal year.

The above transactions were in the normal course of operations, occurring on terms and conditions that are similar to those of transactions with unrelated parties and, therefore, are measured at the exchange amount.

Critical Accounting Policies

The Company's critical accounting policies are summarized in Note 2 to its consolidated financial statements. In the preparation of its consolidated financial statements, the Company uses Canadian GAAP, which requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosure. Estimates are based on management's knowledge of current events and actions the Company may undertake in the future, actual results may differ from these estimates.

Changes in Accounting Policy

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"); "Financial Instruments - Disclosure" (Section 3862), "Financial Instruments –Presentation" (Section 3863), "Inventories" (Section 3031) and "Capital Disclosures" (Section 1535). These new standards have been adopted prospectively. Adoption of these standards did not impact January 1, 2008 opening balances.

Financial Instruments - Disclosure and Presentation – Sections 3862 & 3863

These new sections require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed.

Inventories – Section 3031

The new standard requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in, first-out inventory costing methodology; and requires that, when circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. The adoption of this new standard did not have a material impact on the Company's earnings.

Capital Disclosures – Section 1535

As a result of adopting this new section, the Company will be required to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and procedures for managing capital.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, marketable securities, accounts and taxes receivable, deposits, accounts payable, accrued liabilities, and long term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from these financial instruments. The fair values of the financial instruments other than long term debt approximate their carrying values, unless otherwise noted.

As the financial instruments are not subject to significant foreign exchange or interest rate risk, the Company has not adopted risk management policies.

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and accounts receivable. The Company deposits cash with financial institutions it believes to be creditworthy. Cash balances at these financial institutions may exceed the federally guaranteed amount.

The Company's accounts receivable are primarily derived from input tax credits receivable and trade receivables for mineral concentrate sales. The Company will maintain an allowance for doubtful accounts receivable in those cases for which the expected collectability of accounts receivable is in question.

Disclosure of Outstanding Share Data

The Company has an unlimited number of Common shares authorized, with 41,695,600 outstanding on September 30, 2008 and 42,392,605 on the date of this MD&A.

On September 30, 2008, options to purchase 3,536,099 common shares and warrants to purchase 3,733,333 common shares were outstanding. As of the date of this MD&A, options to purchase 3,515,099 common shares and 3,733,333 warrants to purchase common shares were outstanding.

Controls and Procedures

Internal Control over Financial Reporting

Management has the responsibility for the design and implementation of controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with the accounting principles generally accepted in Canada.

There have been no significant changes in the Company's internal control over financial reporting during the nine month period ended September 30, 2008.

Disclosure Controls

Management is responsible for the design and effectiveness of disclosure controls and other procedures to provide reasonable assurance that material information related to the Company is made known to the Company's certifying officers.