PACIFIC COAL RESOURCES LTD.

Management's Discussion and Analysis
For the quarter ended September 30, 2012
November 29, 2012

The following discussion and analysis of the results of operations and financial condition ("MD&A") for Pacific Coal Resources Ltd. (the "Company") is derived from and should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes thereto for the three and nine months ended September 30, 2012, prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting as issued by the International Accounting Standards Board. All figures contained herein are expressed in United States dollars ("USD"), except for production, share data or unless otherwise stated. All references to "tonnes" are to metric tonnes. "FOB" means Free on Board and includes transportation from mine to port and port services. "FOT" means Free on Truck, delivered at the mine gate.

Additional information related to the Company is available on SEDAR at www.sedar.com or on the Company's website at www.pacificcoal.ca.

Third Quarter Highlights

- ***Coal production:*** The Company produced 341,248 tonnes of coal during the third quarter of 2012, bringing the total coal production for the first nine months of 2012 to 993,326 tonnes. The Company's stripping ratio for the third quarter was 11.38:1.
- ***Revenues:*** Total revenues for the third quarter of 2012 were $35.0 million on coal sales of 366,678 tonnes, sold primarily on an FOB basis at an average realized price of $92.53 per tonne. Year-to-date revenues in 2012 of $98.7 million reflect sales of almost one million tonnes of coal at an average realized price of $97.67 per tonne.
- ***Operating costs:*** Operating margins on a per tonne sold basis in the third quarter of 2012 improved 54% over the second quarter and 79% over the first quarter of 2012, primarily due to reduced royalties at La Caypa. While operating margin remains negative on an overall basis, the Company is continuing to make progress through operational improvements and cost reduction initiatives.
- ***General and administrative ("G&A") expenses:*** During the third quarter of 2012, cost saving initiatives contributed to the 20% decrease in G&A expenses to $3.6 million as compared to $4.4 million in the second quarter of 2012, in addition to the 12% and 9% decreases already realized in the first and second quarters of 2012 respectively. G&A in the third quarter included $0.6 million of one-time severance costs associated with staff reductions and $0.4 million of asphaltite research costs. The Company anticipates a quarterly G&A run rate of approximately $2.75 million in the fourth quarter of 2012.
- ***Selling of Barranquilla port interest and Blue ACF investment:*** In October 2012 the Company sold its Blue Advanced Colloidal Fuels ("BACF") investment for cash proceeds of $5.0 million and in November 2012 signed an Memorandum of Understanding ("MOU") to its interest in Sociedad Portuaria Terminal de las Flores S.A. ("SPTF"). The cash proceeds will be used in the Company's operating and selling activities at its producing coal and coke sites. Sale of the BACF investment contributed to the $3.0 million cash balance at November 29, 2012.
- ***Resources:*** The Company continues to work with SRK Consulting (UK) Ltd, to finalize the Company's 43-101 updated technical reports. The Cerro Largo report is expected to be released in the fourth quarter of 2012. The La Caypa report is expected in the second quarter of 2013.

Description of Business

Pacific Coal Resources Ltd. is a Canadian-based mining company engaged in the acquisition, exploration and production of coal and coal-related assets from properties located in Colombia. The Company's common shares and warrants are listed on the TSX Venture Exchange and trade under the symbol "PAK" and "PAK.WT" respectively.

PACIFIC COAL RESOURCES LTD.

The head office of the Company is located at 333 Bay Street, Suite 1100, Toronto, Ontario M5H 2R2 and its registered office is located at 1188 West Georgia Street, Suite 650, Vancouver, British Columbia, V6E 4A2. The Company also has an operations office in Barranquilla, Colombia.

Selected Financial Information

(000's except per share and operating data)	Third Quarter 2012	Third Quarter 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Operational				
Tonnes of coal produced	341,248	400,909	993,325	1,070,209
Average stripping ratio - operations	11.38	7.61	10.60	7.38
Tonnes of coal sold (1)	366,678	460,189	965,948	1,217,389
Average realized price per tonne sold	$ 92.53	$ 101.01	$ 97.67	$ 97.65
Operating margin per tonne sold (2)	(5.76)	4.12	(13.95)	10.18
Financial				
Revenues	$ 35,033	$ 46,485	$ 98,654	$ 118,877
Gross margin	(4,120)	(937)	(20,447)	6,371
Net (loss) earnings attributed to shareholders (3)	(15,201)	(1,126)	(85,827)	(46,380)
Basic and fully diluted (loss) earnings per share	(0.05)	0.00	(0.27)	(0.16)
Cash	135	14,267	135	14,267
Total assets	318,462	392,112	318,462	392,112
Total debt	39,701	32,012	39,701	32,012

(1) Includes coal purchased from third parties for sale.
(2) See "Additional Financial Measures".
(3) The net loss for the third quarter of 2012 included an $8.0 million impairment writedown triggered by the re-classification of the Company's subsidiary SPTF to assets held for sale. The net loss for the nine months ended September 30, 2012 also includes a $35.6 impairment writedown triggered by a change in future coal prices.

Results of Operations

Production

	Third Quarter 2012	Third Quarter 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
La Caypa				
Tonnes of coal	251,525	315,895	704,021	970,340
BCM operations	1,966,372	1,945,252	4,751,774	6,615,619
BCM development	392,674	-	1,582,740	-
Stripping ratio – operations	7.82:1	6.16:1	6.75:1	6.82:1
Stripping ratio – total	9.38:1	6.16:1	9.00:1	6.82:1
Cerro Largo (1)				
Tonnes of coal	89,723	85,014	289,305	99,869
BCM operations	1,918,289	1,105,182	5,781,536	1,280,702
BCM development	-	514,976	-	1,354,553
Stripping ratio – operations	21.38:1	13.00:1	19.98:1	12.82:1
Stripping ratio – total	21.38:1	19.06:1	19.98:1	26.39:1
Total				
Tonnes of coal	341,248	400,909	993,326	1,070,209
BCM operations	3,884,661	3,050,434	10,533,310	7,896,321
BCM development	392,674	514,976	1,582,740	1,354,553
Stripping ratio – operations	11.38:1	7.61:1	10.60:1	7.38:1
Stripping ratio – total	12.53:1	8.89:1	12.20:1	8.64:1

(1) Acquired effective March 29, 2011; year-to-date 2011 production excludes 110,875 tonnes of coal produced prior to the acquisition by the Company.
(2) "BCM" is bank cubic meters.

La Caypa

During the third quarter of 2012, the Company produced 251,525 tonnes of coal at La Caypa, achieving 72% of its planned production, and 6% lower than production in the second quarter of 2012. The production shortfall was caused by the mine operator's general lack of equipment for loading, hauling, and support at the mine. This issue was compounded by destabilization of the mine footwall in the month of August 2012 and the mine operator's delay in providing sufficient equipment for development of a sidewall needed to access the collapsed zone until September 2012. Issues with the mine operator resulted in a breach of their contractual obligations, which led the Company to begin the process of replacing them during the fourth quarter of 2012, with the goal for a new operator beginning operations in early 2013 (see "Commitments and Contingencies – La Caypa mine operation").

The operational stripping ratio at La Caypa, up slightly to 7.82 in the third quarter of 2012 reflected the impact of the mine sidewall development during the quarter, as noted above. The total stripping ratio includes the development work taking place at the south pit to prepare the site for the commencement of production, which is expected to begin by the end of the first quarter of 2013. In light of the third quarter results and the change in contractor in the fourth quarter of 2012, the Company has revised its 2012 annual production target for La Caypa to 970,000 tonnes.

Cerro Largo

Production at Cerro Largo in the third quarter of 2012 was 89,723 tonnes, up nearly 33% from the second quarter of 2012. Production in the third quarter of 2012 reflected the continued need to address mud concentrations at the bottom of the open pit, as first noted during the second quarter of 2012. Although the situation has improved, the mud concentrations issue was still a significant factor affecting production in the third quarter of 2012. The mining contractor continued to use additional equipment brought in to complete the required work, but was affected by pumping difficulties in August 2012. Mud extraction was completed in October 2012. The stripping ratio at Cerro Largo decreased from 25.53 in the second quarter of 2012 to 21.38 in the third quarter of 2012, although higher than the total stripping ratio of 19.06 noted in the third quarter of 2011, as a result of the additional work described above.

In light of the additional work required to clear the mud concentration in the pit, the Company revised its 2012 annual production target for Cerro Largo to 400,000 tonnes.

Revenue

	Third Quarter 2012	Third Quarter 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Coal	$ 33,928	$ 46,685	$ 94,345	$ 118,877
Coke	717	-	2,872	-
Other	388	-	1,437	-
	$ 35,033	$ 46,685	$ 98,654	$ 118,877
Tonnes of coal sold				
FOB	350,651	445,600	863,645	1,020,307
FOT	704	11,498	38,725	65,855
Third parties	15,323	3,091	63,578	131,227
Total	366,678	460,189	965,948	1,217,389
Average realized price per tonne sold				
FOB	$ 92.39	$ 102.52	$ 99.24	$ 99.94
FOT	86.41	42.56	55.38	56.90
Third parties	95.86	101.66	102.12	93.06
Total	$ 92.53	$ 101.01	$ 97.67	$ 95.60
Coke				
Tonnes sold	4,124	-	15,093	-
Average realized price per tonne	$ 173.88	$ -	$ 190.25	$ -

The Company sells coal produced from its operating mines at La Caypa and Cerro Largo on an FOB or FOT basis depending on the sales contract. For FOB contracts, the Company is responsible for payment of transportation and port services expenses. For FOT contracts, coal is delivered on the truck at the mine coal yard. From time to time, the Company also purchases coal from third parties for trading purposes.

Revenues from coal sales for the third quarter of 2012 were down 27% from coal sales in the third quarter of 2011, as a result of both a reduction in tonnage sold and the average realized price. Sales volumes in the third quarter of 2012 were 21% lower than those recorded in the third quarter of the prior year. Sales volumes were down 26% and 13% at La Caypa and Cerro Largo respectively, primarily due to the production issues at the mines during the quarter. Overall production was down 17% when comparing the third quarter of 2012 to the third quarter of 2011, which delayed the shipment of various orders until the fourth quarter of 2012 (see "Results of Operations – Production"). The average price realized in the third quarter of 2012 of $92.53 was 8% lower than the $101.01 price in the third quarter of 2011, as a result of market conditions for coal during the quarter.

Revenues from coal sales decreased 1%, when compared with the second quarter of 2012. The 8% increase in tonnes sold was offset by a 6% decrease in average realized price per tonne sold. The average price realized decrease was the result of market conditions for coal during the quarter, in addition to the Company's reduced reliance on older sales commitments which are locked in at higher coal prices.

Cost of operations

	Third Quarter				Nine Months Ended September 30			
	2012		2011		2012		2011	
($000's)	$	*$/tonne*	$	*$/tonne*	$	*$/tonne*	$	*$/tonne*
Coal operations								
La Caypa	$ 25,626	*$ 90.16*	$ 38,831	*$ 101.25*	$ 66,634	*$103.25*	$ 98,639	*$100.69*
Cerro Largo	10,870	*161.95*	8,591	*116.72*	41,376	*162.81*	10,466	*98.32*
Coke operations								
Jam	1,457	*353.30*	-	-	5,526	366.13	-	-
Other	1,200	*N/A*	-	*N/A*	5,565	*N/A*	3,401	*N/A*
Consolidated	$ 39,153	*$ 106.78*	$ 47,422	*$ 103.05*	$119,101	*$ 123.30*	$112,506	*$ 92.42*
Operating margin (1)	$ (2,111)	*$ (5.76)*	$ 1,897	*$ 4.12*	$(13,307)	*$ (13.78)*	$ 10,578	*$ 8.69*

(1) See "Additional Financial Measures"

The cost of operations fell in the third quarter of 2012 to $39.2 million on a consolidated basis from the Company's three mining operations, compared to $47.4 million in the third quarter of 2011. The cost of operations on a per tonne basis varies between the Company's operations and therefore a detailed breakdown by cash generating unit is provided below.

La Caypa

($000's, except tonnes and per tonne)	Third Quarter 2012 $	Third Quarter 2012 $/tonne	Third Quarter 2011 $	Third Quarter 2011 $/tonne	Nine Months Ended September 30 2012 $	Nine Months Ended September 30 2012 $/tonne	Nine Months Ended September 30 2011 $	Nine Months Ended September 30 2011 $/tonne
Tonnes sold		284,230		383,499		645,335		979,708
Revenue	$ 26,886	*$ 94.59*	$ 38,988	*$ 101.66*	$ 64,906	*$ 100.58*	$ 107,227	*$ 109.45*
Cost of operations								
Operating costs	16,701	*58.76*	24,451	*63.76*	41,635	*64.52*	60,585	*61.84*
Transportation and port services	6,547	*23.03*	10,297	*26.85*	15,794	*24.47*	26,746	*27.30*
Selling costs	1,477	*5.20*	3,142	*8.19*	4,622	*7.16*	9,265	*9.46*
Inventory impairment	-	-	-	-	1,834	*2.84*	-	-
DD&A [1]	901	*3.17*	941	*2.45*	2,749	*4.26*	2,043	*2.09*
Total cost of operations	25,626	*90.16*	38,831	*101.25*	66,634	*103.25*	98,639	*100.69*
Gross margin	1,260	*4.43*	157	*0.41*	(1,728)	*(2.67)*	8,588	*8.76*
Add back: DD&A	901	*3.17*	941	*2.45*	2,749	*4.26*	2,043	*2.09*
Operating margin	$ 2,161	*$ 7.60*	$ 1,098	*$ 2.86*	$ 1,021	*$ 1.59*	$ 10,631	*$ 10.85*

[1] Depreciation, depletion and amortization

At La Caypa, the operating margin for the third quarter of 2012 was $2.2 million, or $7.60 on a per tonne sold basis, as compared to an operating margin of $1.1 million, or $2.86 per tonne sold in the third quarter of the prior year. The increased operating margin was driven by the decrease in operating costs, offset by the decrease in the average realized price. The key factors impacting the decrease in operating costs in the third quarter of 2012 at La Caypa included a decrease in royalties of $11.18 on a per tonne basis. The decrease in royalties is due to the fact that they are set based on coal prices in the prior quarter, in this case the second quarter of 2012, which was lower than the second quarter of 2011. The operating cost decrease was offset by increases in waste costs of $4.06 per tonne produced due to the ongoing development of the south pit. Transportation and port services costs decreased because in the third quarter of 2012 the Company was not subject to a Carbosán take or pay clause penalty. In the third quarter of 2011, the Company was subject to a $0.5 million ($1.27 on a per tonne basis) under the Carbosán take or pay clause penalty (see "Commitments and Contingencies – Carbosán Ltda."). The remainder of the transportation cost decrease was a result of the Company utilizing its own trucks in 2012, while a majority of the coal transportation in the third quarter of 2011 was done by third parties. Selling costs decreased $2.99 on a per tonne basis as a higher proportion of sales from La Caypa were not subject to the 5% agency fee from Alorente.

The operating margin of $7.60 on a per tonne sold basis for the third quarter of 2012 is consistent with the $7.32 operating margin per tonne sold during the second quarter of 2012. The decrease in cost of operations of $12.86 per tonne sold was offset by a decrease in the average realized price per tonne sold of $10.93. Operating costs in the second quarter of 2012 included an inventory impairment of $3.25 per tonne and a $2.33 per tonne Carbosán take or pay penalty, both of which were $nil for the third quarter of 2012. In addition, royalty expense for the quarter decreased by $1.4 million driven by the decrease in international coal prices from the first quarter to the second quarter of 2012.

Cerro Largo

($000's, except tonnes and per tonne)	Third Quarter 2012 $	Third Quarter 2012 $/tonne	Third Quarter 2011 $	Third Quarter 2011 $/tonne	Nine Months Ended September 30 2012 $	Nine Months Ended September 30 2012 $/tonne	Nine Months Ended September 30 2011 $	Nine Months Ended September 30 2011 $/tonne
Tonnes sold		67,125		73,599		257,035		106,454
Revenue	$ 5,961	*$ 88.80*	$ 7,183	*$ 97.60*	$ 23,962	*$ 93.22*	$ 8,169	*$ 76.74*
Cost of operations								
Operating costs	6,395	*95.27*	4,678	*63.56*	25,862	*100.62*	6,461	*60.69*
Transportation and port services	1,267	*18.88*	1,358	*18.45*	5,388	*20.96*	1,358	*12.76*
Selling costs	314	*4.68*	661	*8.98*	1,549	*6.03*	661	*6.21*
Inventory impairment	1,802	*26.85*	-	-	4,228	*16.45*	-	-
DD&A	1,092	*16.27*	1,894	*25.73*	4,349	*16.92*	1,986	*18.66*
Total cost of operations	10,870	*161.95*	8,591	*116.72*	41,376	*160.98*	10,466	*98.32*
Gross margin	(4,909)	*(73.15)*	(1,408)	*(19.12)*	(17,414)	*(67.76)*	(2,297)	*(21.58)*
Add back: DD&A	1,092	*16.27*	1,894	*25.73*	4,349	*16.92*	1,986	*18.66*
Operating margin	$ (3,817)	*$ (56.88)*	$ 486	*$ 6.61*	$ (13,065)	*$ (50.84)*	$ (311)	*$ (2.92)*

At Cerro Largo, the operating margin for the third quarter of 2012 was a loss of $3.8 million, or a loss of $56.88 on a per tonne sold basis, as compared to a positive operating margin of $0.5 million, or $6.61 per tonne sold in the third quarter of the prior year. The decreased operating margin was driven by the $45.23 per tonne increase in costs of operations, in addition to an $8.80 decrease in the average realized price per tonne of coal sold. The production issues at the mine during the quarter (see "Production – Cerro Largo") were a key factor in the increase in the cost of operations per tonne, causing (i) an inventory impairment of $26.85/tonne, while no inventory impairment was recorded in the third quarter of 2011, and (ii) an increase in waste cost of $36.14 per tonne produced compared to the third quarter of 2011. These increases were offset by a $4.30 per tonne decrease in selling costs as a result of a higher proportion of sales from Cerro Largo that were not subject to the 5% agency fee from Alorente and DD&A decrease of $9.46 per tonne as a result of the impairment taken on the Cerro Largo mineral properties during the second quarter of 2012.

The operating margin for the third quarter of 2012 improved as compared to the $60.42 loss for the second quarter of 2012. During the third quarter of 2012 there were continued difficulties with mud concentrations at the bottom of the open pit, but progress was made to correct the issue, which is reflected in the $27.16 per tonne decrease in operating costs. Specifically, waste costs decreased $14.14 per tonne produced from the second quarter of 2012 to the third quarter. A reduction of salaries and wages by $5.47 per tonne produced, based on the Company's continued cost reduction efforts during the quarter, also contributed to the decrease in cost. Operating costs in the second quarter were negatively impacted by a one-time charge of $1.2 million due to a settlement with the mining contractor related to billings for 2011 that were under dispute, $0.5 million of one-time repair and maintenance expenses and approximately $0.4 million of other one-time costs.

Jam

($000's)	Third Quarter 2012 $	Third Quarter 2012 $/tonne	Third Quarter 2011 $	Third Quarter 2011 $/tonne	Nine Months Ended September 30 2012 $	Nine Months Ended September 30 2012 $/tonne	Nine Months Ended September 30 2011 $	Nine Months Ended September 30 2011 $/tonne
Tonnes sold		4,124		-		15,093		-
Revenue	$ 717	*$ 173.86*	$ -	$ -	$ 2,871	*$ 190.22*	$ -	$ -
Cost of operations			-	-			-	-
Operating costs	1,000	*242.48*	-	-	3,023	*200.29*	-	-
Transportation and port services	-	-	-	-	-	-	-	-
Selling costs	362	*87.78*	-	-	481	*31.87*	-	-
Inventory impairment	79	*19.16*	-	-	1,980	*131.19*	-	-
DD&A	16	*3.88*	-	-	42	*2.78*	-	-
Total cost of operations	1,457	*353.30*	-	-	5,526	*366.13*	-	-
Gross margin	(740)	*(179.44)*	-	-	(2,655)	*(175.91)*	-	-
Add back: DD&A	16	*3.88*	-	-	42	*2.78*	-	-
Operating margin	$ (724)	*$ (175.56)*	$ -	$ -	$ (2,613)	*$ (173.13)*	$ -	$ -

In the fourth quarter of 2011, the Company's Jam operation commenced production of metallurgical coal (metcoal) from the Cerrejoncito and La Mona underground mines and processing both their own and third party metcoal. The metcoal processed is used by the Company to produce coke.

In the third quarter of 2012, as a consequence of weak demand and declines in international price for metcoal experienced in the period ended September 30, 2012, the Company suspended metcoal production and focused only on processing third party purchased metcoal to reduce the loss from operations at Jam. As a result, coke production was held at minimal levels during the third quarter of 2012, with activity during the quarter concentrated on conducting repairs to coking infrastructure. The Company plans to re-start metcoal and significant coke production in the first quarter of 2013.

Operating margin for the three months ended September 30, 2012, represented a loss of $175.56 per tonne sold, which was consistent with the operating margin for the nine months ended September 30, 2012, which bore a loss of $173.13 per tonne sold.

Impairment of non-current assets

	Third Quarter 2012	Third Quarter 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Impairment of non-current assets	7,983	-	45,528	-

In the three months ended September 30, 2012, the Company classified its interest in SPTF as Assets Held for Sale and was required to account for the investments at fair value in accordance with IFRS. SPTF was valued at $17.5 million, which resulted in the Company recording non-cash impairment losses of $8.0 million during the quarter.

During the second quarter of 2012, based on a decrease in current and forward looking coal prices reducing the Cerro Largo property's estimated cash flows below its carrying value, the Company recorded a $35.6 million non-cash impairment charge. Under IFRS, any future improvements in such coal prices that result in an increase in the fair value of the property would result in a reversal of the impairment writedown in future periods.

In addition, impairment loss of $1.9 million relating to other non-current assets was recorded in the second quarter of 2012.

Other items

	Third Quarter		Nine Months Ended September 30	
	2012	2011	2012	2011
General and administrative expenses (including bad debt)	$ 3,573	$ 4,040	$ 13,219	$ 10,782
Share-based compensation expense	-	-	-	17,843
Finance costs, net of finance income	2,295	426	5,300	1,663
Foreign exchange (gain) loss	(813)	(5,781)	5,425	(1,632)
Equity tax expense	-	-	-	1,357
Acquisition costs	-	-	-	22,493
Other (income) expenses, net	(381)	579	3,291	(236)

For the third quarter of 2012, general and administrative expenses amounted to $3.6 million, down from $4.4 million during the second quarter of 2012 and $4.0 million in the third quarter of 2011. The third quarter of 2012 expenses included approximately $1.0 million of one-time expenses. Asphaltite research costs make up approximately $0.4 million of these one-time expenses, with the remainder relating to staff reduction costs. Excluding the one-time expenses, G&A expense improvement would be approximately 43% from the second quarter of 2012. In the second quarter of 2012, the Company closed its Bogota corporate office, reduced the size of its Board of Directors, and cut its overall personnel costs as part of the comprehensive strategic review process undertaken by the Company. These savings began to be realized in the third quarter of 2012 and are expected to continue in the future, with the Company expecting a quarterly G&A expense run rate of approximately $2.75 million by the fourth quarter of 2012.

In the nine months ended September 30, 2011, a share-based compensation expense of $17.8 million on stock options issued was recognized. This stock option issuance occurred when the Company went public as a result of the reverse takeover ("RTO") transaction in March 2011.

Finance costs for the third quarter and nine months ended September 30 2012 amounted to $2.3 million and $5.3 million, respectively, compared with $0.4 million and $1.7 million, respectively, in the comparative periods of 2011. The increase in finance costs in 2012 compared with the previous year can largely be attributed to interest expense associated with the increase in the Company's borrowings under Colombian bank term loans, interest expense relating to the Company's utilization of factoring in 2012 and the finance leases associated with the Company's truck fleet.

The Company's operations, principally located in Colombia, routinely transact in the local currency (Colombian peso or "COP") rather than the U.S. dollar ("USD"), exposing the Company to potential foreign exchange risk in its financial position and cash flows. At the present time, the Company does not use any derivative financial instruments to manage this foreign exchange risk. The COP depreciated slightly at September 30, 2012, from 1,785 COP/USD at June 30, 2012 to 1,801 COP/USD, resulting in a gain on foreign exchange for the quarter of $0.8 million. This was consistent with a foreign exchange loss of $0.7 million during the second quarter of 2012 when the COP exchange rate appreciated from 1,792 COP/USD at March 31, 2012.

Included in other expenses for the nine months ended September 30, 2012, is $3.0 million of deferred costs related to prior acquisition activities that were included in prepaid expenses and advances at December 31, 2011.

The Company recorded a $1.4 million charge equal to the present value of a 6% equity tax imposed on Colombian operations as of January 1, 2011 in the first nine months of 2011. The equity tax is payable in eight installments over the four-year period from 2011 to 2014.

The Company recorded acquisition costs in the first nine months of 2011 amounting to $22.5 million representing the deemed fair value of the common shares issued and share purchase warrants honored to complete the RTO transaction ($21.5 million), professional fees and other expenses associated with the RTO transaction ($1.5 million), net of net assets acquired ($0.5 million).

Summary of Quarterly Results

(000's except per share and operational data)	3rd Qtr 2012	2nd Qtr 2012	1st Qtr 2012	4th Qtr 2011	3rd Qtr 2011	2nd Qtr 2011	1st Qtr 2011	4th Qtr 2010
Operational								
Tonnes of coal produced	341,248	335,008	317,070	356,541	400,909	307,528	361,772	272,704
Average stripping ratio – operations (1)	11.38	9.60	10.83	7.79	7.61	7.40	7.10	7.90
Tonnes of coal sold (2)	366,678	338,775	260,495	477,127	460,189	376,332	380,868	270,304
Average realized price per tonne sold	$ 92.53	$ 98.93	$103.27	$101.12	$101.01	$ 94.27	$ 96.92	$ 98.52
Operating margin per tonne sold (3)	(5.76)	(12.41)	(26.84)	4.03	4.12	5.89	16.98	15.39
Financial								
Total revenues	$ 35,033	$ 35,197	$28,424	$48,813	$46,485	$35,477	$36,915	$26,629
Gross margin	(4,120)	(7,271)	(9,056)	(618)	(937)	1,464	5,843	3,574
Net (loss) earnings attributable to shareholders (4)	(15,201)	(49,520)	(21,106)	(7,236)	(1,126)	(8,789)	(36,465)	(34)
Basic and diluted (loss) earnings per share	(0.05)	(0.15)	(0.07)	(0.02)	-	(0.03)	(0.16)	(0.01)

(1) Excludes BCM development.
(2) Includes coal purchased from third parties for sale.
(3) See "Additional Financial Measures".
(4) The net loss for the third quarter of 2012 included an $8.0 million impairment writedown triggered by the re-classification of the Company's subsidiary SPTF to assets held for sale. The net loss for the second quarter of 2012 included a $35.6 million impairment writedown triggered by a change in future coal prices as discussed under "Results of Operations – Impairment of non-current assets". The net loss for the first quarter and second quarter of 2011 includes acquisition costs related to the RTO transaction of $21.8 million and $0.7 million, respectively. The first quarter of 2011 also includes $1.4 million for the one-time equity tax expense.

Liquidity and Capital Resources

At September 30, 2012, the Company's cash balances amounted to $0.1 million, which was held in highly-rated Canadian and Colombian financial institutions and are readily available to the Company. As of November 29, 2012 the Company had a cash balance of approximately $3.0 million.

During the third quarter of 2012, the Company used $2.8 million of its cash on hand as of June 30, 2012 and $1.2 million in cash from operating activities to fund cash used in investing activities of $2.2 million and $1.8 million net repayment of Colombian bank debt facilities.

Operating activities

During the third quarter of 2012, the Company generated $1.2 million from operating activities, as compared to $3.1 million used for operating activities during the second quarter of 2012, resulting from a $5.1 million increase in non-cash working capital items. This was offset by the negative operating margin of $2.1 million, less the non-cash impairment of inventory of $1.9 million, along with G&A, interest paid, and other expenses. The improvement of cash from operations in the third quarter of 2012 from the prior quarter is reflective of the significant improvement in operating margins.

Included in non-cash working capital as at September 30, 2012 is $11.4 million related to recoverable VAT and income tax claims in Colombia. Subsequent to September 30, 2012, $5.2 million of the outstanding claims have been received by the Company and the remainder is expected to be collected during the fourth quarter of 2012 and first quarter of 2013. The VAT claims recovered will be used to reduce accounts payable and accrued liabilities and fund obligations as they become due. During the three months ended September 30, 2012, the Company collected $5.6 million of recoverable VAT.

Accounts payable and accrued liabilities at September 30, 2012, included $19.8 million owed to Masering, the mine operator at Cerro Largo. In July 2012, the Company reached an agreement with Masering on a payment structure and timeline to settle the outstanding balance and new balances going forward. See *Transactions with Related Parties* for further details.

Investing activities

Cash used in investing activities in the third quarter of 2012 was $2.2 million. The total for the nine months ended September 30, 2012 was $11.9 million. Significant items in the third quarter of 2012 included:

- $2.5 million paid related to the drilling programs at La Caypa and Cerro Largo and for development work for the south pit at La Caypa; and,
- $0.1 million paid for investments in property, plant and equipment; less,
- $0.4 million generated from sale of furniture and fixtures.

Financing activities

The Company has entered into several arrangements with local Colombian banks to fund its operations and manage its cash resources. In the third quarter of 2012, the Company made a $1.8 million net repayment of the Colombian bank debt facilities. At September 30, 2012 these arrangements include:

- $27.3 million of short-term term loans with Colombian banks, of which $12.5 million is supported by restricted cash deposits held in the same amount. Borrowings under these facilities decreased approximately $1.8 million during the third quarter of 2012, net of the effects of foreign exchange translation;
- $3.3 million under a three-year term loan with a Colombian bank; and,
- $9.1 million representing the present value of amounts outstanding for the truck fleet under finance leases.

As at September 30, 2012, the Company is in a negative working capital position. The Company has approximately $10.8 million of factored payables with third party financial institutions included in Accounts Payable. The factored payables have had their payment terms extended to 90 to 180 days, from the normal 30-day supplier terms. Extending these terms has allowed the Company to extend its payment terms with suppliers to use expected improvements in operating cash flow to settle these liabilities.

The Company may seek to implement additional working capital facilities and other similar banking arrangements in order to facilitate its cash management activities and liquidity. The Company’s financial strategy is designed to maintain a flexible capital structure consistent with the objective of growing production and expanding its resources and reserves and to respond to changes in economic conditions.

Outstanding Shares, Stock Options, Compensation Options and Warrants

At November 29, 2012, the Company had the following securities issued and outstanding:

Securities	Number	Exercise price	Expiry date
Common shares (TSX-V: PAK)	322,051,756		
Stock options	24,990,000	CA$1.35	March 9, 2016
	200,000	CA$1.35	May 11, 2016
	320,000	CA$0.67	October 24, 2016
	4,100,000	CA$0.11	October 30, 2017
	29,610,000	CA$1.18	
Compensation options (1)	4,485,000	CA$1.35	March 14, 2013
Warrants			
Unlisted	300,000	CA$0.22	July 12, 2015
TSX-V: PAK.WT	74,749,976	CA$2.10	March 14, 2016

(1) Entitles the agent to acquire one common share and 0.5 common share purchase warrant (PAK.WT)

Commitments and Contingencies

The Company is subject to various commitments and contingencies. There have been no material changes to the commitments and contingencies to which the Company is subject during the three and nine months ended September 30, 2012, with the exception of those noted below. Reference should be made to Note 24 of the annual consolidated financial statements and the Company's Annual Information Form for the year ended December 31, 2011 for additional information regarding the Company's commitments and contingencies.

Community of El Cerrejón

In October of 1996, Carbones Colombianos del Cerrejon S.A. ("CCC") entered into a coal exploitation contract with the community of El Cerrejón that expires in October 2016. This contract commits the Company to quarterly prepayments of royalties over minimum levels of production. On December 2, 2010, both parties agreed to modify the contract further, establishing a new expiration date of December 31, 2033. Additionally, it was agreed that the exploitation of the southern landfill area of La Caypa would commence before December 2011, which it has, and underground mining as of January 1, 2014. For the latter operation, the Company must start paying royalties as of that date. It was also agreed that the Company would prepay royalties of $20.0 million, of which $17.5 million was paid prior to December 31, 2011 and the final $2.5 million was paid during the nine months ended September 30, 2012.

Carbosán Ltda.

On March 10, 2003, CCC accepted an offer to render port services by Compañía Operadora de Carbón de Santa Marta, Carbosán Ltda. ("Carbosán"), an unrelated party, for a period of 10 years starting in July 2003. The contract includes a "take or pay" clause, which consists of a penalty payable to Carbosán in the case that the Company does not deliver a minimum number of tonnes of coal per year (1,620,000 tonnes) at a rate of $4.50 per tonne below the set minimum. On June 30, 2011 the Company signed an amendment to the port services contract with Carbosán, agreeing on a new rate of $5.70 per tonne, effective July 6, 2011. For the nine months ended September 30, 2012, the Company paid $0.5 million to Carbosán in relation to the take or pay clause. The parties also agreed that the Company has the option to extend the contract until December 31, 2013, provided Carbosán has the availability and legal capability. The Company's option to extend expires on December 31, 2012.

Agency fees

In July 2008, CCC signed a contract with Alorente, a related party, whereby Alorente was given the right to market the Company's coal globally for 12 years for compensation of 5% of amounts sold with the percentage decreasing as specific sales levels are reached. See Transactions with

Related Parties for amounts paid under this contract for the nine months ended September 30, 2012.

La Caypa mine operation

In 2007, CCC engaged Operación Minera S.A. (today Obras, Proyectos y Minería S.A.) ("OPM") to operate the mine and render services related to all the activities necessary to extract and manage coal from milling to transportation to the stockpile for a minimum quantity of coal equivalent to the greater of seven million tonnes or the total reserves recoverable from the open pit according to the mining plan, as elected by CCC.

The terms of the commercial offer were reviewed before an Arbitral Tribunal appointed by the Bogota Chamber of Commerce, as OPM filed a claim against the Company arguing alleged economic imbalance. In turn, CCC filed a counterclaim requesting termination of the above-mentioned agreement due to non-compliance of said agreement. In addition, CCC filed for arbitration on February 22, 2011 requesting the termination of a loan agreement on its equipment due to OPM's poor maintenance of it. The process is in the evidentiary phase, but currently suspended due to the resignation of the arbitrators on the case.

In November 2012, the Company communicated to OPM its intention to terminate the mine operation agreement, effective December 28, 2012. The Company is considering joint and several labour liabilities that exist under Colombian law as a result of this termination. Masering, the current operator of Cerro Largo, is expected to replace OPM as the mining operator at La Caypa mine. The Company and Masering are reviewing the terms and conditions of a new mine operating contract.

Restricted cash

At September 30, 2012, the Company had deposit certificates as a guarantee to the Comunidad del Cerrejon ($4.3 million) and as a guarantee to a Colombian bank for a portion of the Company's bank indebtedness ($12.5 million). Subsequent to September 30, 2012, the Company repaid $6.0 million of the debt related to these deposit certificate guarantees, reducing restricted cash as a guarantee to a Colombian bank to $6.5 million as at November 29, 2012.

Cerro Largo Mine royalties

The Company is required to pay royalties and additional compensation to the Colombian government based on production from the Cerro Largo mine. The royalty is based on 5% of tonnes produced at the mine during the year. The additional compensation is based on graduated levels of annual tonnes produced at the mine. The additional compensation rate starts at 0.5% for annual production of 24,000 to 120,000 tonnes per annum and increases to a maximum of 6% for annual production between 720,000 and 800,000 tonnes per annum. A lawsuit was filed by the Company in March 2012 to seek clarification of past royalties paid. As of September 30, 2012, the tribunal which the lawsuit has been assigned to is under appeal.

Jam mines and coking infrastructure operation

In August 2011, the Company entered into agreements with Geoformaciones S.A.S. for the operation of the underground mining at the "Cerrejoncito" and "La Mona" mines located on the Jam property and the processing and operation of Jam's coking infrastructure. The agreements have a term of 36 months and require the Company to pay a tariff on tonnes of coal extracted and coke produced. As of September 30, 2012, the Company has terminated the agreements with Geoformaciones in order to evaluate the economic feasibility of the underground mines, and subsequently determine a course of action for the project.

Coal classification contract

During the nine months ended September 30, 2012, the Company modified the terms of its 10 year coal screening contract with Oceans Maritime S.A.S. ("Oceans Maritime"). Oceans Maritime provides screening services for both the Cerro Largo and La Caypa projects. Under the revised terms, the Company is billed monthly on a cost plus margin basis.

Norcarbon environmental matters

An environmental administrative claim was filed during the nine months ended September 30, 2012 against Norcarbon S.A.S. by the National Authority for Environmental Licenses, claiming breaches of their obligations that arise from the Prosierra Forestal Compensation Agreement. The Company responded to the administrative claim on March 16, 2012. The Company believes that the probability of a negative outcome in this matter is likely and therefore has accounted for a decommissioning liability to reflect the commitment to reforest approximately 753 hectares of land at the Cerro Largo property. The total estimated obligation of $4.2 million will be incurred over a nine year period.

Coal sales commitments

As of September 30, 2012, the Company had entered into various contracts to deliver approximately 2.2 million tonnes of coal from its La Caypa and Cerro Largo mines, at an average FOB price of approximately $99 per tonne over the next two years. Some of the contracts include buyer's options, which permit buyers to purchase up to an additional 10% of the committed delivery quantities.

The Company also has a contract to deliver approximately 0.6 million tonnes from its Cerro Largo mine at an FOT price derived from South African FOB prevailing market prices less a $7.50 per tonne adjustment to reflect geographic location, over the next three years. This contract also includes a buyer's option to purchase up to an additional 10% of the committed delivery quantity.

During the year ended December 31, 2011, the Company entered into an agreement with LCC Group to sell 0.7 million tonnes of coal annually for up to 5 years or 3.5 million tonnes in total. The price for the sales will be agreed annually between the parties with reference to forward prices per leading coal indices. This agreement will come into effect upon completion of an existing contract with this customer.

C.I. Cafalu S.A.S.

During the nine months ended September 30, 2012, the Company entered into an agreement to purchase CI Cafalu S.A.S. ("Cafalu") and its subsidiaries for a total purchase price of $2.0 million. The Company provided a $1.0 million deposit during the negotiation stage of the purchase in the fourth quarter of 2011, which has been recorded as a non-current advance and is to be used towards the purchase price. Under the agreement, the Company shall not manage, control or benefit from Cafalu and its subsidiaries until the full purchase price is paid.

Risks and Uncertainties

The business and operations of the Company are subject to a number of risks. The Company considers the risks set out below to be the most significant to potential investors in the Company, but does not include all of the risks associated with an investment in securities of the Company:

- exploration, development and operations;
- future production rates;
- transportation and port costs;

- global markets and economic conditions;
- ongoing need for financing;
- overcapacity risk;
- oversupply of thermal coal;
- market risks - dependence on continued demand;
- fluctuating prices;
- changes in price, volume or terms of coal supply agreements;
- ability to continue acquiring and developing economically recoverable coal resources / reserves;
- risks associated with acquisitions;
- integration of recent and future acquisitions;
- risk of foreign operations;
- disruptions in production;
- risks with title to mineral properties;
- stage of development;
- fluctuations in currency exchange rates;
- labour matters and employee relations;
- regulatory and permitting delays;
- economic and political factors;
- legal systems;
- changes in legislation;
- regulatory approvals;
- decommissioning liabilities;
- mining risks and insurance risks;
- environmental matters;
- changes to environmental laws;
- greenhouse gases;
- opposition to mining;
- competition;
- shortage of experienced personnel and equipment;
- raw materials cost;
- shortage of mining equipment and supplies;
- possible volatility of stock price;
- potential conflicts of interest;
- liquidity and financing risk;
- enforcement of civil liabilities;
- forward-looking information may prove inaccurate;
- infrastructure;
- joint ventures;
- increased costs and compliance risks as a result of being a public company;
- third-party insurance and self-insured risks;
- repatriation of earnings risk;
- risks related to ongoing legal proceedings; and
- other risks.

If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Company is currently unaware or which it considers not to be material in relation to the Company's business, actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may lose all or part of their investment. For more information, please see the Company's AIF which is available at www.sedar.com.

Recent Accounting Pronouncements

There have been no new or revised accounting pronouncements that would materially impact the Company since those disclosed in Note 3 to the consolidated financial statements for the year ended December 31, 2011.

Critical Accounting Estimates

A summary of all the Company's significant accounting policies, judgments, estimates and assumptions is included in Notes 3 and 4 to the consolidated financial statements for the year ended December 31, 2011.

Additional Financial Measures

This report contains additional non-GAAP financial performance measures, such as operating margin and cash cost per tonne. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These non-GAAP financial measures do not have any standardized meaning under IFRS, and therefore are unlikely to be comparable to similar measures presented by other issuers.

- "Operating margin" is derived by dividing revenue from coal sales less operating costs, transportation and port services expenses, selling costs, mine disruption costs, and inventory impairment charges by the coal sales volumes for the period.
- "Cash cost per tonne" is derived by dividing total operating costs less depreciation, depletion and amortization by tonnes of coal sold for the period.

Transactions with Related Parties

The following transactions with related parties occurred during the nine months ended September 30, 2012:

(a) The Company paid Blue Pacific Assets Corp. ("Blue Pacific") for rental space in Colombia, prior to the closure of the Company's Bogota office in the second quarter of 2012. The total expense recognized for the three and nine months ended September 30, 2012 relating to Blue Pacific was $nil and $0.1 million, respectively (three and nine months ended September 30, 2011 - $0.1 million and $0.2 million, respectively). Blue Pacific owns approximately 28% of the outstanding common shares of the Company as at November 29, 2012 and is controlled, directly or indirectly, by certain directors of the Company.

(b) Masering is the mining contractor used for the Cerro Largo mine. The Company recognized an expense relating to Masering's services for the three and nine months ended September 30, 2012 of $8.8 million and $22.7 million, respectively (three and nine months ended September 30, 2011 - $4.7 million and $12.3 million, respectively, excluding the cost of initiating the contract). The Company made payments during the three and nine months ended September 30, 2012 to Masering of $3.5 million and $11.0 million respectively relating to operating costs, inventory and equipment (three and nine months ended September 30, 2011 - $3.3 million and $9.7 million, respectively, excluding payment for transfer of the exploitation contract to the Company). Masering is controlled by a director of the Company.

In July 2012, the Company entered into a payment structure plan via a MOU with Masering to settle the outstanding accounts payable balance of $14.8 million owed by the Company to Masering. In accordance with the MOU, the Company was required to settle approximately $7.0 million of the amount outstanding in the second half of 2012 and the remaining $7.8 million in July 2013, plus interest accrued on the balance subsequent to the initiation of the MOU. The Company pledged the mining title for the Cerro Largo mine to Masering as a guarantee for the obligations derived from the MOU and agreed to assume additional Masering fuel charges for the year-end December 31, 2011 of $1.7 million which were under dispute (included in the $14.8 million accounts payable balance). As part of the 2012 payment, upon the execution of the MOU, the Company transferred its wholly owned subsidiary Kiriba, the sole asset of which is an airplane, to Masering in exchange for settlement of $1.8 million. Prior to the agreement, Masering had subjected the Company to a 15.5% interest rate on payables due. The payment structure plan reduced the interest rate going forward to 13%. For the nine months ended September 30, 2012, the Company has recorded $0.9 million of interest in relation to the agreement.

In the third quarter of 2012, the Company did not make the required payments under the agreement, excluding the transfer of Kiriba, and is currently in discussions with Masering to revise the agreement.

(c) In accordance with the Alorente agency contract, the Company recognized a commission expense of $0.6 million and $2.2 million for the three and nine months ended September 30, 2012, respectively (three and nine months ended September 30, 2011 - $2.4 million and $5.8 million, respectively). During the nine months ended September 30, 2012, the Company settled outstanding commissions payable to Alorente through the assignment of a deposit of $1.0 million, previously made to Grupo Empresaria Ibiza ("Grupo"), relating to a real estate arrangement that the Company is no longer proceeding with. Grupo is controlled by certain directors of the Company.

(d) The Company shares certain G&A costs related to the office in Canada with Pacific Rubiales, which owns an equity interest in and shares common directors with the Company. A cost-sharing agreement exists that sets out the terms and allocation of the costs covered, such as rent, utilities, and other office administrative expenditures. In accordance with the agreement, the Company recognized an expense of $nil and $0.4 million for the three and nine months ended September 30, 2012 (three and nine months ended September 30, 2011 - $0.1 million and $0.2 million, respectively). At September 30, 2012, the Company has an outstanding payable balance to Pacific Rubiales of $0.6 million (December 31, 2011 - $0.3 million).

During the three months ended September 30, 2012, Pacific Rubiales purchased furniture and fixtures for $0.4 million from the Company after the closure of its Bogota corporate office.

Subsequent to September 30, 2012, the Company sold its interest in BACF to Pacific Rubiales, which represents 5% of BACF's equity and the right to acquire up to an additional 5% equity interest in BACF, for a price of $5.0 million. As the carrying value of the investment was consistent with the sale price, no gain or loss was recorded on the transaction. The Company retains the right to acquire an additional 10% equity interest in BACF.

(e) During the nine months ended September 30, 2012, Oceans Maritime provided rental and back-office services to the Company which is included as G&A expenses. During the year-ended December 31, 2011, the Company also entered into a 10 year coal screening contract with Oceans Maritime for services that cannot be provided by the operator. The expense recognized by the Company for these services in the three and nine months ended September 30, 2012 was $1.3 million and $3.8 million, respectively (three and nine months ended September 30, 2011 - $1.0 million and $2.3 million, respectively). The Company has outstanding advances with Oceans Maritime towards these expenses of $1.7 million at September 30, 2012 (December 31, 2011 - $1.5 million). Oceans Maritime is controlled by Blue Pacific.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Outlook

The second half of 2012 has thus far seen the Company re-focus on its core competencies. Subsequent to the end of the third quarter of 2012, with the assistance of new senior management, the Company has both sold its BACF investment and signed an MOU to its Barranquilla port interest. The sale of the investment provided the Company with $5 million in cash. This cash will be used in the Company's operating and selling activities at its producing coal and coke sites. The Company is also re-assessing the strategic direction of its three main operations.

At La Caypa, the Company expects to change the mine's operator in the fourth quarter of 2012 and believes this will result in higher production and lower costs per tonne. Significant progress has been made with the development work at the south pit and production is expected to commence by the end of the first quarter of 2013. The Company has also initiated the process of hiring a leading international underground operator at La Caypa with the expectation for underground mining to begin in the fourth quarter of 2013. As a result of the change in operator and delay of coal production at the south pit, the Company revised its 2012 production target for La Caypa from 1,150,000 tonnes to 970,000 tonnes. Coal production from La Caypa in 2013, with the south pit producing, the change in operator and the underground operation, is expected to be approximately 1,100,000 tonnes, a 13% increase over the anticipated 2012 production.

At Cerro Largo, the Company is working to reduce the operating costs per tonne and increase production, and is currently exploring different options for the mine to optimize use of the operations. Clearing mud concentrated at the bottom of the mine's open-pit continued through the third quarter of 2012 and was completed by the end of October of 2012, progress of which reduced the mine's stripping ratio in the third quarter of 2012. As a result of the additional work required to clear the mud concentration in the pit, the Company has revised its 2012 production target for Cerro Largo from 700,000 tonnes to 400,000 tonnes. Coal production at Cerro Largo in 2013, with the Company acting as the primary operator, is expected to be approximately 600,000 tonnes, an increase of 50% over the anticipated 2012 production.

The Company is focusing on improving coking ovens and optimizing personnel at Jam, and anticipates re-starting metcoal production (dedicated to feeding coking ovens) and significant coke production in the first quarter of 2013. The Company's metcoal production at Jam was suspended through the third quarter of 2012 as a consequence of high costs and weak international prices, and the plant focused on processing third party purchased materials for use in the production of coke. Coke production was held at minimal levels during the third quarter of 2012 as a result of low international coke prices, with activity during the quarter concentrated on conducting repairs to coking infrastructure.

As asphaltite exploration continues at the Company's La Tigra property, the Company has signed an agreement with a third-party to perform analysis of the results, at the third-party's cost, to determine the site's prospects. The analysis is expected to be completed in the second quarter of 2013, at which time the Company will determine an adequate course of action for the property.

The Company's focus at reducing G&A expenses were realized in the third quarter of 2012, as they were reduced to $3.6 million, down approximately 20% from the second quarter of 2012, in addition to the 9% decrease already realized in the second quarter of 2012 and the 12% realized in the first quarter of 2012. G&A expenses in he third quarter of 2012 included approximately $1.0 million of one-time expenses, which if excluded would see a G&A expense improvement of approximately 43% from the second quarter of 2012. Based on the continued success of the cost reduction project, the Company expects a continued decrease in the quarterly G&A run rate to approximately $2.75 million by the fourth quarter of 2012.

Exploration at both the La Caypa and Cerro Largo mines was completed during the second quarter of 2012 in coordination with SRK Consulting (UK) Ltd. pursuant to updating the NI 43-101 technical reports in connection with open pit and underground resources at both mines. The Cerro Largo updated technical report is expected to be released during the fourth quarter of 2012 and La Caypa report is expected in the second quarter of 2013.

Cautionary Note Regarding Forward Looking Statements

In addition to historical information, this MD&A contains forward-looking statements that are generally identifiable as statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will", "likely", "expected", "is anticipated", "believes", "estimated", "intends", "plans", "projections", and "outlook") that are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. The Company believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon. Factors that could cause actual results to differ materially from those anticipated in these forward-looking statements are described under the caption "Results and Uncertainties", many of which are beyond the control of the Company. Although the Company has attempted to take into account important factors that could cause actual costs or results to differ materially, there may be other unforeseen factors and results may not be as anticipated, estimated or intended.