



MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED  
DECEMBER 31, 2008

# **FAR WEST MINING LTD.**

## *Management's Discussion & Analysis*

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This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations for Far West Mining Ltd. ("the Company") for the year ended December 31, 2008 has been prepared as of March 19, 2009 and includes financial and other information up to the date of this report. The MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2008. The Company's MD&A contains statements that constitute "forward-looking statements" and other cautionary notices (see page 17).

### **Description of Business**

The Company is a mineral exploration company primarily engaged in the evaluation, acquisition and exploration of mineral properties in Chile and Australia. The Company is currently advancing the Santo Domingo Project in Chile.

The Company is a reporting issuer in Ontario, British Columbia and Alberta, and trades on the Toronto Stock Exchange under the symbol FWM.

### **Highlights**

**Santo Domingo Project, Chile** The Company carried out a drill program that targeted the area between the Santo Domingo Sur and Iris deposits and around the recently discovered Iris Norte zone in an attempt to expand the resource. The drill program was successful in identifying additional copper-iron mineralization between the Santo Domingo Sur and Iris pit outlines that were determined by the scoping study delivered in 2008. The Company is confident that the newly discovered mineralization will connect the two pits in an updated project plan and increase the overall tonnage of the project. The drilling at Iris Norte improved the geological understanding of the deposit and added copper and iron mineralization.

Metallurgical testing for the recovery of copper and iron is continuing. Preliminary results from a second, more representative composite sample recently tested returned copper recoveries very similar to those yielded from the higher grade composite sample used in the scoping study. Initial investigations of the iron recovery also suggest that the Santo Domingo ore will yield a high quality magnetite concentrate using cost efficient low intensity magnetic separation. Work is continuing on the recovery of the hematite.

**Georgetown Project, Queensland, Australia** Diamond drilling at the Robin Hood prospect outlined a 100m wide zone of alteration and mineralization that is indicative of the targeted style of mineralization. Surface samples in the area yielded high grade samples of lead, silver, zinc and copper mineralization. The occurrence of high grade surface samples and wide intervals of mineralization and alteration in the drill holes suggests that the Robin Hood area is prospective to host high-grade mineralization.

**Farallón Negro Project, Argentina** Geophysical surveys carried out over select areas in 2008 failed to define favourable drill targets. The decision was made to abandon the Project in favour of more compelling targets in Australia and Chile and the Company has served notice to BHP Billiton of its decision to terminate the option agreement.

**Financing** In August, 2008, the Company closed a non-brokered private placement for a total of 3,206,746 Units at a price of \$3.15 per unit for aggregate gross proceeds of \$10,101,250.

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### **Mineral Properties**

#### *Santo Domingo Project - Chile*

The Company is exploring for iron-oxide hosted copper-gold ("IOCG") deposits in the Candelaria Copper Belt of northern Chile. The Santo Domingo Project is located in the northern half of the Candelaria Belt which stretches over a distance of 1,200 km from Santiago to the Mantos Blancos mine north of the city of Antofagasta. As of December 31, 2008 the Santo Domingo Project Area is comprised of 132 mineral concessions covering 35,623 hectares. The Company holds an additional 25 mineral concessions covering 7,500 hectares in the Candelaria Belt outside of the Santo Domingo Project area.

The majority of land holdings cover a large portion of the Santo Domingo District, which is located about 100 km north of the mining town of Copiapó. During the period 2005 through 2007, the Company outlined the Santo Domingo Sur, Iris and Estrellita copper-gold-iron deposits that contain a combined tonnage of 234.3Mt averaging 0.55% copper at a 0.3% cut-off grade. Exploration efforts in 2008 were focused around the deposits to expand the resource as well as to collect geotechnical and metallurgical data to further define the economic factors that determine the value of the project.

The Company's 100% interest in the Santo Domingo Project properties was acquired from BHP Billiton and Empresa Nacional de Minería (ENAMI), a Chilean government corporation, and is subject to a 2% net smelter return (NSR) royalty.

#### *Preliminary Economic Assessment for the Santo Domingo Sur and Iris Deposits*

In April 2008 AMEC Americas (Chile) S.A. ("AMEC") issued their scoping study / preliminary economic assessment on the Santo Domingo Sur and Iris copper-iron-gold deposits. AMEC assessed the economic viability of two separate mining options - developing the Santo Domingo Sur deposit for the recovery of copper ("Cu"), gold ("Au") and iron ("Fe") from magnetite, and, the combined development of the Santo Domingo Sur and Iris deposits for the recovery of copper, gold and iron from both magnetite and hematite.

The Estrellita oxide/sulphide deposit, which has an Indicated Resource of 31.7 Mt grading 0.53% copper, was not included in AMEC's study as the Company is focusing on the development of the Santo Domingo Sur, Iris and Iris Norte sulphide deposits at this time.

#### *Magnetite Option*

The mining assessment for the Santo Domingo Sur deposit for the recovery of copper, gold and iron from magnetite (a magnetic iron oxide mineral), is based on typical industry standards for a preliminary economic assessment with regard to the nature and mineability of the resource. AMEC'S assessment assumes conventional truck-shovel open pit mining will be employed, with the material being fed to a 50,000 tonne per day processing plant using standard mineral flotation technology for the extraction of copper. Under the Magnetite Option, which does not include material from the Iris deposit, the flotation tailings from the copper circuit are fed into a low intensity magnetic separation circuit for magnetite recovery. The magnetite concentrate produced is subjected to second stage grinding followed by magnetic separation to produce a final concentrate. Testing indicates that over 90% of the magnetite is recovered in the process.

Preliminary metallurgical testing indicates acceptable levels for the most common deleterious elements such as phosphorous, silica, and aluminum.

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#### *Hematite Option*

Under the Hematite Option, which also includes the mining of the Iris deposit, the mining and mineral processing is the same as the Magnetite Option with the exception that it is assumed the tailings from the magnetic separation circuits will be subjected to hematite (a non-magnetic iron oxide mineral) flotation followed by regrinding and a cleaner flotation stage to produce a saleable concentrate.

AMEC estimated capital expenditure and recovery costs for the hematite with their knowledge of existing operations and processes. Although hematite flotation is a known industry practice, metallurgical testing of the hematite material at Santo Domingo must be carried out to better determine the capital and operating costs required for producing a concentrate that meets industry standards. This approach is consistent with the scoping level of the study performed.

For the purposes of the scoping study/preliminary economic assessment, the amount of hematite contained in the combined Santo Domingo Sur and Iris deposits was estimated to be approximately three times that of the magnetite. The actual ratio is now believed to reflect a higher proportion of magnetite which would increase the amount of iron from the magnetite and reduce capital and operating costs. A metallurgical program has been initiated to attempt to establish a more definitive ratio.

Met-Chem of Montreal and SGA of Germany (both world experts in iron recovery) are in the process of determining both the ratio of magnetite to hematite, and the best method to recover the hematite that is contained in the ore.

#### *Economic Results*

The base case commodity prices (US\$) for copper, iron and gold used by AMEC in May, 2008 were \$1.50/lb, \$40/tonne (65% iron concentrate) and \$635/oz respectively. However, for the calculation of the pit shells, AMEC used \$1.40/lb and \$26/tonne (65% iron concentrate). Higher metal prices will increase the recoverable tonnage in the pits. With capital and operating costs rising significantly over the past two years, the Magnetite Option requires \$1.80/lb copper and \$50/tonne iron to reach a Net Present Value of \$50M. The Hematite Option, however, achieves an NPV of \$353M at the same pricing. (All NPVs are calculated at an 8% discount rate). AMEC's conclusions are that the NPVs of the Magnetite and Hematite Options rise to \$270M and \$739M respectively at prices of \$2.10/lb copper and \$60/tonne of 65% iron concentrate (*Long-term metal price assumptions currently being used by AMEC for determining resource cut-off grades are \$1.95/lb of copper, \$80.00/tonne of iron concentrate and \$835/oz of gold*).

Net of credits for iron concentrate at \$40 per tonne and gold at \$635 per ounce, the cost to produce copper in the Hematite Option is reduced from \$1.15/lb to \$0.01/lb after the iron and gold credits.

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**Management has prepared this table which provides a comparison of the projects, and NPVs for the two Options at \$2.10/lb for copper and \$60/tonne for iron concentrate.**

		<b>Magnetite Option</b>	<b>Hematite Option</b>
<b>Resources</b> @ 0.3% cut-off	Inferred	188.1 Mt @ 0.56% Cu	240.2 Mt @ 0.54% Cu
<b>Mining and Production</b>	Ore Milled (life of mine)	166.8 Mt	226.0 Mt
	Daily Production	50,000t	50,000t
	Strip Ratio	2.43:1	2.01:1
	Average annual copper production	152 Mlbs	144 Mlbs
	Average annual iron production	985,000t	4,065,000t
<b>Capital Cost</b>	Million \$	\$ 685	\$ 941
<b>Operating Cost</b>	\$/t of ore	\$ 8.54	\$ 10.32
	\$/lb Cu	\$ 0.57*	\$ 0.01*
<b>Life of Mine</b>	Years	11	14
<b>NPV (8% discount rate)</b> @ \$2.10/lbCu & \$60/t Fe	Million \$	270	739

\*net of credits for iron concentrate @ \$40/tonne and gold @ \$635/oz

AMEC's assessments are preliminary in nature, and include inferred mineral resources that are too speculative geologically to have the economic considerations applied to them that would enable them to be characterized as mineral reserves. Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no assurance that the preliminary assessments will be realized.

Management of the Company believes that as the project is moved forward through additional environmental and engineering work, it will see significant enhancement as risks are removed or mitigated and the scope is defined.

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**2008 Exploration Activities**

***Santo Domingo Project – Chile (Copper – Iron – Gold)***

In January, 2008, the Company commenced a drill program in the Santo Domingo project area. The drill program was primarily designed to test geophysical anomalies identified by a survey carried out in the fall of 2007. The program, consisting of twenty-six reverse circulation (RC) holes totalling 6,464 metres, was completed in March.

The drill campaign outlined a new zone of copper-iron mineralization to the north of the Iris deposit. The mineralized zone, which has been named Iris Norte, is approximately 150-200 metres wide with a strike length in excess of one kilometre. The mineralization, which is very similar in character to the Iris deposit, starts at a 60m depth at the southern end of the zone and plunges gently to the north. Drilling to date at Iris Norte is widely spaced with 125-250m hole-separations. The mineralized zone remains open to the north.

During the fourth quarter, the Company conducted a drill program that was designed to investigate the area between the Santo Domingo Sur and Iris deposits in an attempt to connect the two planned open pits. In addition, several holes were drilled to test and to extend the newly discovered Iris Norte zone.

Highlights of the drilling include 58m @ 0.70% Cu and 27.0% Fe at the Iris Norte deposit, 266m @ 28% Fe, 216m of 37.5% iron and 62m of 0.73% Cu and 32.5% Fe between the Santo Domingo Sur/Iris deposits. The results from the drilling campaign are very positive and significant for the development of the project plan. Most of the drill holes are located between the open pit outlines designed for the Santo Domingo Sur and Iris deposits. It should be noted that the iron grades intersected in these holes are generally higher than the average for the property. The Company plans to complete a new resource study and is confident that the recent drill results will increase the overall tonnage of the project and will connect the open pit designs for the existing deposits. Combining the two planned open pits into one should increase the efficiency of future mining operations at Santo Domingo.

Additional drilling will be required at Iris Norte to understand the structural complexity and determine possible extensions. The Company plans to conduct a resource calculation for the Iris Norte deposit and will design future drilling utilising the benefits of a block model.

In December 2008, the Company acquired 55 new exploration claims in the IOCG (iron-oxide-copper-gold) belt of Chile. The claims cover an area of approximately 16,000 hectares and are located to the north and northeast of the Santo Domingo property where the Company discovered the Santo Domingo Sur, Iris, and Iris Norte deposits. The Company intends to add to its exploration properties in other areas to capitalize on the success of the Santo Domingo project which has now entered the development stage. The Company believes that it can add significant shareholder value through additional discoveries in the belt.

***Georgetown Project - Australia (Silver – Lead – Zinc)***

The Company is exploring for Broken Hill Type (BHT) deposits in the Georgetown area of northern Queensland, Australia. The project area has the potential to host BHT deposits such as Broken Hill (280 Mt @ 10.0% Pb, 8.5% Zn, 150 g/t Ag) and Cannington (45 Mt @ 11.9% Pb, 4.8 % Zn, 520 g/t Ag).

The Company commenced the 2008 exploration program at Georgetown in June with a ground magnetic survey designed to provide geophysical data to help to determine drill target depth.

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Results from the modelling of the new geophysical data assisted with the planning of a drill program to test new targets as well as to follow up on targets remaining from 2007. The drill program commenced in August.

In October 2008, the Company completed a diamond drill program (nine holes for a total of 3,120m) on two of its ten Georgetown tenements. Four holes were drilled in follow-up of the 2007 campaign at the Chudleigh Park tenement and five holes were drilled at the Robin Hood tenement located approximately 100km north of Chudleigh Park.

Drilling at Robin Hood intersected a sequence of metamorphic rocks such as gneisses, schists and amphibolites that are known to host BHT mineralization. Four of the five holes (GB19-2 through GB19-5) intersected a zone of BHT alteration of approximately 100m thickness. The first hole (GB19-1) drilled underneath the zone because the dip of the strata was impossible to determine from surface showings. The alteration zone consists of characteristic minerals such as gahnite (a zinc oxide), garnet, sillimanite and base metal sulphides. The alteration zone contains various intervals of zinc and copper mineralization as well as characteristic siliceous alteration which is commonly associated with lead-silver lodes of BHT systems.

The presence of high grade lead-silver samples at surface, coupled with characteristic alteration, indicates that there is potential for the existence of high value lead-silver lenses along strike or at depth. While the intersected grades of mineralization are low, higher spikes are related to massive sulphide bands (core was sampled at uniform one meter intervals). The widths of alteration and mineralization are significant and indicate that the holes may have been drilled close to economic mineralization.

Drilling at Chudleigh targeted favourable structural positions and magnetic anomalies around an interpreted folded dome. The drill holes intersected prospective stratigraphy with moderate alteration but no significant base metal anomalies. The Company now believes that the Chudleigh prospect is located at the eastern edge of the 160km long prospective corridor that is defined by a magnetic trend from the outcropping mineralization in the Einasleigh triangle in the north, through Robin Hood, the Black Soil prospect to the south of Robin Hood, and to the Company's Perryvale tenement and further south.

The Company plans to conduct a geophysical program as early as possible in the first quarter of 2009 to identify drill targets. It is anticipated that drilling will be conducted in the second quarter as soon as weather conditions permit.

The Company completed the earn-in in the Georgetown project in September, 2008. The Company's exploration partner BHP Billiton elected to convert its remaining ownership interest in the Georgetown Project into a royalty. As a result, the Company's ownership interest has been increased to 100% subject to a 2% Net Smelter Return royalty retained by BHP Billiton.

#### ***Farallón Negro Project – Argentina (Copper – Gold)***

The Farallón Negro Volcanic Complex in the Catamarca Province of Argentina is ranked among the top five prospective magmatic arcs in the world for the discovery of porphyry Cu-Au deposits. Conventional exploration for giant porphyry copper deposits in parts of the Argentinean Andes is hindered by extensive post-mineral cover, seen in the selected project area.

The project area (7,270 sq km) was covered by a FALCON™ airborne gravity survey designed to explore the covered areas to the north and south of the district that is host to the Bajo de la Alumbrera mine (752 Mt @ 0.51% Cu & 0.67 g/t Au) and the Agua Rica (802 Mt @ 0.61% Cu & 0.23 g/t Au) deposit.

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A land acquisition program was carried out with our exploration partner, BHP Billiton, to secure access rights to the mineral properties in the Catamarca Province, to cover anomalies outlined by the FALCON™ airborne gravity system.

In April 2008, the Company commenced an induced polarization (IP) ground geophysical survey at 1,400 metre line spacing on the Farallón Negro property located in the Catamarca Province of Argentina. The survey was targeting disseminated sulphide mineralization and alteration that commonly envelopes copper-gold porphyry deposits. The survey was completed in November 2008 and after careful evaluation of the results, the Company decided that the targets were of insufficient quality to justify further expenses for follow up work. Notice was served to BHP Billiton of the Company's decision to withdraw from the project.

### **Future Outlook and Strategy**

#### CHILE

The Company continues to advance the Santo Domingo Project to the development stage and has commenced or is planning the following:

- Complete metallurgical studies to determine processing options that maximize potential metal recoveries to refine the economics of the project.
- Commission a resource report for the Iris Norte deposit and an updated resource report for the Santo Domingo Sur and Iris deposits.
- Continue planned water exploration program, acquisition of water rights and planning of pipeline to determine the most economic water source.
- Update the preliminary economic assessment for the Santo Domingo Project to incorporate the results of the metallurgical studies and resource reports.
- Identify other exploration and development stage properties within the Candelaria IOCG belt for potential acquisition.
- Evaluate and contact strategic partners or investors to accelerate the development of the Santo Domingo Project.

#### AUSTRALIA

The Company plans to complete a ground geophysics program in the second quarter of 2009 to build upon the information obtained from the 2008 drill program and identify potential drill targets. The geophysics will be followed by a drill program.

#### FINANCING

To advance the Santo Domingo project the Company must raise additional financing. Management will evaluate sources of financing including off-take agreements, a sale of a partial interest in the Santo Domingo Project and traditional equity financing. The selection of one or more of these methods of financing will be determined based on the level of interest from other companies or investors and the impact to existing shareholders.

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**Liquidity and Capital Resources**

At December 31, 2008, the Company had cash and cash equivalents of \$8,555,376 and working capital of \$7,936,080. The Company has no long-term debt obligations impacting liquidity or future cash flows. Other long-term obligations consist of the non-current portion of a leasehold inducement in the amount of \$63,562 and future income tax liabilities of \$512,784. The Company is primarily dependent on the equity markets to raise funds for planned operations. Future cash requirements will depend primarily on the extent of future exploration and development activities.

The Company will require additional financing in 2009 to complete certain planned exploration and development activities and fund general and administrative costs.

The Company's ability to continue operations and exploration activities as a going concern is dependent upon its ability to obtain additional funding. Factors that may affect the availability of financing include the progress and results of the Santo Domingo project, investor perceptions and expectations and the condition of the financial and metals markets.

**Consolidated Financial Results of Operations**

The loss and comprehensive loss for the year was \$4,786,628 compared with \$3,382,436 for the previous year.

Significant differences in general and administrative expenses for 2008 compared with 2007 include:

- Stock based compensation decreased to \$1,647,520 from \$2,290,145. The decrease is primarily attributable to a decrease in the stock price volatility calculation over the previous year.
- Salaries and benefits decreased to \$652,753 from \$838,835. The decrease is primarily due to a severance payment paid to a former officer and director in 2007, offset by salary and fee increases for directors, officers and employees.
- Foreign exchange loss for the year was \$34,869 compared to a gain of \$76,303 for 2007. In 2008, the Company incurred a foreign exchange losses on a liability denominated in US dollars. The 2007 foreign exchange gains was primarily due to gains recognized with respect to the US dollar denominated liability, offset by the decline in value of US dollar deposits.
- Rent expense increased to \$110,407 from \$77,218 as a result of leasing new office premises in Vancouver in September, 2007.

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**Summary of Quarterly Results**

(Expressed in thousands of Canadian dollars)

	Dec 31 2008 <i>(i)</i>	Sept 30 2008	Jun 30 2008 <i>(ii)</i>	Mar 31 2008	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007 <i>(iii)</i>
Interest revenue:	51	52	42	43	67	106	76	124
Loss and Comprehensive Loss for the quarter before extraordinary items:	(2,040)	(442)	(1,905)	(397)	(375)	(482)	(519)	(2,006)
Per share - basic & diluted:	(0.03)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)
Loss and Comprehensive Loss for the Quarter:	(2,042)	(442)	(1,905)	(397)	(375)	(482)	(519)	(2,006)
Per share - basic & diluted:	(0.03)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)
Total assets:	38,330	39,383	29,851	30,251	30,329	27,238	27,334	27,834

*(i) Loss and comprehensive loss for the quarter included the write-off of exploration expenditures for the Farallón Negro Project in Argentina*

*(ii) Loss and comprehensive loss for the quarter included stock-based compensation of \$1,566,623.*

*(iii) Loss and comprehensive loss for the quarter included stock-based compensation of \$1,739,085.*

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The loss for the fourth quarter of 2008 was \$2,041,681 compared to a loss of \$375,162 for the fourth quarter of 2007. Significant differences include the following:

- The Company recorded a mineral property write-off in the fourth quarter of 2008, with respect to the Farallón Negro Property, Argentina, in the amount of \$1,876,402. There were no mineral property write-offs in the fourth quarter of 2007.
- Stock-based compensation for options granted in the first nine months of 2008 was recalculated in the fourth quarter and an adjustment made to reduce stock-based compensation by \$180,993. In 2007, \$233,628 was recorded as stock-based compensation for options vesting during the period and for changes to the terms of options previously granted to a director and officer of the Company who resigned during the year.
- Salaries and benefits were \$189,254 for the fourth quarter of 2008 compared with \$102,266 for 2007. The increase is attributable to salary increases for employees during the fourth quarter of 2008, payment of fees to directors and reducing the amount of salary capitalized to mineral properties.
- Foreign exchange loss for the fourth quarter of 2008 was \$31,789 compared with a foreign exchange gain of \$40,633 for 2007. In the fourth quarter of 2008, the Company incurred a foreign exchange loss on the decline in value of US dollar deposits. The 2007 foreign exchange gain was primarily due to gains recognized with respect to the US dollar denominated liability.

The Company had cash and cash equivalents at December 31, 2008 of \$8,555,376 compared with \$7,978,157 at December 31, 2007 and working capital of \$7,936,080 at December 31, 2008 compared with \$7,088,359 at December 31, 2007. The Company will require additional financing to fund operations planned for the following year.

Accounts payable and accrued liabilities at December 31, 2008 were \$923,952 compared with \$1,035,953 at December 31, 2007.

The Company received \$915,034 from the exercise of 971,200 share purchase options during the year compared with \$192,715 from the exercise of 228,900 stock options during 2007.

### **Financing Activities**

In August, 2008, the Company completed a non-brokered private placement of 3,206,746 units at a price of \$3.15 for each unit for gross proceeds of \$10,101,250. The placement was comprised of 3,175,000 units consisting of a special warrant exercisable to acquire a common share for no additional consideration and one-half of one transferable common share purchase warrant, and 31,746 units consisting of one common share and one-half of one non-transferable common share purchase warrant. Each full common share purchase warrant entitles the holder to purchase one common share at a price of \$4.25 until August 14, 2009.

The Company incurred share issue costs including a transaction fee of 2.5% and a finder's fee of 4%. After deduction of \$794,736 for share issue costs, the Company received net proceeds from the financing of \$9,306,514.

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**Investment activities**

During the year, the Company incurred mineral property costs in the amount of \$9,147,107 including non-cash stock based compensation of \$530,907. These costs were incurred in the following geographic areas:

Project	Balance at Dec. 31, 2007 \$	Exploration costs incurred in 2008 \$	Exploration costs written off in 2008 \$	Balance at Dec. 31, 2008 \$
Chile	18,874,564	6,851,798	-	25,726,362
Argentina	796,375	1,080,027	(1,876,402)	-
Australia	2,087,166	1,215,282	-	3,302,448
Canada	200	-	-	200
<b>TOTAL</b>	<b>21,758,305</b>	<b>9,147,107</b>	<b>(1,876,402)</b>	<b>29,029,010</b>

**Selected Annual Information**

(thousands of Canadian dollars)	Years ended December 31		
	2008	2007	2006
	\$	\$	\$
Revenues			
➤ Interest income	188	374	377
Loss and Comprehensive Loss from Operations	(4,787)	(3,382)	(2,274)
➤ Per share - basic & diluted	(0.09)	(0.07)	(0.05)
Loss for the year	(4,787)	(3,382)	(2,274)
➤ Per share - basic & diluted	(0.09)	(0.07)	(0.05)
Total Assets	38,330	30,329	27,319
Long Term Liabilities	576	77	Nil
Cash Dividends per share	Nil	Nil	Nil

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### ***Qualified Persons***

The in-house qualified person responsible for the review of the technical content of this Management's Discussion and Analysis is Richard N. Zimmer, P. Eng., President, CEO and director of the Company.

Additional information is available on the Company's website at [www.farwestmining.com](http://www.farwestmining.com) and on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### **Risks and Uncertainties**

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for the mineral properties and related deferred exploration costs and the Company's continued viability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or from the proceeds from disposition of its mineral properties.

The Company believes that the recent decline in base metal prices and the current global economic crisis has reduced the number of potential sources of capital which may have an impact on the Company's ability to raise additional capital. The duration of the current economic conditions cannot be predicted. The availability of financing on acceptable terms may make it difficult for companies to raise funds required to develop and build new mines within planned timelines. The Company will manage its liquidity risk by reviewing the risk characteristics of its mineral properties and other assets, by curtailing any non-essential expenses to conserve cash resources, and by considering the sale or joint venture of assets. Failure to obtain necessary financing may result in delays or indefinite suspension of exploration and development programs and possible loss of the Company's mineral property interests.

Mineral exploration involves a high degree of risk. The Company competes with other mining enterprises, some of which have greater financial resources, for the acquisition of mineral concessions. The Company is at risk to variations in precious metal prices, the interest of investors and the availability of contractors. These factors impact upon the Company's ability to finance its programs and to carry on operations.

Mineral development involves a high degree of risk as very few properties warrant the considerable expenditures required to initially substantiate their reserves and then to develop them into production. Consequently very few properties are ever developed into producing mines.

The Company's mineral property interests are located in Chile, Australia and Canada. As a result, the Company is subject to geographical and political risks including currency fluctuations, possible political and economic instability and logistical issues. The mineral exploration activities expose the Company to potential environmental liabilities relating to the reclamation of property in accordance with local laws and regulations.

There is no guarantee that title to the properties in which the Company has a recorded interest will not be challenged. The Company's mineral property interest may be subject to prior unregistered agreements or transfers and the title may be affected by undetected defects. As of the effective date, management is not aware of any impediment to its ownership to these properties.

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**Additional Disclosures**

***Changes to Management***

On September 25, 2008, Mr Richard Zimmer was appointed President and Chief Executive Officer of the Company. Mr. Zimmer was previously the Company's Chief Operating Officer and Vice President. Mr. Robert Hindson, the former President and Chief Executive Officer, was appointed Executive Chairman of the Company.

***Changes to the Board of Directors***

On September 25, 2008, Mr. Lee Graber was appointed a Director of the Company. On January 11, 2009, Mr. Daryl K. Seaman, a co-founder and former Chairman of the Company passed away.

***Off-Balance Sheet Arrangements***

The Company does not have any off-balance sheet arrangements and does not contemplate such arrangements in the foreseeable future. There are no contingent liabilities.

***Transactions with Related Parties***

During the year ended December 31, 2008, the Company incurred \$275,341 (2007: \$200,944) for various legal services and share issuance costs to a law firm in which a director of the Company is a partner. At December 31, 2008, the estimated amount payable to the law firm is \$36,174 (December 31, 2007 - \$Nil). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

***Commitments and Contractual Obligations***

In March, 2007, the Company committed to lease office premises for a period of seven years commencing September 1, 2007. The obligations under this operating lease are due as follows:

2009	\$ 130,000
2010	133,000
2011	138,000
2012	138,000
Thereafter	<u>230,000</u>
	\$ <u>769,000</u>

***Critical Accounting Policies and Estimates***

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of commitments and contingencies at the date of the financial statements, and the reported amount of revenue and expenses during the period.

The most significant accounting estimates for the Company relate to the potential impairment of its mineral property assets, accounting for stock-based compensation, the value attributable to warrants, and recognition of future income tax assets and liabilities. The Company's accounting policies are set out in full in note 2 of the annual financial statements.

## **FAR WEST MINING LTD.**

### *Management's Discussion & Analysis*

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#### *Mineral Property Costs*

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, all amounts shown as mineral properties represent costs incurred to date less amounts amortized and/or written off and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

In the event that reserves are determined, the carrying values of mineral interests, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the mineral property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized for the mineral properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realizing profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property costs or recoveries when the payments are made or received.

#### *Stock-based Compensation and Value Attributable to Warrants*

The fair value of stock options and value attributable to warrants are determined by the Black-Scholes option pricing model, which requires the input of highly subjective assumptions, including the expected price volatility of the Company's common shares and the expected life of the options. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the model does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the year.

#### *Future Income Taxes*

The Company recognizes future income tax assets when it is more likely than not that the future income tax assets will be realized. This assumption is based upon management's determination of future circumstances and events. As at December 31, 2008, a valuation allowance of \$4,172,653 has been recorded against the net potential future income tax assets associated with the Canadian and Chilean loss carry-forwards and certain other deductible temporary differences as their utilization is not considered more likely than not at this time. The Company has recorded a future income tax liability of \$512,784 which is the amount by which estimated future income tax liabilities exceed estimated future income tax assets net of the valuation allowance.

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#### ***Changes in Accounting Policies***

Effective January 1, 2008 the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") accounting standards:

Section 1400 – Going Concern establishes a new requirement for management to make an assessment of an entity's ability to continue as a going concern when preparing financial statements.

Section 1535 – Capital Disclosures establishes standards for disclosing quantitative and qualitative information about the Company's capital and how it is managed, thereby enabling users to evaluate the Company's objectives, policies and processes for managing capital.

Section 3031 – Inventories prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Section 3862 and 3863 – Financial Instruments – Disclosures and Presentations require additional disclosure of the significance of financial instruments to the Company's financial position and performance as well as quantitative and qualitative information that enable users to evaluate the nature and extent of risks arising from those financial instruments.

#### ***International Financial Reporting Standards***

In February 2008, the CICA confirmed that International Financial Reporting Standards ("IFRS") will be mandatory in Canada for all publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company is analyzing the impact of IFRS on its consolidated financial statements and anticipates that there will be changes in accounting policies that may materially affect the Company's accounting policies. To date, management has adopted a process to develop a project plan which identifies the key steps and assignment of responsibilities for each of those steps to ensure a successful transition. These key steps include outlining potential conversion issues unique to our industry, addressing staff training requirements to ensure sufficient IFRS knowledge, and identifying potential external advisors needed to assist management.

#### ***Shareholder Rights Plan***

The Company adopted a Shareholder Rights Plan ("the Plan") on March 25, 2004 which was approved by the shareholders at the 2004 Annual General Meeting. The terms and conditions of the Plan provided for the expiry of the Plan, unless reconfirmed by the shareholders of the Company at the 2008 annual meeting of the shareholders. Reconfirmation of the Plan was approved by the shareholders of the Company at the annual meeting held on April 29, 2008.

#### ***Stock Option Plan***

The Board of Directors adopted a new stock option plan in compliance with the rules of the Toronto Stock Exchange under which the Company may grant stock options up to 10% of the issued capital of the Company on a rolling basis. The plan was approved by the shareholders of the Company at the annual meeting held on May 9, 2007.

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During the year, the Company granted 978,000 stock options to directors, officers, employees and a consultant exercisable at a weighted average exercise price of \$3.51. Of the total options granted during the year, 870,000 are exercisable for a period of ten years and 108,000 are exercisable for a period of three years.

Subsequent to the end of the year, the Company granted stock options to directors, officers, employees and a consultant to acquire 1,327,000 common shares exercisable at a price of \$1.38. Of the total options granted, 1,285,000 are exercisable for a period of ten years and 42,000 are exercisable for a period of three years.

***Outstanding Share Data***

At March 19, 2009, the Company had the following shares and share purchase warrants and options outstanding:

1. 56,897,055 common shares (including 3,175,000 special warrants with the holder of each special warrant entitled to acquire one common share for no additional consideration)
2. 4,947,800 common share purchase options with a weighted average exercise price of \$3.00 expiring at various dates between July 9, 2009 and January 22, 2019.
3. 404,100 transferable share purchase warrants, each warrant entitling the holder to purchase one common share at a price of \$5.25 per share until June 21, 2010.
4. 40,410 non-transferable agents' warrants, each warrant entitling the holder to purchase one common share at a price of \$5.25 per share until June 21, 2010.
5. 3,175,000 transferable share purchase warrants, each warrant entitling the holder to purchase one common share at a price of \$4.25 per share until August 14, 2009.
6. 158,750 non-transferable agents' warrants, each warrant entitling the holder to purchase one common share at a price of \$4.25 per share until August 14, 2009.

***Cautionary Language***

The Company's MD&A contains statements that constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or developments in our industry, to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. Forward looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects," "plans," "anticipates," "believes," "intends," "estimates," "projects," "potential" and similar expressions, or that events or conditions "will," "would," "may," "could" or "should" occur. Information inferred from the interpretation of drilling results and information concerning mineral resource estimates may also be deemed to be forward looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. Forward-looking statements in this document include statements regarding the Company's expectations regarding drilling and exploration activities on properties in which the Company has an interest; the Company's statements regarding estimates of resources on properties in which the Company has an interest; the Company's expectations regarding the amount and adequacy of its cash reserves in future periods, and the Company's expectations regarding the amount of expenses in future periods. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. Readers are

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### ***Management's Discussion & Analysis***

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cautioned not to place undue reliance on these forward-looking statements that speak only as of their respective dates.

Important factors that could cause actual results to differ materially from the Company's expectations include among others, risks related to fluctuations in mineral prices; uncertainties related to raising sufficient financing to fund planned work in a timely manner and on acceptable terms; changes in planned work resulting from weather, logistical, technical or other factors; the possibility that results of work will not fulfill expectations and realize the perceived potential of the Company's properties; uncertainties involved in the estimation of resources; the possibility that required permits may not be obtained in a timely manner or at all; the possibility that capital and operating costs may be higher than currently estimated and may preclude commercial development or render operations uneconomic; the possibility that the estimated recovery rates may not be achieved; risk of accidents, equipment breakdowns and labour disputes or other unanticipated difficulties or interruptions; the possibility of cost overruns or unanticipated expenses in the work program; the risk of environmental contamination or damage resulting from the Company's operations; and other risks and uncertainties discussed under the heading "Risk Factors" and elsewhere in the Company's documents filed from time to time with the Toronto Stock Exchange and Canadian securities regulators. Forward-looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. The Company undertakes no obligation to update these forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, should change.

This MD&A uses the terms "inferred resources", "indicated resources", "measured resources", and "mineral resources". The Company advises readers that although these terms are recognized and required by Canadian securities regulations (under National Instrument 43-101 "Standards of Disclosure for Mineral Projects"), the US Securities and Exchange Commission does not recognize these terms. Readers are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves. In addition, "inferred resources" have a great amount of uncertainty as to their existence, and economic and legal feasibility. It cannot be assumed that any part of an Indicated or Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for a Preliminary Assessment as defined under National Instrument 43-101. Readers are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.

#### ***Corporate Disclosure Practices and Policies***

The Company maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable. The Board of Directors has the responsibility to understand the principal risks of the business of the Company and to confirm that there are systems in place that effectively monitor and manage those risks with a view to the long-term viability of the Company. The Chair of the Board is an unrelated outside director. Committees of the Board presently consist of an Audit Committee and a Compensation Committee. The Audit Committee consists of three unrelated outside directors. The role of the Audit Committee is to review the Company's financial statements and the financial disclosure that is publicly disseminated, to review the systems of internal controls, and to monitor the performance and the independence of the Company's external auditors. The Compensation Committee consists of three unrelated outside directors. The role of the Compensation Committee is to develop and approve the corporate goals and objectives relevant to the compensation of the Chief Executive officer, to recommend levels of executive compensation, and to administer the Company's stock option plan.

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Management of the Company has designed and established disclosure controls and procedures to ensure that information disclosed in this MD&A and the interim financial statements for the year ended December 31, 2008 was properly recorded, processed, summarized and reported. The Company's Chief Executive Officer and Chief Financial Officer have evaluated and are satisfied with the effectiveness of these disclosure controls and procedures to the end of the period covered by this report.

The Chief Executive Officer and Chief Financial Officer acknowledge responsibility for the design of internal control over financial reporting, and confirm that there were no changes in these controls that occurred during the most recent interim period which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

***Approval***

The Board of Directors has approved the disclosure contained in this annual MD&A.

A copy of this management discussion and analysis and previously published financial statements, management discussions and analysis as well as other information is available on the SEDAR website at [www.sedar.com](http://www.sedar.com), and on the Company's website at [www.farwestmining.com](http://www.farwestmining.com).