



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

FAR WEST MINING LTD.

Management's Discussion & Analysis

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, 2009 has been prepared as of March 26, 2010 and includes financial and other information up to the date of this report. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009 and related notes thereto which have been prepared in accordance with generally accepted accounting principles in Canada. The Company's MD&A contains statements that constitute "forward-looking statements" and other cautionary notices (see page 18).

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 and carries out seasonal exploration on the Georgetown Project in Australia.

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

Highlights and Significant Events

Santo Domingo project, Chile

On April 28, 2009, the Company announced that Scott Wilson RPA had conducted a new resource estimate for the Santo Domingo Sur/Iris and Iris Norte deposits (the Estrellita deposit was not included in the resource estimate due to its high oxide copper content). The mineral resource includes data from 52 additional drill holes completed since the Scott Wilson RPA October 2007 resource estimate, as well as results from metallurgical test work for copper, gold and iron completed in mid to late 2008. The Indicated Resource increased to 383M tonnes from 171M tonnes.

The Company conducted a re-analysis of 7,400 RC drill chip samples from the Santo Domingo Project and has established that the iron grades are 10.8% higher than previously indicated. This program was implemented following iron metallurgical work in late 2008 that returned higher iron grades than expected. All available samples with an iron content of more than 15% were submitted for re-analysis.

The new iron analyses were added to the Company's database in place of the old analyses and will be used to re-calculate the iron grade of the Santo Domingo and Iris Norte deposits. The demonstrated higher iron grade for the Santo Domingo project is expected to improve the economics of the project.

The Company recently received new results from ongoing metallurgical test work. The tests were designed to duplicate the copper recovery and concentrate grade that has previously been achieved using fresh water. The progression of the project is now independent of the acquisition of water rights in the region.

On February 27, 2010, Chile suffered an 8.8-magnitude quake which struck about 325 kilometres south of the capital, Santiago near the city of Concepción. The Company's Santo Domingo project is located in region III to the North of the impacted area and is not directly affected by the earthquake. The office in Santiago suffered only minor damage.

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Georgetown project, Queensland, Australia

In 2009 the Company conducted a diamond drill program (six holes for a total of 864m) at the Robin Hood prospect to test ground-based gravity geophysical anomalies. Two drill holes located over 200m apart, intersected a thin horizon of lead-silver mineralization at shallow depth. Assays for the two one metre wide intercepts returned 2.64% Pb and 12.3g/t Ag and 0.66% Pb and 4.4g/t Ag respectively. The other four holes failed to intersect mineralization.

To the south of the area drilled, high grade samples (e.g. 13.45% Pb and 588 g/t Ag) were discovered on the surface where future exploration work will be focused. The prospective zone at Robin Hood now covers a strike length of more than 2,000 metres.

Financing

The Company completed a \$10 million financing in October, 2009 with Quadra Mining Ltd. The proceeds of this financing are to be used to advance the development of the Santo Domingo project in Chile. In accordance with the terms of the financing a joint technical advisory committee has been established to monitor the work programs which will include additional drilling and metallurgical studies.

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 that 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, 2009, the Company has 161 mineral concessions in the Candelaria Copper Belt covering 43,058 hectares including 80 mineral concessions within the Santo Domingo project area covering 20,058 hectares.

The majority of land holdings cover a large portion of the Santo Domingo District, which is located about 100km north of the mining town of Copiapó. During the period 2005 through 2008, the Company outlined the Santo Domingo Sur, Iris, Iris Norte, and Estrellita copper-gold-iron deposits.

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

In April 2008, AMEC Americas (Chile) S.A. ("AMEC") issued a Preliminary Assessment ("Scoping Study") on the Santo Domingo Sur and Iris copper-iron-gold deposits for the recovery of copper ("Cu"), gold ("Au") and iron ("Fe"). The Scoping Study report indicated positive project NPVs in a variety of metal price scenarios. The Scoping Study was based on a resource estimate by Scott Wilson Roscoe Postle & Associates ("Scott Wilson RPA") in October 2007. The cut-off grades for the mineral resource estimate published by the Company were determined using only copper. Results from the Scoping Study highlighted the economic importance of the iron component to the project and recommended that future resource estimates should be estimated using iron as well as copper and gold.

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Resource estimate

On April 28, 2009, the Company announced that Scott Wilson RPA had conducted a new resource estimate for the Santo Domingo Sur/Iris and Iris Norte deposits (the Estrellita deposit was not included in the resource estimate due to its high oxide copper content). The mineral resource includes data from 52 additional drill holes completed since the Scott Wilson RPA October 2007 resource estimate, as well as results from metallurgical test work for copper, gold and iron completed in mid to late 2008. Scott Wilson RPA calculated copper equivalent grades using their long-term metal prices for mineral resource statements (US\$2.25/lb copper, US\$950/oz gold, and US\$74/dmtu iron). Allowances for recovery, treatment charges/refinement charges ("TC/RC"), royalty charges and transport costs for each metal were also taken into account based on the scoping study estimates. Scott Wilson RPA determined that the most appropriate cut-off grade for reporting purposes is 0.25% copper equivalent.

Table 1 shows Indicated and Inferred Mineral Resources at various copper equivalent cut-off grades and provides the average grade of each metal at the respective cut-off grade.

Table 1 – Indicated and Inferred Mineral Resources at April 28, 2009*

Cut-off (% CuEq)	Category	Tonnage (Mt)	CuEq (%)	Cu (%)	Fe (%)	Au (g/t)
0.30	Indicated	333.3	0.61	0.43	27.3	0.06
	Inferred	49.3	0.45	0.31	24.8	0.04
0.25	Indicated	383.4	0.57	0.39	27.0	0.05
	Inferred	68.6	0.40	0.26	24.6	0.04
0.20	Indicated	433.9	0.53	0.36	26.7	0.05
	Inferred	91.1	0.36	0.22	24.0	0.03

Notes:

1. CIM definitions were followed for Mineral Resources.
2. Mineral Resources are reported at a cut-off grade of 0.25% Cu Equivalent.
3. Copper Equivalent grades are calculated using average long-term prices of US\$2.25/lb Cu, US\$950/oz Au and US\$74/tonne Fe metal (\$50/tonne concentrate @ 67.5% Fe).
4. Cu and Fe Equivalence calculations are as stated in the text of NR 28 April 2009.
5. Metallurgical recovery factors were applied as described in NR 28 April 2009.

- see News Release 28 April 2009

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Metallurgy

As recommended in the April 2008 Preliminary Assessment, to improve the quality of the metallurgical data for the project, in late 2008 the Company compiled a new composite sample for metallurgical testing. The composite sample consisted of 23 intervals from 11 different drill holes covering 1,380 metres of drilling with a good spatial representation of the Santo Domingo Sur and Iris deposits both vertically and horizontally that mirrored the average grade of the deposit.

The copper metallurgical work was conducted by SGS Lakefield, Ontario. Lock cycle testing confirmed that a high quality copper concentrate can be produced that will range from 27% Cu @ 89% recovery, to 30% Cu @ 87% recovery. Gold recovery was markedly improved over previous batch testing increasing to 65% from 35% in the batch tests. The primary grind level is 120 microns. Additional test work and variability testing will be conducted to optimize copper and gold recovery. Initial batch test work using saline water yielded encouraging results that were not materially different from the flotation results using fresh water.

The iron metallurgy was conducted by SGA in Germany. The sample of the tailings from the copper metallurgical work was used to perform a number of iron recovery tests using low intensity magnetic separation (LIMS). The flotation tailings amount to 89% by weight of the run of mine ore. After optimization, it was determined that the best product could be produced by applying a rougher and two cleaning stages with regrinding of the rougher concentrate. The following concentrate was achieved:

Table 2 Test Results for LIMS Concentrate

Weight (%)	Fe (%)	SiO₂(%)	Al₂O₃(%)	S (%)	P (%)	Fe Recovery (%)
17.8	67.5	2.84	0.61	0.010	0.008	31.4

The concentrate was also analysed for base metals, chromium, vanadium and various other elements. Only chromium, potassium and sodium assayed slightly higher than their respective optimal desired value. SGA stated that:

“the concentrate is very well suited for pelletizing and downstream iron making via blast furnace process. There are no detrimental elements, neither for pelletizing and blast furnace, nor steel making. Highly advantageous for the recovered concentrates are the very low phosphorus content as well as low sulphur and non-ferrous metals content.”

The LIMS recovery of 17.8% by weight from the flotation tailings indicates that approximately 16% by weight (17.8% of 89%) of the run of mine will be recovered into a LIMS concentrate. The new estimated recovery of 16% into a LIMS concentrate is more than two and one half times the amount estimated in the scoping study for the magnetic recovery.

The tails of the LIMS process is an iron rich material that is mostly hematite but contains a complex mineralogy containing iron bearing silicates such as chlorite and epidote that complicate any additional recovery process. Due to the substantial increase in magnetic recovery using the LIMS process, the Company's focus will be to evaluate Santo Domingo from the point of view of magnetic fraction recovery only with attendant capital and operating cost reductions from the use of LIMS.

As hematite represents significant upside for the project, testing on possible recovery processes for hematite recovery will continue. No guarantee of success however, can be made that a process or processes will be found that are economically viable.

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Activities during the fiscal year

The Company submitted 7,400 drill chip samples from the Santo Domingo project for re-analysis using a total digestion peroxide fusion ICP analysis method. The re-analysis was initiated after iron assays during metallurgical test work conducted by SGA in Germany consistently returned higher iron grades than expected.

The results from the re-analysis of 7,400 samples are on average 10.8% higher than previously reported. The new iron data has been added to the Company's database and is currently being used to re-calculate the iron grade of the Santo Domingo and Iris Norte deposits.

The Company also collected approximately 11,000 magnetic susceptibility readings on Santo Domingo material. The susceptibility data will be modeled into each block of the model and will be used to predict the magnetic iron recovery from each individual block. This work is almost complete and the resulting block model will form the basis of an updated economic assessment of the project.

Activities subsequent to December 31, 2009

In February, 2010, the Company received very positive results from ongoing seawater metallurgical test work by essentially duplicating the copper recovery and concentrate grade achieved using fresh water with copper recoveries of 85%-87% and high concentrate grades of 27%-28% Cu.

As the project is located in the very dry Atacama Desert where water rights are expensive and in high demand, these recent results open the very appealing avenue of using sea water in place of fresh water. The development of the project is now independent of the acquisition of water rights in the region.

In March, 2010, the Company completed 14,000 metre drill program at Santo Domingo. Diamond drilling was carried out to collect sample material for metallurgical testing and reverse circulation (RC) drilling to tighten the drill spacing within the initial five year pit envelope designed in the 2008 scoping study. This data will be incorporated in the planned Pre-Feasibility Study (PFS).

Eleven inclined RC holes were strategically placed within the five year pit design and were drilled to a depth of 250 metres exceeding the maximum depth of the five year pit. The assay results for the eleven holes drilled confirms that the copper, iron and gold grades will be higher in the five year pit envelope than the average grade for the deposit.

A new resource estimate report is to be completed by June, 2010.

Initial crushing and grinding test work on samples from the first two shipments of drill core, comprising approximately 15,000kg of material, is in progress. The results from the crushing and grinding test work will be used to update the mill throughput calculation that is an important input to the PFS. A thorough metallurgical test work program has also been designed to test a representative composite sample as well as to conduct variability testing.

The results from the resource report, the crushing and grinding test work, and the metallurgical test work will be incorporated in the planned PFS for the Santo Domingo project. The grinding test work, the copper metallurgy, and iron metallurgy must be scheduled sequentially for the completion of the PFS by December, 2010.

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Regional exploration – Chile (Copper – Iron – Gold)

In December 2008, the Company acquired new exploration claims in the IOCG belt of Chile. The claims are located to the north and northeast of the Santo Domingo property. The Company intends to add to its exploration properties in other areas to capitalize on the success of the Santo Domingo project.

In February 2009, the Company carried out a regional ground magnetic geophysical survey that was designed to identify large magnetic anomalies such as the one that hosts the Santo Domingo deposit. The survey covered claims acquired in 2008 and identified a number of large anomalies that will be followed up by additional ground geophysics using different techniques and tighter line spacing.

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).

In March 2009, the Company carried out a high-resolution ground gravity geophysical survey at the Robin Hood prospect to follow up encouraging drill results and high-grade surface samples. The survey covered an area of just under 2km² at a station spacing of 50 metres. Several gravity anomalies were identified to the south of the mineralized horizon that was defined last field season by high-grade surface showings and thick intercepts of low grade mineralization and strong alteration in drill holes from 2008.

The anomalies were modelled at shallow depth and dipping steeply over a strike length of several hundred metres. The geophysical response indicated unusually high rock densities consistent with or indicative of the targeted BHT mineralization.

In August 2009, the Company conducted a diamond drill program (six holes for a total of 864m) at the Robin Hood prospect. Drill holes GB19-10 and GB19-12 were drilled over 200m apart and intersected a sequence of strongly metamorphosed gneiss, schist and amphibolite, that host a 10-15cm thick seam of semi-massive galena at shallow depth of 26m and 43m respectively. Assays for the one meter intervals that contain the galena seam returned 2.64% Pb and 12.3g/t Ag and 0.66% Pb and 4.4g/t Ag respectively.

The new drill results along with 2009 surface samples indicate that the southern part of the Robin Hood prospect is the most prospective part of the property for high grade silver/lead mineralization. One of the new surface samples contains the highest silver grade found to date with 588g/t Ag.

Four other drill holes intersected massive gabbro and/or foliated amphibolite at shallow depth. Density measurements of the gabbro and amphibolite units returned values of 3-3.2 g/cm³, much lower than the densities used to model the gravity anomalies. Since the measured densities of the intersected rocks do not come close to the densities used to model the anomalies, additional analysis will be conducted using the geometry and density obtained from the drilling in order to determine if there may be pockets of excess mass around the amphibolite and gabbro bodies that could represent massive mineralization.

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Future Outlook and Strategy

Chile

The Company continues to advance the Santo Domingo project to the development stage. The project received a significant boost with the \$10 million private placement from Quadra Mining Ltd. The proceeds of this financing are to be used to conduct further work with a view to advance the project to the next decision point. The capital injection was subject to certain conditions:

- expenditures must include a certain amount of infill drilling, hole twinning and metallurgical testing leading to pre-feasibility engineering
- hiring a project manager to guide the work
- hiring specialist technical consultants for certain aspects of the work
- establishment of a technical advisory committee of Quadra and Company personnel to monitor and guide the progress of the project

To this end the Company will be conducting the following work:

- Conduct metallurgical studies (variability studies on copper and magnetic iron recovery using both fresh water and seawater) to determine processing options that maximize potential metal recoveries to refine the economics of the project.
- Continue planned water exploration program, acquisition of water rights and planning of pipeline to determine the most economic water source.
- Update the preliminary assessment or move directly to pre-feasibility study for the Santo Domingo project to incorporate the results of the metallurgical studies and resource reports focusing on maximizing recoveries of the copper and the magnetic iron fraction.
- Identify other exploration and development stage properties within the Candelaria IOCG belt for potential acquisition.
- Preparation of a new resource report for completion by the end of June, 2010.
- Preparation of a Pre-Feasibility study for completion by December, 2010

Australia

The Company will conduct further drill program(s) to follow up the geophysical anomalies from the ground geophysical survey at the Robin Hood prospect. Additional work is planned at the Perryvale prospect where geochemical anomalies suggest the possible presence of mineralization. The Company continues to evaluate the Georgetown province for additional target areas and regional targets.

Financing

To advance the Santo Domingo and other exploration projects, the Company will require additional funding in 2010 through equity financing, or other alternative financing arrangements. The selection of one or more methods of financing will be determined based on the level of interest from the investment community or mining companies and the impact to existing shareholders.

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Liquidity and Capital Resources

At December 31, 2009, the Company had cash and cash equivalents of \$9,631,470 and working capital of \$9,192,160. The Company has no long-term debt obligations that impact liquidity or future cash flows. Long-term obligations consist solely of the non-current portion of a leasehold inducement in the amount of \$49,942 and future income tax liabilities of \$776,980. 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 2010 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 on acceptable terms. 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 \$6,149,537 compared with \$4,786,628 for the previous year.

Significant differences in general and administrative expenses for 2009 compared with 2008 include:

- Expenditures incurred on mineral properties that the Company has abandoned or plans to abandon in Chile and Australia were written-off during the year in the amount of \$3,590,088 and additional closure costs related to the Farallon Negro property in Argentina were charged to general exploration expense. In 2008, the Company wrote off \$1,876,402 with respect to Farallón Negro property.
- Salaries and benefits increased to \$754,137 from \$652,753. The change is a result of the payment of cash compensation to the independent directors. Cash compensation was paid to directors commencing in the fourth quarter of 2008.
- Stock based compensation expense decreased to \$1,129,995 from \$1,647,520. The decrease is primarily attributable to the application of the Black-Scholes valuation to a lower average stock price at the time of grant of the options.
- Interest income declined to \$22,188 from \$187,589. The decrease is primarily attributable to a smaller average cash balance during the year and reduced interest rates.
- Legal expenses decreased to \$104,913 from \$168,695 as a result of the reduced use of legal services.

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Summary of Quarterly Results

(Expressed in thousands of Canadian dollars)

	Dec. 31 2009	Sep. 30 2009 ⁽ⁱ⁾	Jun. 30 2009	Mar. 31 2009	Dec. 31 2008 ⁽ⁱⁱ⁾	Sep. 30 2008	Jun. 30 2008 ⁽ⁱⁱⁱ⁾	Mar. 31 2008
	\$	\$	\$	\$	\$	\$	\$	\$
Interest revenue	3	1	1	17	51	52	42	43
Loss and comprehensive loss for the quarter before extraordinary items	(670)	(3,789)	(804)	(887)	(2,040)	(442)	(1,905)	(397)
Per share - basic diluted	(0.01)	(0.07)	(0.01)	(0.02)	(0.03)	(0.01)	(0.04)	(0.01)
Loss and comprehensive loss for the quarter	(670)	(3,789)	(804)	(887)	(2,042)	(442)	(1,905)	(397)
Per share - basic diluted	(0.01)	(0.07)	(0.01)	(0.02)	(0.03)	(0.01)	(0.04)	(0.01)
Total assets	44,070	34,124	37,479	38,121	38,330	39,383	29,851	30,251

(i) Loss and comprehensive loss for the quarter included the write-off of exploration expenditures for mineral properties in Chile of \$2,174,171 and in Australia of \$1,189,700 for a total of \$3,363,871.

(ii) Loss and comprehensive loss for the quarter included the write-off of all exploration expenditures in Argentina in the amount of \$1,876,402.

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

The loss for the fourth quarter of 2009 was \$667,793 compared to a loss of \$2,041,681 for the fourth quarter of 2008. 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. The mineral property costs written off in the fourth quarter of 2009, with respect to the Georgetown project, Australia, were \$292,738.
- 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. No similar adjustment was made in 2009.

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- Salaries and benefits were \$194,107 for the fourth quarter of 2009 compared with \$189,254 for 2008. 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 2009 was \$5,426 compared with a foreign exchange loss of \$31,789 for 2008. In the fourth quarter of 2008, the Company incurred a foreign exchange loss on the decline in value of US dollar deposits.

The Company had cash and cash equivalents at December 31, 2009 of \$9,631,470 compared with \$8,555,376 at December 31, 2008 and working capital of \$9,192,160 at December 31, 2009 compared with \$7,936,080 at December 31, 2008. The Company will require additional financing to fund operations planned for the following year.

Accounts payable and accrued liabilities at December 31, 2009 were \$803,982 compared with \$923,952 at December 31, 2008.

Financing Activities

The Company received \$573,920 from the exercise of 449,500 share purchase options during the year compared with \$915,034 from the exercise of 971,200 stock options during 2008.

On October 30, 2009, the Company closed a non-brokered private placement of 4,901,961 units at a price of \$2.04 per unit for aggregate gross proceeds of \$10 million. Each unit is comprised of one common share of the Company and one transferable common share purchase warrant entitling the holder to purchase one additional common share on or before October 30, 2011 at an exercise price of \$2.75. No commissions or finders fees were payable in connection with this private placement.

Investment activities

During the year, the Company incurred mineral property costs in the amount of \$8,230,459 including non-cash stock based compensation of \$176,206 and has written off \$3,590,088 of expenditures incurred on properties that it has abandoned or plans to abandon. Mineral property costs were incurred in the following geographic areas:

Project	Balance at Dec. 31, 2008	Exploration costs incurred in 2009	Exploration costs written off in 2009	Balance at Dec. 31, 2009
Australia	\$ 3,302,448	\$ 541,963	\$ (1,482,438)	\$ 2,361,973
Canada	200	-	-	200
Chile	25,726,362	7,688,496	(2,107,650)	31,307,208
TOTAL	\$ 29,029,010	\$ 8,230,459	\$ (3,590,088)	\$ 33,669,381

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Selected Annual Information

	Years ended December 31		
	2009	2008	2007
	\$	\$	\$
(thousands of Canadian dollars)			
Revenues			
Interest income	22	188	374
Loss and comprehensive loss from operations	(6,150)	(4,787)	(3,382)
Per share - basic & diluted	(0.11)	(0.09)	(0.07)
Total assets	44,070	38,330	30,329
Long term liabilities	827	576	77
Cash dividends per share	nil	nil	nil

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 and on the SEDAR website at 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 reduction 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.

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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.

Additional Disclosures

Changes to the Board of Directors

On January 11, 2009, Mr. Daryl K. Seaman, a co-founder and former Chairman of the Company passed away.

At the Annual General Meeting held on April 29, 2009, the shareholders of the Company elected Mr. Donald R. Seaman as a director.

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, the Company incurred legal fees estimated at \$196,839 (2008 - \$275,341) for various legal services and to a law firm in which a director of the Company is a partner. At December 31, 2009, no amount was estimated to be payable to the law firm (December 31, 2008 - \$36,174). 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:

2010	\$ 133,000
2011	141,000
2012	141,000
2013	141,000
2014	<u>93,000</u>
	<u>\$ 649,000</u>

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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 audited consolidated financial statements for the year ended December 31, 2009.

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 each mineral property interests will be reviewed by management each quarter 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.

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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, 2009, a valuation allowance of \$4,785,556 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. At December 31, 2009, the Company has recorded a future income tax liability of \$776,979 which is the amount by which estimated future income tax liabilities exceed estimated future income tax assets net of the valuation allowance.

Changes in Accounting Policies

Effective January 1, 2009 the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") accounting standards:

Section 3064 establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA restricted the application of Emerging Issues Committee ("EIC") abstract 27, Revenues and Expenditures in the Pre-operating Period ("EIC 27").

Section 3855 was amended to permit or require in certain circumstances entities to reclassify certain investments in debt instruments. The guidance regarding impairment measurement for held-to-maturity debt instruments was also amended and require reversals of impairment of losses for available-for-sale debt instruments when conditions have changed. These amendments apply only to investments in debt instruments and do not apply to investments in equity instruments or to debt instruments that have been designated at origination as held for trading.

Section 3862 was amended to require disclosures about the inputs to fair value measurements of financial instruments, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

EIC 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC 173 is applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after January 20, 2009.

EIC 174, *Mining Exploration Costs*, which provides guidance on accounting for capitalization and impairment of exploration costs.

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International Financial Reporting Standards

In February 2008, the CICA confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises. This will result in the Company reporting under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP.

The Company's IFRS conversion is carried out in three phases: high-level impact assessment, detailed evaluation, and implementation and review.

The Company has completed the high-level impact assessment to identify key areas that may be affected by the conversion. A review of the impact on information technology and data systems, internal control over financial reporting, disclosure controls and procedures, financial reporting expertise and training requirements, and business activities (including compensation programs and other contractual arrangements).

Based on the analysis performed to date, the Company is not expecting its information technology and data systems, internal control over financial reporting, disclosure controls and procedures or its business activities to be significantly impacted. The Company identified the financial statement areas that may be affected by the conversion to IFRS to include, exploration and evaluation costs, foreign currency translations, share-based payments, income taxes, asset impairment, and property, plant and equipment.

The detailed evaluation phase began in the third quarter of 2009, which includes detailed analysis of the IFRS – Canadian GAAP differences, and the selection of accounting policy choices under IFRS. Based on the evaluation performed, the Company concluded that the following areas will have no financial statement impact:

Foreign currency translations: IFRS utilizes a functional currency concept (currency of the primary economic environment in which the entity operates) to determine the method of measuring foreign currency translation. Canadian GAAP uses the concept of integrated and self-sustaining foreign operations. The Company determined that Canadian dollar is the functional currency of the parent company and its subsidiaries.

Property, plant and equipment: IFRS and Canadian GAAP contain the same basic principles for property, plant and equipment; however, there are some differences. Specifically, IFRS requires property, plant and equipment to be measured at cost in accordance with IFRS, breaking down material items into components and amortizing each one separately. In addition, unlike Canadian GAAP, IFRS permits property, plant and equipment to be measured at fair value or amortized cost. The Company reviewed its fixed assets to determine whether the current classification of fixed assets needs further breakdown and concluded that no further componentization was necessary. Far West will continue to reflect its property, plant and equipment at amortized cost.

Impairment: Under IFRS, the impairment calculation is a one-step process in which discounted cash flows are compared to the carrying value of assets. Canadian GAAP requires a two-step impairment test in which the Company must first compare undiscounted cash flows to the carrying value of the assets, and only if the cash flows are below the carrying value does management need to discount the cash flows to calculate impairment. When the Company does not have a basis for preparing a projection of the estimated future cash flow from an asset, the

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Company will continue its current practice, considering significant adverse changes in the business climate in determining whether subsequent write-down of capitalized exploration costs is required, in order to justify its fair value.

Share-based payment transactions: IFRS 2 *Share-based Payment* only requires recognition of equity instruments in respect of share-based payment transactions granted prior to the transition date. The Company expects to apply IFRS 2 to equity instruments granted after July 2, 2010 that have not vested by the transition date.

Many of the IFRS-Canadian GAAP differences will not have a material impact on the Company's reported financial results and position but mostly require expanded disclosures. Differences that could result in a material impact include, but may not be limited to:

Provisions and contingent liabilities: Under IFRS, a provision is to be recognized when (a) there is a present obligation as a result of a past transaction or event; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) a reliable estimate can be made of the obligation. The threshold for recognition of a provision under Canadian GAAP is higher than under IFRS. Therefore, it is possible that some contingent liabilities which would not have been recognized under Canadian GAAP may meet the criteria for recognition as a provision under IFRS.

Income taxes: IAS 12 *Income Taxes*, prescribes that an entity account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities which arise from those transactions should also be recorded in earnings. For transactions that are recognized outside of the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects should also be recognized outside of the statement of earnings. The impact to FWM should be restricted to tax effects on the unamortized share issue costs previously charged to equity in fiscal years 2006 to 2009 that are deductible for tax purposes over a five year period.

The detailed evaluation phase will continue through the first half of 2010.

The implementation and review phase will begin in the second quarter of 2010 and continue through the fiscal year. This phase includes implementation of the required changes necessary for IFRS compliance. Final decisions on accounting policy choices and IFRS 1 exemptions will be approved and changes to business processes and internal controls resulting from policy changes will be implemented. Also included is the delivery of IFRS training and the development of an external communication plan. Preparation of an opening IFRS balance sheet and IFRS comparatives for 2010 reporting periods will commence during this phase. The Company will monitor changes in IFRS leading up to the January 1, 2011 adoption date, and update its conversion efforts as required.

Shareholder Rights Plan

The Company adopted a Shareholder Rights Plan ("the Plan") on March 25, 2004 that 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. If

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the Plan is not reconfirmed by the shareholders, the Plan will expire on the close of the Company's 2013 annual meeting.

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 and the policies of the Toronto Stock Exchange require approval of the plan every three years. Shareholders will be asked to reconfirm this plan at the 2010 annual and special general meeting.

On January 22, 2009, the Company granted 1,327,000 stock options to directors, officers, employees and a consultant exercisable at a price of \$1.38. Of the total options granted during the year, 1,285,000 are exercisable for a period of ten years with one-half of the options vesting immediately and one-half on July 22, 2009. 42,000 options are exercisable for a period of three years and vest over a period of twelve months commencing January 22, 2009.

On April 30, 2009, the Company granted 55,000 stock options to a director exercisable at a price of \$1.38. These stock options have no vesting period.

On March 22, 2010, the Company granted 1,735,000 stock options to directors, officers, employees and a consultant exercisable at a price of \$5.30. The options are exercisable for a period of ten years with one-half of the options vesting immediately and one-half on September 22, 2010.

Outstanding Share Data

At March 26, 2010, the Company had the following shares, special warrants, and share purchase warrants and options outstanding:

1. 62,395,516 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. 5,235,000 common share purchase options with a weighted average exercise price of \$3.64 expiring at various dates between November 8, 2010 and March 22, 2020.
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. 4,901,961 transferable share purchase warrants, each warrant entitling the holder to purchase one common share at a price of \$2.75 per share until October 30, 2011.

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

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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 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, except as required by applicable securities law.

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

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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 Board of Directors is responsible for reviewing and approving the financial statements and Management Discussion and Analysis. Committees of the Board 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, management discussion and analysis, and any 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. If delegated by the Board of Directors, the Audit Committee is responsible for the approval of interim financial statements and the interim management discussion and analysis. 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.

Management is responsible for the existence and effectiveness of systems, controls and procedures to ensure that that information used internally by management and used externally is reliable and timely. The Company has a corporate disclosure policy that covers disclosure in documents filed with the securities regulators and written letters to shareholders, presentations by senior management, information contained on the Company's web site and other communications. The officers of the Company responsible for overseeing compliance with this Policy are the Chief Executive Officer and Chief Financial Officer.

Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining internal control over financial reporting. Management has designed and established disclosure controls and procedures to ensure that information disclosed in this MD&A and the annual financial statements for the year ended December 31, 2009 was properly recorded, processed, summarized and reported. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of our internal control over financial reporting. 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. Based on this evaluation, management has concluded that as at December 31, 2008, our internal control over financial reporting was effective.

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 year ended December 31, 2009 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, and on the Company's website at www.farwestmining.com.