



**Management's Discussion & Analysis of  
Financial Conditions & Results of Operations**

**To September 30, 2008**

## **CORNERSTONE CAPITAL RESOURCES INC.**

### **Consolidated Results To September 30, 2008**

#### **Management's Discussion & Analysis of Financial Conditions & Results of Operations**

*The following discussion and analysis, dated November 27, 2008, should be read in conjunction with the Consolidated Financial Statements and related notes. All dollar amounts are stated in Canadian dollars, unless otherwise noted.*

*This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address exploration drilling, exploration activities and events or developments that Cornerstone Capital Resources Inc. (the "Company" or "Cornerstone") expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include market prices, exploration and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.*

#### **Description of Business**

Cornerstone Capital Resources Inc. was formed in July 1999 and began trading on the now TSX Venture Exchange on November 29, 1999 under the trading symbol "CTP". The symbol was changed to "CGP" after shareholders approved a one for three share consolidation during January of 2003. Cornerstone Resources Inc. (CRI), Cornerstone International Inc. (CII), Cornerstone Ecuador S.A., La Plata Minerales S.A., Cornerstone Capital Resources Mauritius Inc., Newfoundland Exploration Private Limited, CCRI Exploration Private Limited and Land Minerals Exploration Private Limited are wholly owned subsidiaries involved in mineral exploration and development. The Company's properties, all located in Canada and Ecuador, have exploration potential for deposits of base and precious metals, industrial minerals and uranium.

#### **Results of Operations**

*The nine-month period ending September 30, 2008 compared with the nine-month period ending September 30, 2007.*

At January 1, 2008, exploration properties held by the Company totalled 7,739 claims. During the first nine months of 2008, a number of property claims were dropped and additional claims were staked and acquired, leaving the Company with a total of 11,794 claims in Canada and 28 concessions in Ecuador at the end of September 2008.

During the nine-month period ending September 30, 2008 the Company had a net loss of \$2,831,048 - \$0.04 per share (compared to a net loss of \$3,295,025 - \$0.07 per share for the same period in 2007). Expenses incurred during the nine-month period ending September 30, 2008 were \$3,015,081 compared to \$3,450,430 for the same period in 2007. The decrease of \$435,349 during the period was due to a number of factors, the most notable of which are:

1. **General and administrative expenses** increased by \$372,271, due to reduced exploration activities in Canada and Ecuador, which resulted in more costs being charged to general and administration expense in the period compared to the same period in 2007.
2. **Mineral property costs abandoned** increased slightly by \$10,769 due to a small write off this year compared to no write offs in the same period last year.
3. **Stock-based compensation** decreased by \$717,484 due primarily to lower share prices relative to options issued during the same period last year. During the second quarter 2008 approximately 4,000,000 stock options were voluntarily cancelled by directors, officers and employees of the Company and replaced with approximately 1,000,000 new lower priced options.
4. **Amortization** increased by \$38,879 during the nine months ended September 30, 2008 compared to the same period last year due to additional capital equipment acquisitions during late 2007 and early 2008.
5. **Foreign exchange loss** decreased by \$173,173 during the first nine months of 2008 as the Company recognized gains due to the favourable Canadian dollar exchange rate.
6. **Unrealized loss on fair value of share purchase warrants** increased by \$33,896 over the same period last year as the receipt of these warrants was recorded during the last quarter of 2007.

Revenue for the period was \$184,033 compared to \$155,405 in 2007, an increase of \$28,628, mainly due to option payments forfeited by a joint venture partner and lower investment income in the period.

### **Results of Operations**

***The three-month period ending September 30, 2008 compared with the three-month period ending September 30, 2007.***

During the three-month period ending September 30, 2008 the Company had a net loss of \$1,329,150 - \$0.02 per share (compared to a net loss of \$1,618,906 - \$0.03 per share for the same period in 2007). Expenses incurred during the three-month period ending September 30, 2008 were \$1,389,095 compared to \$1,660,287 for the same period in 2007. The decrease of \$271,192 during the period was due to a number of factors, the most notable of which are:

1. **Stock-based compensation** decreased by \$188,943 due primarily to lower share prices relative to options issued during the same period last year.
2. **Foreign exchange loss** decreased by \$71,899 during the third quarter of 2008 compared with the same period last year as a result of the favourable Canadian dollar exchange rate.

Revenue for the period was \$59,945 compared to \$41,381 in 2007, a slight increase of \$18,564, mainly due to higher investment income in the period.

## Mineral properties

Total capitalized expenditures on mineral properties as at September 30, 2008 were \$9,593,407 compared to \$7,310,145 at September 30, 2007 and \$7,968,640 at December 31, 2007. Net mineral property expenditures of \$2,338,473 were incurred during the nine month period ending September 30, 2008 compared to \$2,158,222 during the same period in 2007. Included in the net mineral property expenditures are recoveries from Joint Venture Partners and Government grants of \$1,042,674 compared to \$4,653,819 for the same period in 2007. Expenditure recoveries from JV partners are significantly lower for the first nine months of 2008 over the corresponding period in 2007 due to the significantly decreased exploration work undertaken in Ecuador during 2008 as compared to 2007.

### Consolidated Schedule of Mineral Properties (Unaudited)

<u>Property</u>	<u>Gross Expenditures</u>	<u>Government Grants (JCEAP)</u>	<u>Recoveries</u>		<u>Properties Abandoned</u>	<u>Net Total Sept 30/08</u>	<u>Net Total Sept 30/07</u>	<u>Net Total Dec 31/07</u>
			<u>from Joint Venture Partners</u>	<u></u>				
	\$	\$	\$	\$	\$	\$	\$	\$
Aucoin	238,620	23,193	-	-	-	<b>215,427</b>	213,475	213,705
Burin	613,858	-	-	-	-	<b>613,858</b>	412,323	471,055
Cape Ray	1,680,082	83,810	1,473,142	13,274	-	<b>109,856</b>	106,444	108,748
Codroy Valley	36,477	-	-	-	-	<b>36,477</b>	102,294	-
Deer Lake Uranium	214,414	48,941	11,500	-	-	<b>153,973</b>	156,569	189,117
South America	14,456,751	-	10,634,435	27,398	-	<b>3,794,918</b>	2,780,609	2,852,192
El Strato	1,107,946	166,841	637,376	-	-	<b>303,729</b>	295,074	297,189
Green Bay gold	501,144	90,040	294,599	-	-	<b>116,505</b>	116,505	116,505
Island Pond	-	-	-	-	-	-	60,720	-
Konrad	2,023,868	-	800,115	-	-	<b>1,223,753</b>	612,065	1,042,661
Labrador	130,239	-	-	111,238	-	<b>19,001</b>	197,026	111,238
Labrador Trough	822,625	-	288,636	-	-	<b>533,989</b>	37,172	177,606
Long Harbour	153,311	-	-	-	-	<b>153,311</b>	152,510	152,735
Noel Paul's Brook	525,491	102,795	395,357	27,339	-	-	27,339	27,339
Paul's Pond	32,243	-	-	-	-	<b>32,243</b>	32,243	32,243
Porterville	97,983	-	-	-	-	<b>97,983</b>	97,983	97,983
Red Cliff	1,378,491	76,370	655,267	646,854	-	-	646,854	646,854
True Grit	316,246	118,800	17,794	-	-	<b>179,652</b>	149,370	150,978
Dorchester	229,185	40,000	169,722	-	-	<b>19,464</b>	12,404	9,237
Goshen	123,107	-	-	-	-	<b>123,107</b>	24,767	45,506
Elgin	90,609	-	12,106	-	-	<b>78,503</b>	33,610	63,029
Chaleur	181,806	-	-	-	-	<b>181,806</b>	-	-
Little Deer	1,046,982	-	-	-	-	<b>1,046,982</b>	259,411	433,104
Other Properties	885,790	49,554	266,892	10,474	-	<b>558,870</b>	783,378	729,616
	<u>26,887,268</u>	<u>800,344</u>	<u>15,656,941</u>	<u>836,577</u>		<u><b>9,593,407</b></u>	<u>7,310,145</u>	<u>7,968,640</u>

## **Financial Conditions, Liquidity and Capital Resources**

As at September 30, 2008 the Company had cash and cash-equivalents of \$3,186,236 compared to \$2,017,565 at September 30, 2007 and \$3,721,802 at December 31, 2007. The Company received net cash proceeds of \$3,890,915 from the issue of common shares and warrants during the nine-month period ending September 30, 2008 compared to \$180,434 during the same period in 2007. As at September 30, 2008 the net treasury position (current assets less prepaid expenses less current liabilities) of the Company was \$3,288,896 compared to \$2,859,109 at September 30, 2007 and \$3,640,355 at December 31, 2007.

On June 10, 2008, the Company completed a non-brokered private placement financing consisting of 15,000,000 units. Each unit was priced at \$0.20 per unit and consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.26 for two years following the closing. A finder's fee of 7% was payable in units to registered dealers who assisted in the placement. All shares issued pursuant to the placement will bear a legend restricting transfer until October 11, 2008. The proceeds of the issuance will be used to advance existing properties, to generate and acquire new exploration properties and to provide working capital to the Company.

A very significant source of funding for the Company's exploration programs are its earn-in / joint venture agreements with several mining industry partners. These partners are funding the exploration of individual properties, or groups of properties, in exchange for direct ownership in the properties, should all vesting conditions be met. Annual cash payments to the Company are often a component of these agreements. For the nine months ending September 30, 2008 these annual cash payments from JV partners related to new and existing joint venture agreements were \$50,000 (compared to \$176,588 for the same period in 2007).

The Company anticipates that it will continue to access grant funding under the Newfoundland and Labrador Mineral Incentive Program, Junior Exploration Assistance Program (JEA). Under JEA, eligible property expenditures may be subject to reimbursement of up to 50% of approved costs, to a maximum of \$100,000 per program on the island of Newfoundland and \$150,000 per program in Labrador. The Company was also successful in obtaining funding from the New Brunswick Junior Mining Assistance Program. This program provides assistance for approved costs up to a maximum of \$50,000 per project.

Management has estimated that the Company will have adequate funds from existing working capital to meet its corporate, administrative and property obligations for the coming year. If the Company is to advance or develop its mineral properties further, it may be necessary to obtain additional financing, and while the Company has been successful in the past, there can be no assurance that it will be able to do so in the future.

## **Outstanding Share Data**

As at September 30, 2008 the Company had 74,797,178 common shares outstanding. The Company had 6,699,752 options outstanding at September 30, 2008, at various exercise prices as shown in the following chart, and 23,853,320 warrants issued in connection with private placement financings. A total of 4,375,000 warrants expired on May 25, 2008. A total of 5,857,500 of the warrants are priced at \$0.80 and expire October 17, 2009. A total of 1,204,820 warrants are priced at \$1.00 and expire on February 28, 2010 and 16,791,000 warrants are priced at \$0.26 and expire on June 10, 2010.

<u>Total Options Outstanding</u>				<u>Total Exercisable Options</u>		
<u>Exercise Price Range</u> <u>\$</u>	<u>Number of Outstanding Options</u>	<u>Remaining Contractual Life</u>	<u>Weighted Average Strike Price</u> <u>\$</u>	<u>Number of Exercisable Options</u>	<u>Remaining Contractual Life</u>	<u>Weighted Average Strike Price</u> <u>\$</u>
0.20 - 0.39	3,075,085	3.18	0.31	1,869,909	2.24	0.32
0.40 - 0.59	1,863,001	2.59	0.50	1,863,001	2.59	0.50
0.60 - 0.79	1,761,666	3.68	0.65	1,214,991	3.67	0.65
	6,699,752	3.15	0.45	4,947,901	2.72	0.47

During the second quarter of 2008, in consultation with those affected, approximately 4,000,000 stock options issued to directors, management and staff were cancelled. Approximately 1,000,000 new stock options were issued to these individuals at an exercise price of \$0.30, which was the trailing 30 day average share price to May 1, 2008. The new options will vest according to Exchange regulations and the Company's stock option plan.

### **Financial Instruments**

The Company has estimated fair values of its financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms. The carrying value of financial instruments is considered to approximate fair value, unless otherwise indicated.

### **Related Party Transactions**

The following represents a summary of transactions with parties under common influence and shareholders for the nine-month period ending September 30, 2008. Resource Concepts Inc., which is controlled by Director John Fleming, P. Geo, who serves as the Company's Vice Chairman, billed a total of \$27,150 for geological consulting and management services. Director W. John Clarke is the Company's legal counsel. He provided legal services in the amount of \$10,850 relating to various agreements and ongoing business matters. Sealan Capital Corporation Inc., controlled by Director Glen H. McKay, who serves as the Company's Chairman, billed a total of \$83,937, including management and property related consulting of \$65,100 and office services and property leasing of \$18,837. D.R. Loveys & Associates Inc., controlled by Director David Loveys, the Company's Vice President Finance, CFO and Corporate Secretary, billed a total of \$113,050 for accounting and management consulting services. These transactions are considered to be in the normal course of business. The portions of these amounts capitalized in mineral properties represent direct costs associated with the respective properties, a summary of which follows:

	<u>Expensed during the period</u>	<u>Capitalized in Mineral Properties</u>	<u>Nine months ended September 30, 2008</u>  <u>Total</u>	<u>Nine months ended September 30, 2007</u>  <u>Total</u>
	\$	\$	\$	\$
Professional & Administrative	213,680	2,470	216,150	346,092
Office and warehouse rent	18,837	-	18,837	42,381
	<u>232,517</u>	<u>2,470</u>	<u>234,987</u>	<u>388,473</u>

### **Acquisition and Abandonment of Mineral Properties**

See Note 6 to the September 30, 2008 Consolidated Financial Statements for details of Mineral Properties. The Company's strategy is grass roots project generation followed by project level or joint venture ("JV") based exploration financing. All properties which are under consideration for acquisition must initially pass through Company generated evaluation criteria. Properties which are considered worthy are then acquired, provided a reasonable agreement can be reached with the owner or the property is available for staking. This process results in a relatively large number of properties being acquired annually with the expectation that many of these will advance to the stage where partner financing can be attracted. In cases where the project does not develop to the stage that management perceives it to be likely to attract such financing or if subsequent work by the Company indicates that further in-house work will not yield favourable results, the property is abandoned and written down.

### **Off-Balance Sheet Arrangements**

At September 30, 2008, the Company had no off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

### **Property Agreements and Exploration**

Details of JV property agreements are disclosed by press release at the time of formation. Updates concerning the results of ongoing exploration programs are also updated by press release. Press releases issued by the Company, including those issued during the nine months ended September 30, 2008, are archived at the Company's website [www.cornerstoneresources.com](http://www.cornerstoneresources.com). Regulatory filings are also available through [www.sedar.com](http://www.sedar.com).

### **Exploration Outlook**

The Company will continue to leverage the value of its properties during 2008. Joint venture funding agreements are in place for several of the Company's properties that ensure a substantial amount of exploration work. The Company will also undertake work on some wholly owned projects. Discussions with potential partners are currently underway with respect to several wholly owned properties. New property acquisitions are ongoing.

Our financial plans for 2008 and forward were heavily reliant on our projects in Ecuador. We were

expecting imminently the drill permits for Gama (Coastport Capital Inc. Joint Venture) and positive results from Macara (Newmont Mining Corporation Strategic Alliance). We expected to generate new joint ventures based on the level of interest and discussions with interested parties. The moratorium imposed by the Ecuador Constituent Assembly on April 18, 2008 caught the industry by surprise. Subsequent to this announcement the Company had to carry out a substantive reorganization of human and financial resources. Due to the dramatic negative impact of the moratorium on the Company's budgeted revenues and expense recovery it was necessary to complete a financing, which closed in June 2008. (See "Financial Conditions, Liquidity and Capital Resources").

While we wait for favorable news from Ecuador the Company is concentrating on its Canadian projects and generating new projects. The Company is also considering other opportunities in South America.

### **Investor Relations Activities**

The Company continues to work at broadening its investor base through strategic marketing and on-going investor communications through timely news releases and regular targeted updates. During the first nine months of 2008, Company representatives participated in several core investment and technical conferences including the Resource Investment Conference and the Mineral Exploration Round-Up, both in Vancouver, and the PDAC Convention in Toronto, as well as the Resource Investors Forum in St. John's. A variety of broker presentations were also made in Toronto, Vancouver and the United States. For the remainder of 2008, the Company will focus on low-cost, grass roots initiatives to communicate with both private and institutional investors. The Company will support and participate in the Newfoundland CIM convention scheduled for November. Important news on projects will continue to be disclosed as it becomes available.

### **Risks and Uncertainties**

The Company is principally involved in mineral exploration which is an inherently high-risk activity. Exploration is also capital intensive and the Company has no sources of funding other than joint venture financing arrangements with other mining and exploration companies and equity financing. Only the skills of management and staff in mineral exploration and exploration financing serve to mitigate these risks. The ability of the Company to continue operations into the future is dependant upon continuing to obtain favourable results from its exploration activities, which will affect its ability to attract joint venture partners and to raise financing. The participation of joint venture partners is very important to the future success of the Company.

The Company has a simple business model, one which is as low risk as possible in such a high risk business as mineral exploration: to generate diversified exploration projects at low cost to the Company, to attract JV partners to finance further exploration and to be the operator on the majority of these projects which allows the Company to transfer personnel and administration costs to the JV, thereby maintaining a lower burn rate. The more projects that can be generated and the longer the company can obtain financing the better its chances for achieving success. The Company has implemented this business model. It has a solid foundation technically, corporately and financially to go forward and be positioned for future success.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these

procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects. Exploration activity is also dependent on the laws of local governments, including aboriginal governing bodies, which may change from time to time, and may have an effect on the Company's exploration programs.

**Ecuador Operations** – On April 18, 2008, the Constituent Assembly of the Government of Ecuador placed a moratorium on all exploration and mineral development activities in the country while it finalizes its new mining law. The original term of the moratorium was for 180 days, but this timeframe has been extended until finalization of the new mining law. The outcome and timing of this new law is uncertain, and the Company has had to reduce operations in Ecuador to a minimum. At this time, the Company is uncertain of the outcome or future of the activities in Ecuador, however, believes it is premature to recognize any impairment in its Ecuador-related assets. The Company will continue to work with its joint venture partners and the government of Ecuador to help develop a new framework for responsible mining.

**Current Economic Conditions** – Subsequent to September 30, 2008, Canadian and international markets have experienced a severe downturn, which has had an impact on the mineral exploration industry. The Company is taking steps to reduce administrative expenses and is assessing its exploration programs in an effort to conserve its cash position.

### **Selected Annual Information**

The following information has been derived from the three most recently completed annual financial statements:

As at December 31,	<b>2007</b>	<b>2006</b>	<b>2005</b>
	\$	\$	\$
Net loss	(4,307,721)	(3,248,363)	(1,685,857)
Loss per share - basic and diluted	(0.08)	(0.07)	(0.06)
Total assets	13,350,465	14,508,765	7,414,033

### **Summary of Quarterly Results**

The following information has been derived from the eight most recently completed quarters:

	<b>September 30, 2008</b>	<b>June 31, 2008</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	\$	\$	\$	\$
Net loss	(1,329,150)	(804,631)	(697,267)	(1,012,696)
Loss per share - basic and diluted	(0.02)	(0.01)	(0.01)	(0.02)
	<b>September 30, 2007</b>	<b>June 30, 2007</b>	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	\$	\$	\$	\$
Net loss	(1,618,906)	(1,163,968)	(512,151)	(1,532,674)
Loss per share - basic and diluted	(0.03)	(0.02)	(0.01)	(0.03)

## **Significant Events**

### **Appointments, Joint Ventures & Strategic Alliances and Financings;**

As of September 30, 2008, the Company had six joint venture agreements in place and is operator on four of these projects.

### **Appointments and resignations:**

On January 25, Terry Brace was appointed Vice President Exploration. Mr. Brace is joining the Company following several years with Aur Resources, latterly Teck Cominco, where as the Senior Exploration Geologist he directed the exploration programs at the Duck Pond Mine in central Newfoundland. He was a key member of the management team that brought Duck Pond into production, having also been heavily involved in environmental and permitting aspects of the project. He has over 20 years experience in mineral exploration with several major and junior companies, including Noranda, Teck, Joutel Resources, and Thundermin Resources, during which time he has worked on and/or directed projects in several regions of Canada, Latin America and Africa. His experience extends to base and precious metals in a wide range of deposit types plus oil and gas exploration. Mr. Brace holds Bachelor of Science and Master of Science degrees in earth sciences from Memorial University of Newfoundland, and has been a Professional Geoscientist with the Professional Engineers and Geoscientists, Newfoundland and Labrador for 10 years.

On January 31, 2008 The Honourable John C. Crosbie, P.C., O.C., Q.C., resigned from the Board of Directors of the Company upon his appointment as Lieutenant Governor of Newfoundland & Labrador. Mr. Crosbie's appointment was announced by Prime Minister Stephen Harper and became effective at the end of January 2008. Mr. Crosbie was one of the founding directors of the Company when it was formed and listed on the TSX Venture Exchange in 1999. As an independent director, Mr. Crosbie played a very active and important role in the Company's development, in particular as a member of the Audit Committee and the Governance & Compensation Committee.

On April 2, 2008 the Company announced the following appointments to be effective April 15, 2008:

- Colin McKenzie has been appointed President & CEO, replacing Glen McKay.
- Glen McKay has been elected Chairman.
- John Fleming, the outgoing Chairman, has been elected Vice Chairman.

Colin McKenzie has been a Cornerstone Director since February 2005. He becomes President & CEO of Cornerstone following several years as Vice President Exploration for Skye Resources and a career involving more than 25 years experience in major exploration projects and business development in Newfoundland & Labrador, other regions of Canada and internationally. Mr. McKenzie is very knowledgeable concerning the mineral potential of Eastern Canada and South America, the regions where Cornerstone's current projects are concentrated. His experience in Eastern Canada includes stints with BP Canada, where he was credited with the discovery of the Hope Brook gold deposit, and with Voisey's Bay Nickel (now Vale Inco) in Labrador, the area where Cornerstone has several nickel exploration projects including the Konrad project where new drill targets have recently been defined. In addition, Mr. McKenzie brings skills developed in his roles with major and junior companies at all

levels of the business from project initiation and implementation to management and directorships.

On July 14, 2008 Mike Basha resigned his position as Executive Vice President of the Company to pursue other interests.

### **Joint Ventures & Strategic Alliances:**

On February 12, 2008, the Company signed a definitive Earn-in Joint Venture option agreement with Newmont Ventures Limited ("Newmont"), a subsidiary of Newmont Mining Corporation with respect to the formation of a regional exploration alliance ("Alliance") to explore for gold in southern Ecuador. The Alliance covers an area of approximately 1800 km<sup>2</sup> in Southern Ecuador. Alliance funding included a US\$1,000,000 private placement in the Company by Newmont at a fixed share purchase price of CAN \$0.83. Up to US\$4,000,000 in exploration expenditures will be made in two stages over 6 years if Newmont elects to earn-in. The Company will operate the initial phase of program. The first year budget of approximately US\$1,000,000 will be funded by the Company out of the private placement proceeds. Under the Alliance agreement, Newmont may elect, at its discretion, to exercise its right to earn an undivided 51% participating interest in the property within the AOI by spending US\$3,000,000 on exploration over 4 years. Newmont may earn an additional 12.5% interest by solely funding a positive feasibility study and earn a further 11.5% by arranging mine financing.

In March 11, 2008 Celtic Minerals Ltd. ("Celtic"), gave notice that they would not be continuing with the March 24, 2006 joint venture agreement on the Company's Garland nickel property in Labrador Newfoundland. The Company is seeking a new joint venture partner for this project.

On April 18, 2008, the Constituent Assembly of the Government of Ecuador placed a moratorium on all exploration and mineral development activities in the country while it finalizes its new mining law. The original term of the moratorium was for 180 days, but this timeframe has been extended until finalization of the new mining law. The outcome and timing of this new law is uncertain, and the Company has had to reduce operations in Ecuador to a minimum. At this time, the Company is uncertain of the outcome or future of the activities in Ecuador, however, believes it is premature to recognize any impairment in its Ecuador-related assets. The Company will continue to work with its joint venture partners and the government of Ecuador to help develop a new framework for responsible mining. The Company will continue to assess the value of its Ecuador-related assets and investments on an ongoing basis. On April 30, 2008, in consultation with its joint venture partners, Coastport Capital and Newmont Ventures, the Company has provided notice of *force majeure* on the Shyri and Macara Projects in Ecuador. *Force majeure* has also been declared on the Company's La Plata project in Ecuador. The declaration of *force majeure* is a legal requirement under the terms of the agreements in order to suspend exploration work and expenditures during the moratorium. The partners will continue to work together to understand the impact of the mining mandate on their plans for the Shyri and Macara projects, and the Company will assess its future plans for the La Plata project, in conjunction with its Ecuadorian joint venture partner Sultana Del Condor Minera S.A. At September 30, 2008 the Company has not recognized any impairment in either its Ecuadorian Mineral Properties or its investments in marketable securities related to the Ecuador projects, as the potential outcome of the situation is still uncertain and the Company believes it is premature to adjust the values of these assets.

On June 11, 2008, the Company signed a joint venture agreement with Altius Resources Inc. (“Altius”) to explore primarily for Sediment-hosted Stratiform Copper (SSC) deposits in the Labrador Trough of western Labrador and southeastern Quebec. The 50-50 Joint Venture will cover 51 mineral exploration licenses totaling 1032 km<sup>2</sup> in the province of Newfoundland and Labrador. Both companies contribute their respective mineral land holdings and have conjointly staked additional claims. Both companies will contribute equally to fund exploration programs. The first year program includes an airborne magnetics and radiometrics survey and a two month field program. The Company is the project operator. The companies are soliciting expressions of interest from major mining companies as prospective joint venture partners to undertake exploration on this property.

On June 30, 2008, Phelps Dodge Corporation of Canada advised the Company that it is withdrawing from the Dorchester New Brunswick project. The Company decided to begin exploration activities on its own in order to assess the project feasibility and possibly seek another joint venture partner.

On September 26, 2008 Cogitore Resources Inc. advised the Company that it is withdrawing from the Long Lake project in Newfoundland. The Company is seeking new joint venture partners for this project.

#### **Financings:**

On June 10, 2008, the Company closed a \$3,000,000 non-brokered private placement of 15,000,000 units at \$0.20 per unit. Each unit consisted of one common share and one non-transferable share purchase warrant exercisable at \$0.26 per share for a two year period following closing. The warrants are callable by the Company after the four month hold period after closing, if the volume weighted average price of the Company’s shares for any consecutive 20 day period of trading is equal to or greater than \$0.47. A finders fee of 7% in units and 5% Compensation warrants was paid. Each compensation warrant entitles the finder to purchase one unit for \$0.20 during a period of two years following closing. All shares, including those issued on exercise of warrants, are subject to a four month restriction on sale or transfer. Proceeds will be used to further advance the Company’s exploration programs and working capital requirements.

#### **Management’s Responsibility for Financial Statements**

The Board of Directors carries out its responsibility for the consolidated financial statements primarily through the audit committee which is composed of independent, non-executive directors who meet periodically with management and independent auditors to review financial reporting and internal control matters.

***Internal Control over Financial Reporting*** - Management is responsible for the establishment and maintenance of a system of internal controls over financial reporting. This system has been designed to provide reasonable assurance that assets are safeguarded and that the financial reporting is accurate and reliable. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles (GAAP) and in accordance with accounting policies set out in the notes to the consolidated financial statements for the quarter ended September 30, 2008.

In compliance with Form 52-109F1 of Multilateral Instrument 52-109, management must disclose in its MD&A any material weakness found to exist within its system of internal control over financial

reporting. Management has identified a material weakness during the period in lack of segregation of duties. The management group of the Company is small and full segregation of all duties has not been possible throughout the year. This is a typical issue for smaller companies, and while the Company has experienced significant growth during 2007 and 2008 to date, there still exists a lack of such segregation of duties. Management believes, however, that the risks associated with the lack of segregation of duties during part of the year have been mitigated by the implementation of other controls. The Audit Committee has direct oversight responsibilities for the review and approval of the quarterly and annual financial disclosures and the Company has qualified senior accounting personnel engaged on a full time basis to manage the Company's financial disclosures.

***Evaluation and Effectiveness of Disclosure Controls and Procedures*** - The Company has established and maintains disclosure controls and procedures over financial reporting. The certifying officers have evaluated the effectiveness of the issuer's disclosure controls and procedures as of September 30, 2008, and have concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in annual and quarterly filings.

### **Adoption of New Accounting Standards**

On January 1, 2008, the Company adopted applicable accounting standard changes issued by the Canadian Institute of Chartered Accountants ("CICA") that effect reporting periods ending after January 1, 2008. The Company adopted changes as follows: amendments to Handbook Section 1400 General Standards of Financial Statement Presentation, ("Section 1400"), as well as new presentation and disclosure standards for: Capital Disclosures ("Section 1535"), Financial Instruments – Disclosures ("Section 3862"), and Financial Instruments – Presentation ("Section 3863"). These changes are explained in further detail in Note 2 to the September 30, 2008 consolidated financial statements.

### **Other**

During the third quarter of 2008, the Company's information was made available via Standard & Poor's Factual Stock Reports, which are detailed reports of the Company's quarterly information. These Factual Stock Reports are updated weekly by Standard and Poor's and have wide distribution. A link to the current report has been made available on the Company's website.

The Company's shares are traded on the TSX Venture Exchange under the stock symbol CGP as well as the over the counter market in the USA under the symbol CTNXF. The Company is also listed on the Frankfurt and Berlin Stock Exchanges under the stock symbol GWN.

Financial Statements and press releases issued by the Company, including those issued during the quarter ended September 30, 2008, and other information concerning the Company are archived at the Company website [www.cornerstoneresources.com](http://www.cornerstoneresources.com). Regulatory filings are also available through [www.sedar.com](http://www.sedar.com).