

# **PEDIMENT GOLD CORP.**

(Formerly Pediment Exploration Ltd.)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE FIRST QUARTER ENDED  
DECEMBER 31, 2008**

**Pediment Gold Corp.**  
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**Management's Discussion and Analysis**  
**For the quarter ended December 31, 2008**

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**1.0 INTRODUCTION**

This Management's Discussion and Analysis ("MD&A") includes information from, and should be read in conjunction with, the accompanying un-audited financial statements of Pediment Gold Corp ("the Company" or "Pediment") for the three months ended December 31, 2008 and the audited financial statements for the year ended September 30, 2008. The Company reports its financial position, results of operations and cash flows in accordance with the Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. This MD&A was prepared with information available as of March 2, 2009. Additional information and disclosure relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**2.0 FORWARD LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "designed", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", and similar expressions. These statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements. Based on current available information, the Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that those expectations will prove to be correct. The forward-looking statements in this MD&A are expressly qualified by this statement, and readers are advised not to place undue reliance on the forward-looking statements.

**3.0 DESCRIPTION OF BUSINESS**

The Company is a natural resource company engaged in the evaluation, acquisition, exploration and development and ultimately is working towards commercial production of gold resources in Mexico. While none of the properties have reached commercial production; two projects, La Colorada and San Antonio, are moving through the advanced exploration stage toward development. The Company has financed its current exploration and development activities principally by the issuance of common shares.

The recoverability of costs capitalized to mineral properties and the Company's future financial success is dependent upon the extent to which economic gold and silver mineralized bodies can develop to producing entities. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty. Many of the key factors for advancing the Company's projects to production are dependant on outside factors; such as, obtaining the necessary rights and permitting which need to be granted from certain local and governmental agencies located in Mexico. Additional risk factors that may effect the financial statements and the risk factors related to mineral exploration and development are set out in the Company's Annual Report as filed via SEDAR on April 4, 2008, available at [www.sedar.com](http://www.sedar.com) and under the heading "Risks and Uncertainties" listed below.

The Company knows of no trends, demands, commitments, events or uncertainties outside of the normal course of business that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future. Material increases or decreases in the Company's liquidity are substantially determined by the success or failure of the Company's exploration programs and overall market

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conditions for smaller resource companies. The Company is not aware of any seasonality in the business that may have a material effect upon its financial condition, other than those normally encountered by public reporting junior resource companies. The Company is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

#### **4.0 OVERALL PERFORMANCE**

During the quarter ended December 31, 2008 the Company expended \$2,824,623 developing its previously held exploration projects. The total expenditures include cash costs of \$1,649,623 and \$1,175,000 in share issuance costs that relates the issuance of 2,500,000 shares with a fair market value of \$0.47.

Mineral property acquisition costs totaled \$2,536,520, including cash cost of \$1,361,520 for La Colorada and the issuance of 2,500,000 common shares with a fair value of \$1,175,000 for San Antonio.

Acquisition costs relating to La Colorada represents the final option payment the Company incurred as a result of acquiring 100% of the project.

Acquisition costs associated with the San Antonio project relates to the September 29, 2005 agreement where by the Company acquired 100% of the shares in Compania Minera Pitalla, S.A. de C.V. As part of the acquisition, 2,500,000 common shares would be issuable prior to December 31, 2011 if an aggregate of one million ounces of gold or gold equivalents are determined to be situated on three or fewer of the acquired properties, of which 500,000 ounces or equivalent must be in a single property. On December 4, 2008, the Company issued 2,500,000 shares at a deemed price of \$0.47 per share for a total value of \$1,175,000.

During the quarter ended December 31, 2008, the Company incurred \$288,103 in exploration expenditures on its San Antonio and La Colorada projects and is it continues to advance these projects.

As at December 31, 2008, the Company had consolidated working capital of \$16,927,260. For fiscal 2009, the Company has allocated \$4.5 million to cover its operating expenses and to advance its San Antonio and La Colorada projects. The Company has sufficient working capital to fund its 2009 operating and development expenditures and to continue its operations through fiscal 2010.

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**5.0 PROJECT UPDATES**

**San Antonio Project**

During the fiscal year ended September 30, 2008, the Company completed a drill program at the San Antonio project. In total, the Company completed 31,404 metres drilled at Los Planes, of which 28,759 were reverse-circulation and 2,644 were core. Other targets drilled at San Antonio included:

- 1,436 metres of core drilling and 306 metres of reverse-circulation at Las Colinas (to test mineralization up-dip)
- 950 metres of reverse-circulation and 476 metres of core drilling at La Colpa (west of Las Colinas)
- 984 metres of reverse-circulation drilling between Las Colinas and Los Planes, and
- 1,371 metres of diamond drilling at the Fandango-La Virgen areas

The Company completed an NI 43-101 compliant report for the Los Planes-Las Colinas, which was filed on SEDAR July, 15 2008. The following highlights are extracted from the report.

The current National Instrument 43-101 compliant Mineral Resource Estimates for the Los Planes ("Planes") and Las Colinas ("Colinas") zones on Pediment's San Antonio project were completed by Dave Laudrum of Ashloo Consultants Ltd., under contract to Derry Michener Booth and Wahl Consultants (DMBW), using GEMS Software Version 6.1.3, from Gemcom Software International. The resource is reported based on cut-off grades and economic considerations provided by Ian S. Thompson of DMBW in Section 18.0 of this report.

Based on the parameters described in this report, DMBW has estimated an Inferred Mineral Resource, as at December 31, 2007, for the Los Planes deposit of 30.58 million tonnes at an average grade of 1.32 g/t Au, using a 0.4 g/t Au cut-off grade. In addition DMBW has estimated an Inferred Mineral Resource for the Las Colinas deposit of 5.62 million tonnes at an average grade of 0.83 g/t Au, using a 0.4 g/t Au cut-off grade.

Table 1.1

<b>San Antonio Project</b>					
<b>Inferred Mineral Resource Estimate @ December 31, 2007<sup>(1,2,3)</sup></b>					
DEPOSIT	CUT-OFF GRADE	ROCK GROUP <sup>(4)</sup>	TONNES	GRADE	AU PRODUCT
	g/t Au		T x 10 <sup>6</sup>	g/t Au	Ounces x 10 <sup>6</sup>
LOS PLANES	0.4 g/t Au	Oxidized	10.54	1.18	0.40
	0.4g/tAu	Sulphide	20.04	1.4	0.90
		<b>Total</b>	<b>30.58</b>	<b>1.32</b>	<b>1.30</b>
LAS COLINAS	0.4 g/t Au	Oxidized	0.37	0.92	0.01
	0.4g/tAu	Sulphide	5.25	0.83	0.14
		<b>Total</b>	<b>5.62</b>	<b>0.83</b>	<b>0.15</b>

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1. It cannot be assumed that all or any part of an Inferred Mineral Resource will be upgraded to an Indicated or Measured Resource as a result of continued exploration.
2. Mineral Resources which are not mineral reserves do not have demonstrated economic viability.
3. Numbers may not add up, due to rounding.
4. 'Oxidized' refers here to rock affected by oxidation including weak-moderate-strong intensities.

At the current level of drilling there are well defined geological and grade domains at both deposit areas. These domains show good vertical and lateral continuity and were used as hard boundaries when interpolating grades into the block models. For Planes high-grade assays were capped at 30 g/t Au, although this capping level only affected 4 assay samples. No high-grade assay capping was applied at Colinas where the highest assay returned from the zone was 5.71 g/t Au. Density values of 2.7 for sulphide mineralization and 2.6 for oxide mineralization were used for both Planes and Colinas. Grades were interpolated by Ordinary Kriging. Search Ellipse and variogram ranges used were 65 m (along strike) x 65 m (down dip) x 25 m (across strike/dip).

The resource calculation study was done with all assay data available up to Pediment's hole PLRC07-75 and also using previous drill results obtained by Echo Bay in the nineties; however no prior trench results were used as were used by Echo Bay studies at the time. Pediment has now completed an additional 16,699 metres of drilling at San Antonio after the data used for the 43-101 report and therefore the resource is planned to be updated.

Bottle roll tests were completed for Los Planes material, including mineralized rock from the oxide, mixed and sulphide zones. Samples were of unprocessed RC drill cuttings of up to 3/8 inch size. These tests were performed by SGS labs in Durango, Mexico and results were positive with recoveries of up to 88.63% in oxide after a 96-hour test. Sulphide material also had significant recoveries with up to 73.61% recovery after 96 hours.

The company is currently planning an open pit mining and heap leaching bulk test of up to 100,000 tonnes of ore at Los Planes later in 2009. Preparations presently being performed include a new surface rights agreement, environmental permitting, water rights, mine planning, metallurgical testing and design of the bulk test. Composite samples from the Los Planes zone are currently under going metallurgical tested in long-term column leach tests.

During the year ended September 30, 2008 the San Antonio Project was expanded to include the Triunfo Est. Properties, which consist of five mining-exploration concessions located in the state of Baja California Sur, Mexico. The concessions were acquired for a cash payment of \$11,250 and the issuance of 25,000 common shares (issued) of the Company.

In addition to the Triunfo Est. Properties, on July 3, 2008, the Company acquired a new group of adjacent concessions in the San Antonio district. The Company won the concessions by making a bid of MXN \$12,615,000 pesos (\$1,241,568 CDN – Paid) to the Mexican Geological Survey and committing to a variable 1 to 3% net smelter royalty; payable to the Mexican Geological Survey. The package is called El Triunfo-Valle Perdido and is composed of 3 mining concessions covering 6,579 hectares. The El Triunfo-Valle Perdido package was part of the Mexican natural mineral reserve and covers a northeast trending mineralized system containing gold, silver, lead and zinc.

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Triunfo and Valle Perdido areas of the Triunfo land package have old workings and a data base of sampling with some drill information. Veins present range from 3 to 7 parallel veins that were worked as underground mines with combination of gold-silver values with lead and zinc. Historic grades of reported resources in the government listing are stated at about 3 grams gold and 350-700 grams silver. The historic vein resource, which is not NI 43-101 compliant, was reported by the Mexican Geological Survey as follows: 950,547 tonnes distributed as follows:

Humboldt-Espinocena	56,613 tons	3.0 g Au	273 g Ag
Hormiguero-La Solidar	721,934 tons	3.3 g Au	436 g Ag
Dumps measured	547,000 tons	.86 g Au	126 g Ag
Lomboyal	172,000 tons	2.8 g Au	20 g Ag

Total 112,676 oz Au, 12,944,710 oz. Ag In addition the combined lead zinc is about 4-5 percent.

### **La Colorada Project**

La Colorada gold-silver project is a past-producing mine site with historic output from both underground vein and open-pit to heap leach operations. The project is located on main highway and electrical grid infrastructure some 40 km southeast of Hermosillo, the capital and main supply point of Sonora State in north western Mexico.

Pediment has completed key transactions for acquiring or controlling concessions in the La Colorada mine area. These transactions complete the Company's plan to consolidate the mining district:

1. On October 22, 2007, the Company negotiated the exclusive option to acquire the past producing La Colorada gold-silver mine property. At that time the Company had an option to acquire 100% of 18 concessions held by private owners plus 1,130 hectares of surface holdings that include production and plant offices in return for an initial payment of US\$1.1 million (\$1,085,518 – paid), followed by additional payments totaling US\$1,650,000 over the subsequent two-year period.

On November 26, 2008, the company reached an agreement to adjust its original option to purchase certain holdings in the La Colorada gold-silver project, in order to both reduce the cash cost to the Company and to accelerate the acquisition. The subject holdings encompass the past-producing, open-pit and underground workings of the Gran Central, La Colorada and Intermediate zone deposits, portions of the workings of the El Creston deposits, along-trend exploration ground, and surface holdings that contain plant and office complexes built during open-pit mining at the site from 1993-2002.

Under the revised agreement, the Company made one further payment of US\$825,000 (Paid) for a total purchase price of US\$1.925 million, granted certain production royalties, and allowed the vendor the right to bid on a competitive basis for contracts to conduct open-pit mining at La Colorada should the Company choose to re-develop the project on that basis. The royalties are Net Smelter Return (NSR) on material from the subject holdings, of 3% if open pit mined, or of 2% if underground mined. The 2% NSR on underground production can be purchased by the Company at any time for US\$300,000. The vendors are working on securing an adjacent concession, Sonora IV, which the Company has the option to acquire for 300,000 common shares of the Company on or before October 16, 2009 at a deemed price of \$0.50 per share.

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Pediment owns or controls 100% of all areas of historic open-pit mining and all known areas of historic underground production from the La Colorada gold-silver camp, plus owns or holds options to acquire adjacent areas of exploration potential. By completing this revised agreement the Company gains, in addition to a lower cash outlay, a greater flexibility in dealing with the various scenarios that might allow the redevelopment of the project.

2. On February 12, 2008, Pediment obtained from Minera Recami, an option to acquire three additional mineral concessions totaling 852 hectares for a total price of US\$800,000.00 (\$102,491– paid). The three additional concessions cover part of the Creston pit and possible vein extension. The remaining US\$700,000 is due in varying amounts on the anniversary date of the agreement through to February 12, 2013.
3. On August 14, 2008, Pediment purchased six mineral concessions from the Peñoles group for a total consideration of approximately \$109,688 (Paid). These concessions cover 218 hectares and include part of the El Creston pit and adjacent ground, as well as additional exploration potential west of the pit. As part of this transaction, Pediment sold to Peñoles three of its concessions totaling approximately 1,521 hectares that make up the southern portion of its Texson exploration project in western Sonora for a total consideration of about US\$2,000 (Received).

Report on recent exploration activities on La Colorada

During the year ended September 30, 2008, further to completing surface sampling, a 4,187-metre, reverse-circulation drill program was conducted. Drilling was done at the new targets, La Verde and Veta Madre, as well as around the pit areas of El Crestón and Gran Central. Assay of samples from the drilling program has recently been completed. Results will be reported when they are received and compiled. Results will be included in planning by Pediment to grow resources and resume processing at La Colorada in the most efficient and expeditious manner. This data is also being used to construct a district mineralization geologic model.

Data Review and Potential for La Colorada

In addition, during the past ten months, Pediment has recompiled data archives and pertinent production data into electronic databases with all available information merged with newly generated data. Data relevant to both open-pit potential and high-grade underground resources are being reviewed. Pediment is currently undertaking studies leading to environmental impact permitting and reactivation potential of existing surface workings. Pediment is also preparing the La Colorada project for a second and more extensive program of work. Details of this program are being finalized and will be announced.

Review of Underground Potential

Pediment is also reviewing several historic calculations made for prior operator Eldorado Gold Corp. of high-grade vein mineralization below the La Colorada and Gran Central open pits, using the results from drilling conducted primarily to assess the project's open pit potential. The Company considers these historic calculations relevant to its own exploration planning. However, the Company cautions that these calculations were

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completed prior to establishment of NI 43-101 guidelines for resource estimation. Consequently, these historic results have not been categorized mineral resources or mineral reserves in accordance with NI 43-101. The Company believes these resources listed below would be categorized as "inferred" under current guidelines however, a "Qualified Person" as defined by NI43-101 has not done sufficient work to classify the historical estimate as current mineral resources, the issuer is not treating the historical estimate as current mineral resources and the historical estimate should not be relied upon. The Company further cautions that though these historical calculations deal with different aspects of the high-grade potential, they may in part overlap with areas that had also been included in open pit resource historical calculations made prior to the cessation of pit mining. These historic calculations should not be considered in aggregate as material representations of current resource potential.

In 1997 the following historical estimate was completed by Duncan McBean for Eldorado using an 8 g/t cut-off grade, for the veins in sections directly below the "restricted pit limit" of La Colorada and Gran Central pits:

La Colorada (LC) Vein - 140,400 tons @ 19.98 g/t Au, for 90,178 gold ounces.  
La Colorada Vein Possible - 213,400 tons @ 24.27 g/t Au, for 168,313 gold ounces  
Gran Central-LC Vein Zones - 72,913 tons @ 13.05 g/t Au, for 30,595 gold ounces  
Gran Central Extension - 30,750 tons @ 76.19 g/t Au, for 75,323 gold ounces.

The La Colorada and Gran Central veins had been partially mined during the 1874-1912 period of high-grade underground mining. The above historic calculations included were vein intersections from the La Colorada and Gran Central veins and between, but without regard to evidence of previous mining. In 1998, an internal scoping study coupled with additional historic resource calculations was completed by Eldorado assisted by MRDI Consulting that separated intersections which had no evidence of underground workings (un-mined) from those with evidence of workings (mined). Intersections located between the two main veins are referred to as "intermediate veins" and have no history of underground mining. The results of the 1998 historic study were calculated with 4 gram/tonne Au cut-off:

Intermediate Zone Resource 124,500 tons of 16.14 g per ton for 64,612 oz.  
La Colorada Mined 187,425 tons of 8.11 g per ton for 48,875 oz.  
La Colorada Un-mined 217,399 tons of 11.75 g per ton for 82,136 oz.  
Gran Central Mined 497,390 tons of 6.30 g per ton for 100,757 oz.  
Gran Central Un-mined 289,024 tons of 11.10 g per ton for 103,156 oz.

These historic calculations did not include the results of silver assaying. The Company considers silver also a potentially important by-product metal and will evaluate it in its on-going programs. The data review also suggests there is untested high-grade potential in down-dip and on-trend extensions of the historic calculations, and that there may be further potential in both fault displaced portions of these same structures, and in other similar structures within its holdings. From this and newly developed data we are developing a mineralization model. Historic data also has records of numerous fluid inclusion samples that indicate epithermal boiling zone is present in the mineralization.

No estimate of high-grade potential has been located for the El Creston veins within the recently acquired concessions. Records indicate that the bulk of pre-1912 underground vein mining was done in the Creston and Gran Central mine area. Historic estimates of near surface bulk material and potential can be found in Pediment's news release dated October 22, 2007.

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Munro Legal in Sonora Mexico was contracted for a baseline study of La Colorada and advance with environmental permitting.

**Caborca Project**

On December 1, 2006 the Company signed an agreement with Inmet Mining Corp. allowing Inmet to explore for copper gold porphyry deposits on Pediment's Caborca project. The agreement allowed Pediment to continue to focus work and financial expenditures on gold dominated project acquisition and development of its extensive gold and silver holdings while Inmet funded exploration for porphyry-type mineralization at Caborca. The Lista Blanca ridge area that Pediment recently completed an initial drill program on is excluded from the agreement. The best intercept of drilling was drillhole LB-04 with 16.0 metres of 2.46 grams per tonne gold and 1.04 percent copper.

From July 2007 to October 2007, exploration work was carried out at the project including an induced-polarization geophysical and a diamond-drill program. The objective of this work was to further refine geophysical targets in the valley area, create drill targets and evaluate them. The exploration work failed to locate porphyry copper-gold mineralization. Inmet has since defaulted on the terms of the agreement and the Company has no current plans for further exploration on the Caborca project.

At September 30, 2008, the Company has written off the Caborca acquisition and exploration expenditures to \$1.

**Daniel Project**

The Daniel concessions was the site of an RC drill program totaling 4,934 meters of drilling for disseminated shear zone hosted gold mineralization within Jurassic age volcanic rocks of the Mesozoic arc. The project is located in the Sonora-Mojave Mega-shear zone that hosts 10 or more known open pit gold deposits. This project is located about 45 km southeast of the large La Herradura open-pit gold mine. The drilling in the project followed extensive D-6 Caterpillar dozer trenching and sampling in a 100 and 200 meter established grid. The final drilling resulted in numerous short intervals with gold mineralization, but not mineable grades or widths. The project area is a small part of the larger concession area, and possible joint ventures or additional reconnaissance work may be done.

At September 30, 2008, the Company wrote down the value of the Daniel project to \$1.

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**Valenzuela**

The Valenzuela project is a 400-hectare concession group covering numerous old underground workings in low-sulfide vein zones in Tertiary Sierra Madre volcanics. Prior sampling combined with more recent sampling shows irregular zones of high grade silver-gold mineralization hosted mainly in the quartz veins. The project is located in the northeastern quadrant of Sonora in the base of the Sierra Madre mountain chain. Future work will determine if the project will receive additional exploration or be joint ventured.

**Texson, Nopal, Caribe, Glor, Cien, Manuel, Roja, Cochis and Pitalla concessions**

The Texson, Nopal, Caribe, Glor, Cien, Manuel, Roja, Cochis and Pitalla concessions cover areas thought to hold potential for bulk tonnage shear zone hosted gold deposits located in the Sonora-Mojave megashear area. These concessions in part cover old workings with gold mineralization mostly hosted in quartz veins and having geochemical characteristics similar to the other gold deposits in this trend. In three of the areas there is confirmed gold placer mineralization present although in uneconomic quantities. Soil sampling was completed on the Glor Concession area with several low level gold anomalies located. In addition 5 sites of prior 30 year old drill holes were located from prior programs. We have been approached for joint venture agreements in several of these projects.

At September 30, 2008, the Company wrote down the value of the Texson project to \$1. Other projects, including the Valenzuela project were also written-down to \$1, as at September 30, 2008.

**6.0 RESULTS OF OPERATIONS**

The Company currently has no producing properties and consequently, has no operating income or cash flow.

The Company's accounting policy as it relates to its acquisition of Pitalla and its mineral properties is to defer all costs of acquiring natural resource properties and their related exploration and development costs until the properties to which they relate are placed into production, sold or abandoned or impaired. At that time, capitalized costs are either depleted using the unit-of-production method over the estimated life of the ore-body, following the commencement of production, or written off at the time the property is sold or abandoned.

At September 30, 2008 the Company wrote-down certain of its mineral concessions with exception to its San Antonio and La Colorada projects. On a going forward basis, the Company will only capitalize expenses relating to the San Antonio and La Colorada projects; all other exploration expenses will be expensed in the periods they are incurred.

The Company currently does not have an operating or producing mineral property. The Company has no earnings and therefore will finance its future exploration activities by the sale of common shares or units. Certain of the key risk factors of the Company's operating results are the following: the state of capital markets, which affects the ability of the Company to finance its exploration activities; the write-down and abandonment of mineral properties as exploration results provide further information relating to the underlying value of such properties; and market prices for natural resources as well as the non-viability of the projects.

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The Company is not a party to any material legal proceedings and is not in default under any material debt or other contractual obligations other than as disclosed in the financial statements. No significant revenue generating contracts or cash commitments were entered into or undertaken by the Company during the period other than as set out herein or in the financial statements of the Company.

**Three months ended December 31, 2008, compared to three months ended December 31, 2007**

Net loss for the period ended December 31, 2008 was \$1,078,285 (2007 - \$2,616,309), which included \$949,127 (2007 - \$2,196,368) in stock-based compensation expense.

For the period ended December 31, 2008, salaries increased by \$54,361 and consulting fees increased by \$219,759 from the prior period. The increase in both salaries and consulting fees is a result of the Company retaining additional professionals to expand and develop its mineral projects.

Stock-based compensation was \$949,127 compared to \$2,196,368 in the prior period. This decrease is due to the difference in the number of options granted in the respective periods. As well, due to a change in market conditions there was a significant change from the prior period's input variables used in the calculation of stock-based compensation when compared to the current period.

Legal and audit fees decreased from the prior period which is mainly due to the Company acquiring the La Colorada project in the quarter ended December 31, 2007, which resulted in additional legal expenses being incurred compared to the current period.

During the period ended December 31, 2008, the Company reduced its travel expenses and investor relations expenses as it adapted to current market conditions by limiting certain expenses during the period.

Investment and other income for the period ended December 31, 2008 was \$42,826 (2007 - \$164,077) This decrease is due to an overall decrease in the Company's cash and cash equivalents and lower interest rates in comparison to the period ended December 31, 2007.

During the period ended December 31, 2008, the Company recorded a \$ 415,893 foreign exchange gain. The Company's two geographical business segments are Canada and Mexico with the Company's operations in Mexico accounting for \$13,022,530 of its \$30,777.270 in total assets. With the Company incurring a majority of its' expenditures in US dollars and Mexican Pesos, it is reasonable that significant foreign exchange gains/(losses) fluctuations will occur in the Company's normal course of operations.

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**8.0 SUMMARY OF QUARTERLY RESULTS**

The following table summarizes information regarding the Company's operations on a quarterly basis for the last eight quarters.

**For the quarters ended**

	<b>Dec. 31, 2008</b>	<b>Sept. 30, 2008</b>	<b>June 30, 2008</b>	<b>March 31, 2008</b>
Total revenues (Interest & other income)	42,825	147,637	154,003	213,795
(Loss) for the quarter	(1,078,285)	(2,755,407)	(2,068,651)	(351,457)
(Loss) for the quarter per share	(0.03)	(0.07)	(0.05)	(0.01)

**For the quarters ended**

	<b>Dec. 31, 2007</b>	<b>Sept. 30, 2007</b>	<b>June 30, 2007</b>	<b>March 31, 2007</b>
Total revenues (Interest & other income)	164,007	123,807	5,548	34,771
(Loss) for the quarter	(2,616,309)	(1,178,222)	(564,562)	(614,344)
(Loss) for the quarter per share	(0.07)	(0.04)	(0.02)	(0.03)

The Company only earns interest income from its cash and cash equivalents and short-term investments, which will vary from period to period depending on their relative balances and the rate at which the Company's guaranteed investment certificates earn interest.

The nature of the Company's operations has remained unchanged from prior periods. Changes in operating expenses can increase/decrease depending on the Company's level of activity. Significant variations in the loss from one period to another is mainly due to the issuance of incentive stock options, which results in an increase in stock-based compensation, and the write down of previously capitalized mineral property expenditures.

**9.0 LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2008, the Company had cash and cash equivalents of \$6,460,141 (2007-\$24,540,656) and working capital of \$16,987,364 (2007 - \$24,731,494). The Company has allocated \$4.5 million in fiscal year 2009 for general and administrative expenses and for the continued development of its mineral properties. With working capital of \$16,987,364, the company has sufficient capital to cover its fiscal 2009 expenditures and to continue operations through fiscal 2010.

The Company's cash and cash equivalents are short-term investments are highly liquid, short-term investment grade securities held at a major Canadian financial institution in accordance with the Company's investment policy. The Company's cash and cash equivalents and short-term investments are comprised of the following:

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	2008	2007
Cash and cash equivalents		
Guaranteed investment certificates	\$ -	\$ 23,955,216
Bank accounts	6,460,141	585,440
	<u>6,460,141</u>	<u>24,540,656</u>
Short-term investments		
Guaranteed investments certificates	10,000,000	-
	<u>10,000,000</u>	<u>-</u>
<b>Total</b>	<b>\$ 16,640,141</b>	<b>\$ 24,540,656</b>

For Fiscal 2009 , the Company has allocated \$4.5 million to cover its operating expenses and to advance its San Antonio and La Colorada projects. Based on the Company's current financial position and its development plans for 2009, the Company is able to meet its financial obligations through 2009 and at a minimum, well into 2010.

**10.0 TRANSACTIONS WITH RELATED PARTIES**

- (a) The amounts due from/to related parties are non-interest bearing, unsecured and due on demand, and are due from/to officers of the Company and companies with common directors.

Amounts due from officers and companies with common directors arose as a result of advances made by the Company for travel and other expenses in respect of ongoing exploration of the Company's properties and recoveries of rent for shared office space. Amounts due to officers result from unpaid consulting fees.

- (b) Consulting fees in the amount of \$133,857 (2007 - \$85,686) were paid/payable to officers of the Company. In addition, reimbursement of expenses were paid to officers totaling \$3,098 (2007 - \$13,251).

- (c) Rent of \$6,900 was recovered from companies with common directors for their respective share of the rent expense paid by the Company for shared office space.

The above transactions incurred in the normal course of operations and are recorded at the exchange amount, being the amount agreed upon by the related parties.

**11.0 OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

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**12.0 PROPOSED TRANSACTIONS**

The Company has no proposed transactions.

**13.0 RISKS AND UNCERTAINTIES**

The Company is in the mineral exploration and development business and as such is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. Some of the possible risks include the following:

a) The industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates.

b) The only source of future funds for further exploration programs, or if such exploration programs are successful for the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration or development. Management was successful in accessing the equity markets during the period, but there is no assurance that such sources will be available, on acceptable terms, or at all in the future.

c) Any future equity financings by the Company for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders.

d) The Company must comply with environmental regulations governing air and water quality and land disturbance and provide for mine reclamation and closure costs.

e) The operations of the Company will require various licenses and permits from various governmental authorities. There is no assurance that the Company will be successful in obtaining the necessary licenses and permits to continue its exploration and development activities in the future.

f) There is no certainty that the properties which the Company has deferred as assets on its balance sheet will be realized at the amounts recorded. These amounts should not be taken to reflect realizable value.

g) The development and exploration activities of the Company are subject to various laws governing exploration, development, labour standards and occupational health, land use, water use, land claims of local people and other matters. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could have an adverse effect on the Company's financial position and results of operations.

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h) The Company's operations are currently conducted in Mexico, and as such the Company's operations are exposed to various levels of political and other risks and uncertainties. These risks and uncertainties are not limited to, extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; changes in taxation policy; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of or purchase supplies from a particular jurisdiction. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described on any forward-looking statements. The Company has not completed a feasibility study on any of its deposits to determine if it hosts a mineral resource that can be economically developed and profitably mined.

#### **14.0 DEPENDENCE ON MANAGEMENT**

The Company relies heavily on the business and technical expertise of its management team and it is unlikely that this dependence will diminish in the near term.

#### **15.0 CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or written down, where appropriate. The Company's accounting policy is to capitalize exploration costs consistent with Canadian GAAP and applicable guidelines for exploration stage companies. The policy is consistent with other junior exploration companies which have not established mineral reserves objectively. An alternative policy would be to expense these costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established. Management is of the view that its current policy is appropriate for the Company at this time. Based on quarterly impairment reviews made by management, or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned; the exploration activity ceases on a property due to unsatisfactory results or insufficient available funding; or when it is determined that the carrying value exceeds the fair market value of the property.

Significant estimates are made in respect of the Company's asset retirement obligations. The Company's proposed mining and exploration activities are subject to various laws

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and regulations for federal, regional and provincial jurisdictions governing the protection of the environment. These laws are continually changing. The Company believes its operations are in compliance with all applicable laws and regulations. The Company expects to make, in the future, expenditures to comply with such laws and regulations but cannot predict the full amount or timing of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the acquisition, development, construction and normal operation of mining property, plant and equipment.

Moreover, significant estimates are made in respect of accounting for stock-based compensation, which is calculated using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the period.

Other significant areas requiring the use of management estimates include the collectability of amounts receivable, balances of accrued liabilities, the fair value of financial instruments, rates for amortization of equipment and the valuation allowance for future income tax assets. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

**16.0 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

a) Accounting policies implemented effective October 1, 2008,

i) Amendments to Section 1400 – Going Concern:

Effective October 1, 2008, the Company has adopted the amendments to CICA Section 1400, General Standards of Financial Statement Presentation, which was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going concern. The Company is currently evaluating the impact of this new standard.

b) Accounting policies to be implemented effective January 1, 2009:

i) Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, Goodwill and Intangible Assets. This Section replaces CICA Handbook Section 3062, Goodwill and Intangible Assets and Section 3450, Research and Development Costs, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is still evaluating the impact of this standard on its consolidated financial statements.

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ii) Inventories

Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3031, Inventories, which replaces the existing Section 3030, and establishes standards for the measurement and disclosure of inventories. The new standards provides more extensive guidance on the determination of cost, including allocation of overhead, which requires testing and expands disclosure requirements. The adoption of the

c) International Financial Reporting Standards (IFRS):

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The effective date for the Company is for interim and annual financial statements relating to the Company's fiscal years beginning on or after October 1, 2011. The transition date of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2010 and 2009. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**17.0 MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management conducted an evaluation of the effectiveness of the internal controls over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2008. Based on management's assessment and those criteria, management has concluded that the internal control over financial reporting as at September 30, 2008 was effective.

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**18.0 DISCLOSURE CONTROLS AND PROCEDURES**

The Company's management is responsible for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to senior management, including Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), by others within those entities on a timely basis so that appropriate decisions can be made regarding public disclosure. The CEO and CFO have evaluated the Company's disclosure controls and procedures and have concluded that they are effective as of December 31, 2008.

**19.0 LIMITATIONS ON CONTROLS**

Management believes that any internal controls and procedures for financial reporting can only provide reasonable and not absolute assurance that the objectives of the control system are met. Control design is subject to resource constraints and cost benefit analysis. Because of the inherent limitations in all control systems the company's control systems cannot provide absolute assurance that all issues and fraud will be prevented within the company and detected. Limitations also include the realities of judgments in decision making which could be faulty and simple errors and mistakes. In addition controls may be circumvented by individuals, collusion or unauthorized override of controls. Finally, a control system is based on certain assumptions about the likelihood of future events and there can be no assurance that the stated goals of the control system will meet all future potential conditions. In summary, because of the inherent limitations on a cost effective control system, misstatements due to error or fraud may occur and may not be detected.

**20.0 DISCLOSURE OF OUTSTANDING SHARE DATA**

As at March 2, 2009, the Company had the following common shares, stock options and warrants outstanding:

Common shares	43,944,569
Stock options (vested and unvested)	3,572,500
Warrants	3,237,115
Fully Diluted shares outstanding	50,754,184

The Company is dependent on raising additional capital to develop its properties and is continually assessing overall market conditions to ensure this need is fulfilled to the benefit of the Company and its shareholders.

As of March 2, 2008, the Company's shares delisted from the TSX Venture Exchange and commenced trading on the Toronto Stock Exchange.