

Management's Discussion and Analysis

of the

Financial Condition and Results of Operations

First Quarter and

3 Months Ended

August 31, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis has been prepared based on information available to Anaconda Mining Inc. ("Anaconda" or the "Company") as at October 15, 2010 and compares its fiscal 2011 results with those of the previous period. This management's discussion and analysis ("MD&A") of the operating results and financial condition of the Company for the first quarter and three months ended August 31, 2010, should be read in conjunction with the Company's interim consolidated financial statements and the related notes covering the same periods and in conjunction with the MD&A and audited consolidated financial statements for the year ended May 31, 2010, all of which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts referred to in this MD&A are expressed in Canadian dollars unless otherwise indicated. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

Management's responsibilities for financial reporting and controls

The interim consolidated financial statements of the Company have been prepared by management in accordance with CanadianGAAP and have been approved by the Company's Audit Committee on behalf of its Board of Directors (the "Board"). The integrity and objectivity of the Consolidated Financial Statements are the responsibility of management. In addition, management is responsible for ensuring that the information contained in this MD&A is consistent, where appropriate, with the information contained in the Consolidated Financial Statements.

In support of this responsibility, the Company's management maintains a system of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. When alternative accounting methods exist, management has chosen those methods it deems most appropriate in the circumstances. The consolidated financial statements may contain certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis to ensure that the Consolidated Financial Statements are presented fairly in all material respects.

The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its audit committee. The audit committee is appointed by the Boardand has financially literate members who are not involved in the Company's daily operations. The audit committee meets periodically with management and the external auditor to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy it that each party is properly discharging its responsibilities and to review the consolidated financial statements with the external auditors.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Disclosure controls and procedures and internal controls over financial reporting

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, designed the Company's disclosure controls and procedures ("DC&P") and its internal control over financial reporting ("ICFR") using the COSO Internal Control - Integrated Framework as required by Canadian securities laws. Subject to the limitations and weaknesses identified and disclosed regarding segregation of duties, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the DC&P and ICFR were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109— Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and that the Company's ICFR provides reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for external purposes in accordance with Canadian GAAP.

The reader is directed to also review the *Disclosure controls and procedures* section of this MD&A for further risk identification and assessment and detailed discussion on the existing weaknesses as at **August 31, 2010** as determined by the Company's Chief Executive Officer and Chief Financial Officer.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Cautionary note regarding forward-looking information

This document contains or refers to forward-looking information. Such forward-looking information includes, among other things, statements regarding targets, estimates and/or assumptions in respect of future production, mine development costs, unit costs, capital costs, timing of commencement of operations and future economic, market and other conditions, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in the development of the any project caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise; termination or revision of any debt financing; failure to raise additional funds required to finance the completion of a project; and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no responsibility to update them or revise them to reflect new events or circumstances, except as required by law.



MANAGEMENT'S DISCUSSION AND ANALYSIS

General

Anaconda Mining Inc. (the "Company" or "Anaconda") was incorporated under the laws of British Columbia. On April 18, 2007, Anaconda completed an acquisition (the "Acquisition") of Colorado Mineral Inc. ("Colorado") by issuing 19,701,560 common shares of the Company to the shareholders of Colorado in exchange for all the issued and outstanding shares of Colorado. As a result of the issuance, the former shareholders of Colorado owned approximately 50.8% of the then outstanding common shares of Anaconda thereby affecting a reverse takeover ("RTO") of Anaconda. Accordingly, for accounting purposes Colorado is deemed to be the acquirer of Anaconda, although Anaconda is the legal parent company and the reporting issuer.

The Company's principal business activity is that of a mineral exploration and mining company with operations in Canada and Chile. As at May 31, 2009, the Company had completed the construction of its mining project in BaieVerte, Newfoundland (the "Pine Cove project") and had brought it into limited production. During fiscal 2010, the Company undertook a capital program to expand its existing mill to enable processing of up to 700 tonnes of ore per day. Commissioning of the expanded mill occurred during the first quarter of fiscal 2011 (July 2010).

During the first fiscal quarter of 2011, Anaconda reached the production requirements pursuant to the terms of its Option and Joint venture Agreement with New Island Resources Inc. ("New Island"), allowing it to announce on September 7, 2010 that it had achieved Commercial Production (as defined below) and therefor had earned its 60% interest in the Pine Cove project. Anaconda also announced that it and New Island had reached an agreement on a friendly transaction that would result in Anaconda acquiring New Island's 40% interest in the Pine Cove project.

Pine Cove project, Newfoundland

As noted above, Anaconda's ownership percentage of the Pine Cove project has increased from 30% to 60% with the achievement of Commercial Production hereby defined as the first day of the month following the first month in which gold has been produced from the project for a period of thirty consecutive days at an average rate of not less than 70% of the initial-rated capacity of the mill ("Commercial Production"). On August 28, 2010, the Company achieved the production quota required to meet Commercial Production and has commenced applicable notification to its joint venture partner, New Island Resources Inc., that it has met the requirements pursuant to the joint venture agreement governing the two parties' interest in the Pine Cove project and as such, has increased its ownership percentage to 60% effective September 1, 2010.

The Company must pay a 3% net smelter royalty to the original vendor on all metals refined from the project, to a maximum of \$3,000,000. Anaconda also must pay a 7.5% net profits interest to a previous owner

Transactions regarding La Veta, San Gabriel property and Inversiones S.B.X. Limitada ("SBX")

On June 1, 2010, Anaconda completed transactions to acquire interests in two significant iron exploration portfolios from a private Chilean company (SBX). The exploration properties are located in north central Chile, within the Chile-Peru iron ore belt.

Anaconda has acquired the following interests:



MANAGEMENT'S DISCUSSION AND ANALYSIS

1. A 50% interest in iron exploration concessions located in the immediate area of the Company's San Gabriel iron project. The acquired exploration concessions include the Vetarron *magnetite deposit* and the Antonio property concessions, totaling 4.300 hectares.

In return for the acquisition of the Vetarron and Antonio concessions, SBX will acquire from Anaconda a 50% interest in the Company's San Gabriel property. SBX will fund the remaining US\$2.2 million in option payments (the first of which in the amount of US\$500,000 has been paid by SBX) related to the San Gabriel property. SBX will partially fund these amounts with the repayment of aloan by Anaconda to SBX (such amounts having already been transferred to Anaconda's Chilean subsidiary and held in trust for SBX). The combined San Gabriel area assets are held by a new company, MineraHierro San Gabriel S.A., which will be owned on a 50:50 basis by Anaconda and SBX.

2. A 20% interest in InversionesHierro Antofagasta S.A. ("IHA"), a private Chilean company which owns an 82.5% interest in MineraHierro Antofagasta S.A. ("MHA"). MHA is a private Chilean company that holds the rights to four main project areas encompassing over 30,000 hectares of exploration concession, 35 to 60 kilometers east of the port city of Taltal. This interest is shown as "other Chilean properties" and included on the Company's balance sheet undermineral properties and deferred exploration expenditures.

CompañiaMinera Del Pacifico S.A. ("CMP"), a 75%-owned subsidiary of CAP S.A. (Chile's largest integrated iron miner and steel producer), presently has a 17.5% ownership stake in MHA, and CMP may increase its interest in MHA to 37.5% by making staged exploration and property payments totaling US\$15 million over the next 30 months, and under certain conditions and events CMP has the option to increase its ownershipto the range of 43% to 51.6%.

New Island and the Pine Cove project

On June 11, 2010, Anaconda announced that it formally commenced a share exchange takeover bid for New Island to acquire all of the issued and outstanding common shares of New Island on the basis of 0.3333 Anaconda shares for each whole New Island share (the "Offer"). The Offer contained a minimum tender condition of 66 2/3% of all New Island shares be deposited under the Offer. The Offer was open for acceptance until August 3, 2010. A number of extensions and variations occurred throughout August, 2010 with the final offer expiring on August 31, 2010. Pursuant to the Offer, Anaconda acquired a total of 25,098,860 New Island shares and issued 10,541,520 Anaconda shares in consideration therefor.

On August 30, 2010, Anaconda and New Island issued a joint press release announcing that they reached agreement on a friendly transaction to be structured as a plan of arrangement, pursuant to which 22,602,315 Anaconda shares will be distributed to the shareholders of New Island in exchange for New Island's interest in the Pine Cove property. In addition, pursuant to the proposed plan of arrangement, all of the New Island shares acquired by Anaconda pursuant to its current take-over bid will be returned to tendering shareholders. The proposed transaction was expected to close on or before October 15, 2010, but has been delayed as New Island studies the various legal and tax issues surrounding the transaction. It is now anticipated that the transaction will have received court and New Island minority shareholder approval by November 17, 2010. For more information please see the press releases available on SEDAR at www.sedar.com.



MANAGEMENT'S DISCUSSION AND ANALYSIS

New financings

- 1. On August 25, 2010, Anaconda drew down and received funds (\$437,000) pursuant to a loan agreement with the government of Newfoundland. The maximum amount that may be drawn under the loan is \$500,000. The loan is non-interest bearing and repayable in twelve monthly payments commencing on June 1, 2011 and ending on May 1, 2012.
- 2. Throughout the first fiscal quarter of 2011, Anaconda was advanced a total of \$682,099 (and repaid \$160,000) in demand loans from directors and/or officers of the Company. The loans are non-interest bearing and have no fixed terms of repayment.
- 3. On September 20, 2010, the Company announced that it had closed an offering of non-brokered, secured, 12.5% debentures (the "Series III Debentures") for net discounted proceeds of \$750,000, with face value of \$770,000, maturing July 20, 2011, and a subscription price of \$974 per Debenture Unit. Included with the Series III Debentures were 236,000 common share purchase warrants (the "Warrants")that will be exercisable for 18 months from the date of issue at an exercise price of \$0.30 each.

Overall performance

As at August 31, 2010, Anaconda had assets of \$2,364,908 and a net equity position of \$10,862,142. This compares with assets of \$21,385,328 and a net equity position of \$12,061,296 atAugust 31, 2010.

3 months ended August 31, 2010

Assets increased by \$979,580over the first quarter of 2011. Current assets decreased by \$156,803due mainly to an increases in receivables (\$865,839). The increaseswere offset by decreases in inventory of \$67,276, HST/GST recoverable of \$395,823 and cash and restricted cash balances of \$559,543. Receivables have increased mainly due to amounts due from SBX under the terms of the La Veta transaction, previously discussed in the this MD&A. Inventory balances have been increased to provide for the greater processing capabilities of the newly expanded mill and the Pine Cove project.

Investments held-for-sale were marked-to-market resulting in a decrease of \$122,400. The New Island shares acquired during the Offer increased the assets by \$3,011,863. As well, further costs of \$153,577 that have been incurred regarding the Offer have been capitalized until the closing of the transaction. Mineral properties and deferred exploration expenditures have decreased by \$3,135,914 mainly as a result of the 50% disposal of the Company's San Gabriel asset (discussed above in this MD&A) together with the write-off of approximately \$500,000 of IVA balances previously capitalized to the project but no longer available to the new legal entity (MineraHierro San Gabriel S.A.) that holds the property. The net carrying value of Leasehold improvements decreased by the quarterly depreciation thereon and property, mill and equipment increased by \$1,229,989(net of depletion and amortization of 195,311) mainly due to final mill expansion costs.

Anaconda's decreased cash positionover the first quarter of 2011 of \$463,526(2010 – \$87,979) was the result of the following activities: Cash provided from perating activities of \$307,571 (2010 – used in operating activities of \$302,678); cash provided from financing activities of \$959,432 (2010 – \$520,020) and cash used in



MANAGEMENT'S DISCUSSION AND ANALYSIS

investing activities of \$1,745,279 (2010–\$312,976). Interest rate fluctuations on foreign currencies held by the Company increased the Company's cash position by \$14,750 (2010–\$7,655) for the quarter.

Review of operations

Pine Cove project

Operations

During the first quarter ended August 31, 2010, the Company produced limited gold while proceeding with the ongoing commissioning of its expanded mill. Pine cove produced approximately 381 ounces of gold during the quarter and sold same at an average gold price of \$1,304(US\$1,253) per oz.

Mill expansion and upgrade

The upgrade and expansion of the mill was completed on schedule and commissioning of the new expanded mill is ongoing with the Company working on the fine-tuning of the circuit in the newly expanded mill. In anticipation of the final commissioning, Anaconda has accumulated approximately 23,000 tonnes of ore grading approximately 2.03 grams per tonne of gold. In addition, approximately 7,100 tonnes of ore has been broken in the pit with grading of approximately 3.88 grams per tonne. Altogether, this represented approximately 40 days of ore supply at the base operating throughput of 700 tonnes per day. Testing, fine-tuning, operator training and plant optimization continue and management expects the commissioning team to pass control to operations during November 2010.

Results of operations

3 months ended August 31, 2010 compared to 3 months endedAugust 31, 2009

Net loss for the 3-month period ended August 31, 2010 was \$4,334,049 or \$0.04 per basic and fully-diluted share. This compares with a net income of \$405,981or \$0.01per share basic and \$0.00 per share on a fully-diluted basis. The decrease in net income/loss of\$4,697,878 is the result of the following items: Gross operating margin decrease of \$1,409,135 together with increases if the following expenditures: Office and general costs of \$195,507, consulting and professional fees of \$299,263, stock-based compensation of \$192,032, shareholder and regulatory approval costs of \$35,559, salaries and benefits expenditures of \$42,658, interest costs of \$172,277 and foreign exchange losses of \$209,461. Cost incurred in the first quarter of 2011 not incurred in last year's first quarter costs included depletion and amortization of \$195,311 and the loss on the sale of 50% of the San Gabriel property of \$1,442,281 couple with the write-off of IVA expenditures no longer available for the project of \$522,812. These increased expenditures were offset by decreases in representation and travel of \$18,448.

Significant increases in consulting costs were the result of the Company contracting of various engineering expertise as it worked through its mill expansion and commissioning. Interest costs were significantly higher due to the Company's larger debt load over the previous year (approximately \$2,1 million higher).



MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of quarterly results

	Jun. 1, 2010 - Aug. 31, 2010	Mar. 1, 2010 - May 31, 2010	Dec. 1, 2009 - Feb. 28, 2010	Sep. 1, 2009 - Nov. 30, 2009
Total revenues (\$)	496,961	1,035,822	2,684,721	4,457,526
Net (income) loss (\$) Net (income) loss per share –	4,334,049	1,702,719	2,194,231	(150,925)
basic ¹	\$0.04	\$0.02	\$0.03	\$(0.00)
Net (income) loss per share – fully-diluted ¹	\$0.04	\$0.02	\$0.03	\$(0.00)
Total assets (\$)	22,364,908	21,385,328	20,024,379	20,208,790
Long-term liabilities (\$) Shareholders' equity (\$)	6,829,818 11,588,715	6,307,303 12,061,296	4,741,397 13,154,591	2,238,146 13,053,560
Cash dividends declared per				
common share	\$0.00	\$0.00	\$0.00	\$0.00

	Jun. 1, 2009 - Aug. 31, 2009	Mar. 1, 2009 - May 31, 2009	Dec. 1, 2008 - Feb. 28, 2009 (restated)	Sep. 1, 2008 - Nov. 30, 2008 (restated)
Total revenues (\$) Net (income) loss (\$) Net (income) loss per share-	3,182,874 (405,981)	445,031 2,390,084	403,612 464,173	537,224 1,062,931
basic ¹ Net (income) loss per share-	\$(0.01)	\$0.03	\$0.01	\$0.02
fully-diuted ¹	\$(0.00)	\$0.03	\$0.01	\$0.02
Total assets (\$) Long-term liabilities (\$) Shareholders' equity (\$)	19,390,005 2,203,022 12,815,829	17,896,299 2,167,974 11,730,270	18,539,938 4,256,549 11,237,629	18,529,359 1,246,655 11,684,835
Cash dividends declared per common share	\$0.00	\$0.00	\$0.00	\$0.00

¹In periods of loss, net loss per share basic and fully-diluted are the same, as inclusion of options and/or warrants would be anti-dilutive.



² Total revenues comprised of interest income have been reallocated to offset interest expense to be consistent with the current reporting classifications.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and working capital

As at August 31, 2010, the Company had a working capital deficiency of \$2,536,111. The Company has utilized the proceeds from the ACOA and demand loans together with funds generated from its Pine Cove operations to discharge some of its current obligations and toward the general working capital requirements of the Company.

The Company's liquidity and solvency are critical information since Anacondahistorically has not generated any income from its mineral properties. The Company's only source of revenue is from its production of saleable product (gold and silver) from the expanded Pine Cove mill.

The capital structure of the Company consists of the convertible loan, convertible debentures, debentures and all the components of shareholders' equity. To adjust or maintain its capital structure, the Company may adjust the amount of the convertible loan or debenturesthrough repayment, or may enter into new credit facilities or issue new common shares.

There are no other balance sheet conditions that would adversely affect the Company's liquidity.

Transactions with related parties

Three months ended August 31, 2010:

Keshill Consulting Associates Inc. ("KCA") charged the Company a total of \$38,400 (fiscal 2010 -\$44,800) in respect of the services of Stephen Gledhill as CFO of the Company. Stephen Gledhill beneficially owns KCA. The term of this agreement is ongoing with either party able to terminate upon 30 days written notice to the other.

The Company incurred interest expense of \$135,520 (fiscal 2010 - \$84,368) of which \$8,925 (fiscal 2010 - \$23,875) related to non-cash interest accretion on the valuation of the conversion feature of the convertible loan payable to Thorsen. The Company was also advanced \$460,000 (fiscal 2010 - \$Nil) and repaid \$160,000 (fiscal 2010 - \$Nil) against a demand loan provided by Thorsen.

Cartsei Inc. ("Cartsei") charged Anaconda a total of \$44,400 (fiscal 2010 - \$Nil) in respect of consulting services provided by Glenn Dobby, a director of the Company. Glenn Dobby beneficially owns Cartsei.

David Wiley, a director of the Company, advanced \$125,000 (fiscal 2010 - \$Nil) in the form of a non-interest bearing demand loan with no fixed terms of repayment.

John McBride, a director and former Chairman of the Company, advanced \$97,099 (fiscal 2010 - \$Nil) in the form of a non-interest bearing demand loan with not fixed terms of repayment.

The accounts receivable balance at August 31, 2010, includes amounts due from the Company's Chilean general manager, SBX(or companies controlled by it), of \$878,950 (2010 - \$Nil).

Due to related amounts include \$Nil (2010 - \$676,436) due to the Company's Chilean general manager, SBX (or companies controlled by it).



MANAGEMENT'S DISCUSSION AND ANALYSIS

These transactions are measured at their exchange amounts, being the amounts agreed upon between the Company and the related parties.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Critical accounting policies and estimates

Going concern

These interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Accordingly, it does not give effect to adjustments, if any that would be necessary should Anaconda be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts that may differ from those shown in these consolidated financial statements.

The unanticipated and continued delay in reaching Commercial Production at the Pine Cove project has caused the Company to utilize available working capital on operations and capital requirements at the mine site, thereby impeding its ability to deploy the funds in other areas of its operations.

The Company has not yet established whether its mineral properties in Chile contain reserves that are economically recoverable. The recovery of amounts capitalized for mineral properties and related deferred exploration expenditures on the consolidated balance sheets is dependent upon the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the development of the properties and upon future profitable production or, alternatively, the Company's ability to dispose of its interests on an advantageous basis, all of which are uncertain.

The Company has raised additional funds throughout the prior year and during the first quarter of this year and it has utilized these funds for working capital and capital expenditure requirements. The ability of Anaconda to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that Anaconda will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of Anaconda may change and existing shareholders may suffer dilution. If adequate financing is not available, the Company may be required to relinquish rights to certain of its interests or terminate its operations.

Use of estimates

The preparation of these interim consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the period. The most significant estimates and assumptions include those related to the ability of Anaconda to continue as a going





MANAGEMENT'S DISCUSSION AND ANALYSIS

concern, the mineral properties and related deferred costs, asset retirement obligations and stock-based payments. Actual results could differ from those estimates

Carrying value of mineral properties and related deferred costs

The Company records its interest in mineral properties at cost. Direct costs relating to the acquisition, exploration and development of mineral properties, less recoveries, are deferred until such time as the properties are either put into commercial production, sold, determined not to be economically viable or abandoned. If a property is placed into production, deferred costs will be amortized and depleted using the unit-of-production method over the estimated economic life of the mine. The deferred costs would be written off if the property is sold or abandoned. If it is determined that the carrying value of a property exceeds its net recoverable amount as estimated by management, or exceeds the selling value of the property, a provision is made for the decline in value and charged against operations in the year.

The amounts shown for mineral properties and related deferred costs represent costs incurred to date, less write-offs and recoveries, and do not necessarily reflect present or future values of the particular properties.

Proceeds from partial dispositions of mineral properties during the exploration stage are credited as a reduction to carrying costs. No gain or loss is realized until all carrying costs of the specific interest have been recovered.

Impairment of long-lived assets

Management periodically reviews the carrying value of mineral properties and deferred exploration costs to consider whether there are any conditions that may indicate impairment. Where estimates of future cash flows are available, a reduction in the carrying value is recorded to the extent the net book value of the investment exceeds the estimated fair value which is normally the discounted value of future cash flows. Where estimates of future cash flows are not available and where other conditions suggest impairment, management assesses if carrying value can be recovered and provided for impairment if so indicated, by reducing the carrying value of the property to its estimated fair value.

Depletion and amortization

During the first quarter of 2010, the Company commenced charging depletion on its property and amortization on the mill and equipment and in the first quarter of 2011 also commenced depreciation on its expanded mill. The "units-of-production" basis has been utilized and the calculated amounts will be charged to the income statement over the useful life of the mine.

Office furniture, fixtures and equipment and leasehold improvements are recorded at cost and are amortized on a straight line basis over their useful estimated life estimated at between 2 and 5 years.

Financial instruments

All financial assets and liabilities are initially recognized at fair value. In subsequent periods, financial assets and liabilities which are held for trading are recorded at fair value with gains and losses recognized in net income; financial assets which are loans and receivables or held to maturity are recorded at amortized cost using the effective interest rate method and gains and losses recognized in net income; financial assets which



MANAGEMENT'S DISCUSSION AND ANALYSIS

are available for sale are recorded at fair value with gains and losses recognized (net of applicable taxes) in other comprehensive income; financial liabilities that are not held for trading are recorded at amortized cost using the effective interest rate method and recognized in net income.

Effective June 1, 2009, Anaconda adopted the amendment to CICA Handbook Section 3862, financial instruments, which require disclosure about inputs to fair value measurements within fair value measurement hierarchy as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs for the assets or liabilities that are not based on observable market data.

Future accounting changes

International financial reporting standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outline the convergence of Canadian GAAP with International Financial Reporting Standards ("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 date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of June 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, it has not developed a formal plan for its changeover to IFRS.

While the Company has begun assessing the adoption of IFRS for 2011 and continues to monitor the deliberations and progress by accounting standard-setting bodies and regulators in Canada with regard to outstanding issues, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Due to resource constraints the Company has not performed, and does not anticipate performing any additional assessment work related to its IFRS conversion project during the current fiscal year. The Company must still establish a team that will focus its efforts on this initiative. The Company will search for additional staff for this project, as required, and more IFRS training will be needed for all levels of management.

The Company will follow the key events timeline proposed by the AcSB to obtain training and thorough knowledge of IFRS, and continue its assessment of accounting policies with reference to IFRS and plan for convergence to be ready for the 2011 changeover.

Dividends

The Corporation has neither declared nor paid any dividends on its common shares. The Company intends to retain its earnings, if any, to finance growth and expand its operation and does not anticipate paying any dividends on its common shares in the foreseeable future.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital management

The Company's capital structure is adjusted based on management's and the Board of Directors' decision to fund expenditures with the issuance of debt or equity such that it may complete the acquisition, exploration and development of properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

Aside from its Pine Cove project which is now in production, the mineral properties of Anaconda are in the exploration and development stage and, as a result, the Company currently has limited operating cash flow. The Company intends to supplement its Pine Cove project cash flow and raise such funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The only sources of future funds presently available to Anaconda are through the exercise of outstanding stock options and/or warrants, the sale of equity capital of the Company, the issuance of further loans and/or debentures or the sale by Anaconda of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that Anaconda will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the 3 months ended August 31, 2010. The Company is not subject to externally imposed capital restrictions.

Risks and uncertainties

Business risk

The goldand iron-ore industries are highly competitive, particularly with respect to searching for and developing new sources of goldand iron-ore reserves, constructing and operating mines, and transporting and marketing gold and iron-ore products.

In Chile, the Company is pursuing a pure exploration program, and there is no assurance that feasible iron-ore reserves will be discovered and economically produced. Financial risks in the commodity industry include fluctuations in commodity prices, and interest and currency exchange rates. Operational risks, if a discovery were made, include reserve performance uncertainties, reliance on partners, competition, environmental and safety issues, and a complex regulatory environment. In Canada, the Company's Pine Cove project is in production. Operational risks include, but are not limited to, reserve uncertainties, mine and mill performanceuncertainties, environmental, governmental and regulatory uncertainties and safety issues.

Anaconda is exploring its iron-ore property in Chile and has not yet determined whether it contain any reserves. The recovery of both the costs of acquiring the iron-ore and the related deferred exploration costs depends on the existence of economically recoverable reserves, its ability to obtain the financing necessary to complete the



13

MANAGEMENT'S DISCUSSION AND ANALYSIS

exploration and development of the any property, and the future profitable production or, alternatively, on the sufficiency of proceeds from disposition.

Operating a foreign registered subsidiary presents risks associated with differences in business regulations and practices compared with operating a Canadian corporation. The Company is a responsible member of the Chilean community and is building relationships with its members and involving them in key decisions that will have an impact on their lives.

Commodity risk

There are risks of volatility in world gold and iron-ore prices and other risks that the Company cannot control. Anaconda has no current plans to hedge its production to eliminate pricing risk.

Exploration, development and production risks

A portion Anaconda's current and future working capitalwill be expended on iron-ore exploration, exploitation and development activities, which are high-risk ventures with uncertain prospects for success. Iron-ore exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration activities by the Company will result in new discoveries of commodities that are commercially viable or economically producible. Holders of securities of the Company must rely on the ability, expertise, judgment, discretion, integrity and good faith of management of the Company. It is difficult to project the costs of implementing any exploratory or developmental drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones and tools lost in the hole and changes in drilling. Few properties that are explored are ultimately developed into new reserves. In certain instances, the Company may be precluded from pursuing an exploration program or decide not to continue with an exploration program and such an occurrence may have a negative effect on the value of the securities of the Company.

Future exploration may involve unprofitable efforts, not only from lack of commodity reserves, but from commodity reserves that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a mine does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful mine sites. These conditions include: delays in obtaining governmental approvals or consents, insufficient storage or transportation capacity or other geological and mechanical conditions.

Gold and iron-ore reserves

All evaluations of future net revenues are before consideration of indirect costs such as administrative overhead, other miscellaneous expenses and income taxes. The future net revenues may not be representative of the fair market value of the reserves. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves, including many factors beyond the control of the Company.

In general, estimates of economically recoverable reserves and the future net revenues there-from are based upon a number of variable factors and assumptions, such as historical production from the properties, commodity prices, the assumed effects of regulation by governmental agencies and future operating costs, each of which may vary considerably from actual results. Estimates of the economically recoverable reserves



MANAGEMENT'S DISCUSSION AND ANALYSIS

attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected there-from, prepared by different engineers and geologists or by the same engineers and geologists at different times, may vary substantially.

Foreign currency exchange rates

The Company's functional currency is the Canadian dollar. The Company transacts business using the Canadian dollar, the United States dollar and the Chilean peso.

The Company may sell its future reserve production pursuant to marketing agreements that are denominated in the Chilean Peso that first must be denominated into US dollars or in Canadian dollars when producing in Canada. Many of the operational and other expenses incurred by the Company are paid in US dollars or in local currency of the country where operations are performed. The assets and liabilities of the Company (including reserve information) are recorded in Canadian dollars. As a result, fluctuations in the US dollar or Chilean Peso against the Canadian dollar and each of these currencies against local currencies in jurisdictions where properties of the Company are located could result in unanticipated and material fluctuations in the financial results of the Company. The Company does not hedge its foreign currency transactions.

Political risk

The Company operates in Chile, which is an immature and emerging economy with associated risk factors. Anaconda's operations and related assets are subject to the risks of actions by governmental authorities, insurgent groups or terrorists. The Company conducts its business and financial affairs to protect against political, legal, regulatory and economic risks applicable to our operations. However, there can be no assurance that the Company will be successful in protecting itself from the impact of these risks.

Conflict of interest risk

Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest. The Business Corporations Act (Ontario)("BCA – Ontario") provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the BCA – Ontario. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCA – Ontario.

Competition

A number of other gold and iron-ore companies operate and are allowed to bid for exploration and production licenses and other services in Chile and Canada which are the focus of the business and operations of the Company, thereby providing competition to the Company. Larger companies may have access to greater resources than the Company, may be more successful in the recruitment and retention of qualified employees and may conduct their own commodity marketing operations, which may give such companies a competitive advantage over the Company. Some of these companies have been conducting operations in Chile and Canada for considerably longer periods of time than has the Company and thus these companies may be more familiar



15

MANAGEMENT'S DISCUSSION AND ANALYSIS

with the political and business landscape in Chile and Canada than the Company. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests.

Environmental regulations

The current and future operations of the Company that are conducted in Chile and Canada are subject to environmental regulations promulgated by the Governments of Chile and Canada. Current environmental legislation in Canada and Chile provides for restoration of mine sites and safe disposal of any chemicals extracted or used in the mine development. In addition, certain types of operations may require the submission and approval of environmental impact assessments. The existing operations of the Company are subject to such environmental policies and legislation. Environmental legislation and policy is periodically amended. Such amendments may result in stricter standards and enforcement and in more stringent fines and penalties for non-compliance. Environmental assessments of existing and proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The costs of compliance associated with changes in environmental regulations could require significant expenditures, and breaches of such regulations may result in the imposition of material fines and penalties. In an extreme case, such regulations may result in temporary or permanent suspension of production operations. There can be no assurance that these environmental costs or effects will not have a material adverse effect on the future financial condition or results of the operations of the Company.

Disclosure controls and procedures

DC&P have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of the Company's DC&P as of the date of this MD&A, that the disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Company, subject to the weaknesses identified and disclosed below regarding segregation of duties and complex and non-routine accounting transactions. However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal control over financial reporting

Management is responsible for certifying the design of the Company's ICFR as required by *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers Annual and Interim Filings*. The Company's ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable Canadian GAAP. ICFR should include those policies and procedures that establish the following:

- Maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of the Company's assets.
- Reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable Canadian GAAP.
- Receipts and expenditures are only being made in accordance with authorizations of management and the Board.



MANAGEMENT'S DISCUSSION AND ANALYSIS

 Reasonable assurance regarding prevention or timely detection of unauthorized collection, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. 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, including the Chief Executive Officer and Chief Financial Officer, carried out an assessment of the design of the Company's IFCR using the COSO Internal Control – Integrated Framework and concluded, subject to the inherent limitation noted below, that the Company has sufficient controls to meet the requirements as stated above and that one weakness existed as at August 31, 2010, as disclosed below.

Segregation of duties

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to the Company's small size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its financial statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

There have been no changes in the Company's internal control over financial reporting during the three months ended August 31, 2010.

Disclosure of outstanding share information

The following table sets forth information concerning the outstanding securities of the Company as at October 15, 2010:

Common shares of no par value	Number
Shares	114,684,977
Warrants	18,244,126
Options	7,225,000

The table above reflects the legal number of outstanding shares of Anaconda. As noted in the audited consolidated financial statements of the Company, the dollar amount of the stated capital of Anaconda differs from the legal amounts due to the RTO and reporting in accordance with GAAP there under.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Additional information and continuous disclosure

This MD&A has been prepared as at October 15, 2010. Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR (www.sedar.com) and on the Company's web site (www.anacondamining.com).



