# Management's Discussion and Analysis

of the

Financial Condition and Results of Operations

Second Quarter and

6 Months ended

November 30, 2008

**January 13, 2009**

# Anaconda Mining Inc.

## 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 January 13, 2009 and compares its fiscal 2009 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 second quarter and 6 months ended November 30, 2008, should be read in conjunction with the Company's 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, 2008, all of which have been prepared in accordance with Canadian generally accepted accounting principles. 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.*

### *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 Responsibilities for Financial Reporting and Controls*

The Consolidated Financial Statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles and have been approved by the Company's board of directors (the "Board"). The integrity and objectivity of these 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 Board and has financial experts 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.

### *Evaluation of Disclosure Controls and Procedures*

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. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, 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 disclosure controls and procedures 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 and 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, subject to the weakness identified and disclosed regarding segregation of duties. The reader is directed to also review the ***Controls and Procedures*** section of this MD&A for further risk identification and assessment and detailed discussion on the existing weakness as at November 30, 2008 as determined by the Company's CEO and CFO.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *General*

The Company`s principal business activity is that of a mineral exploration and mining company with operations in Canada and Chile. The Company recently completed the construction of its mining project in Baie Verte, Newfoundland (the "Pine Cove project") in early June, 2008. Pre-commercial production has commenced and the Company has made a series of limited-quantity gold pours as it works toward its full production capabilities. The joint venture agreement that governs the Company's operations management and ownership percentage defines that full production capability ("Commercial Production") will be achieved as of 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. Upon achieving Commercial Production, the Company will have completed the final requirement of its 60% earn-in criteria. However, at the present time, the Company continues to address inefficiencies with the concentrator circuit at the front end of the mill (see ***Review of Operations – Pine Cove***, below) and has therefore not achieved Commercial Production. The Company is reviewing all possible processing alternatives in order to remedy the throughput shortfall.

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 costs 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 proceeds from their disposition.

### *Overall Performance*

As at November 30, 2008, the Company had assets of $19.3 million and a net equity position of $12.5 million. This compares with assets of $19.9 million and an net equity position of $14.2 million at August 31, 2008 and with assets of $19.9 million and a net equity position of $15.2 million at May 31, 2008.

Assets decreased by approximately $569,000 over the second quarter. Current assets remained virtually unchanged with decreases in the Company's cash position, receivables and GST recoverable of $32,138. The Company also saw a significant decrease to its held-for-sale investments of $1,300,500 as it marked-to-market the securities it holds in MERC International Minerals Inc. ("MIMI"). These decreases were offset by a net increase to its mineral properties and deferred exploration costs of $645,379 and deferred financing costs of $116,723.

Anaconda's decreased cash position over the second quarter of 2009 of $21,775 was the result of the following activities: Cash used in operating activities of $350,555 (2008 - $1,251,503); cash provided from (used in) financing activities of $974,452 (2008 – ($375,611)) and cash used in investing activities of $647,156 (2008 - $960,505). Interest rate fluctuations on foreign currencies held by the Company amounted to $1,484 (2008 - $Nil).

For the 3 months ended November 30, 2008 (as compared with the 3 months ended November 30, 2007, or Quarter 2, fiscal 2008), the Company posted a net loss of $580,843, or a loss of $0.01 per share on a basic and fully-diluted basis (2008 - $608,636, or $0.01 per share). Net comprehensive loss for the same period amounted to $1,692,771 (2008 – $608,636), or $0.03 per share (2007 - $0.01 per share). Net loss is comprised of interest income of $2,999 (2008 - $62,938) together with foreign exchange gains of $70,619 (2008 – exchange loss of $7,825) offset by financing fees of $17,974 (2008 – $73,522); interest costs of $81,586 (2008 - $Nil), professional and consulting costs of $264,294 (2008 - $155,666); general and

administrative expenses of $217,970 (2008 - $209,142) and shareholder and regulatory reporting of $20,305 (2008 - $64,521). Stock-based compensation was reduced by $63,459 to account for the reversal of stock-based costs of former employees whose options were forfeit.

The Company also recorded an unrealized loss on its available-for-sale securities of $1,111,928 (net of future income taxes of $188,572) (2008 - $Nil).

## *Review of Operations*

### *Corporate*

The Company repaid the Pine Cove project loan (the "Pine Cove Loan") as at May 31, 2008. As a requirement under the Pine Cove Loan, Anaconda entered into a gold price protection program (the "GPPP") with the lender, Auramet Trading, LLC ("Auramet") over the period of the Pine Cove Loan. The gold call option premium charged by Auramet was $456,300 and was charged to operations during fiscal 2007 and fiscal 2008.

As the commencement of Commercial Production has yet to be achieved, the Company and Auramet revised the GPPP such that all future delivery of gold under the GPPP by the Company to Auramet has been terminated. In doing so, the Company and Auramet closed out all forward sales contracts at a net cost to the Company of $1,231,731. Contemporaneously, the Company closed out all its forward-buy contracts for gross proceeds of $770,005 which it used to pay down the Pine Cove Loan (plus accrued interest) and forward sales contracts due at May 31, 2008. The net loss of $461,726 on closing out these contracts was capitalized to the Pine Cove mineral property. The remaining forward-sales contract amounts of $992,796, due to Auramet over the period from June 2008 to September 2008 were included in accounts payable and accrued liabilities and were reduced by the payments made to Auramet during June, July and August, 2008. During September 2008, the Company arranged with Auramet to extend the final payment due under the forward-sales close-out amounts (US$255,000) until December 31, 2008. In exchange for the extension, the Company executed a promissory note (the "Note"), payable to Auramet, accruing interest at 10% per annum on the outstanding principal. The Company has pledged 50% of its gold production from the Pine Cove project to service the interest and principal payments on the Note.

As at the date of this MD&A, a balance of approximately US$23,400 (including accrued interest) remains outstanding and unpaid on the Note. Although there has been no documented extension to the maturity date of the Note, the Company continues to provide 50% of any gold production proceeds to Auramet in order to reduce the outstanding balance and anticipates the Note's full repayment by the end of January 2009.

### 7.5% Convertible Loan

During July 2008, the Company arranged for a 7.5% convertible unsecured loan facility (the "7.5% Facility") of up to $1.5 million dollars from Thorsen-Fordyce Merchant Capital Inc. ("Thorsen"), an insider of the Company. The 7.5% Facility allows the holder to convert the indebtedness of, in whole or in part, into units of the Company, each unit consisting of one common share and one-half of one common share purchase warrant, at the greater of (i) $1.00 per unit, and (ii) the volume weighted average trading price of the common shares of the Company for the twenty trading days immediately preceding the date of the notice of conversion (the "Conversion Price"), per unit. Each whole warrant received on the conversion will entitle the holder to purchase one common share during the 18 months after the date of conversion at (i) a price of

$1.25 per share where the conversion price was $1.00, or (ii) at a price equal to 1.25 times the Conversion Price.

The Company valued the conversion portion of the loan amount as described per *CICA 3861* using a discount factor of 15%, a factor it considered to be consistent with interest costs for a similar loan with no conversion feature. Since this factor is greater than the interest rate on the 7.5% Facility, the value attributable to the equity component of this loan was zero.

The Company has fully drawn on this facility.

***Demand Loan***

During August 2008, the Company obtained and drew down on a demand loan (the "Demand Loan") in the amount of $495,000. The terms of the loan provided that interest would be paid quarterly, in arrears, at a rate of 12% per annum and that the principal was to be repaid from the proceeds of a debenture facility (see next section) to be completed by the Company.

**12% Convertible Debenture**

On September 16, 2008, the Company closed on a portion of a non-brokered, secured, convertible, 12% debenture financing (the "Debenture"). The Debenture consists of a total of up to 3,300 debenture units (the "Debenture Units") with a face value of $1,000 per Debenture Unit, maturing September 15, 2013 (the "Maturity"), and a subscription price of $900 per Debenture Unit. The amount closed consisted of 1,713 Debenture Units and raised $1,541,700 of discounted proceeds. Interest is payable semi-annually until Maturity and the Debenture may be prepaid in whole or in part (including accrued interest) at any time without penalty or bonus. The discounted value of Debenture will be charged to interest expense over the term of the Debenture, being 5 years. The Company paid finders' fees of $12,924, regarding Debenture amounts raised to-date.

The Debenture is secured by a charge over certain of the Company's assets, including the MIMI Shares that it currently owns. During the time that the MIMI Shares are held as security hereunder, the Company has surrendered the share certificates to a trustee pursuant to a general security and pledge agreement.

The Company has also established a debt reduction escrow account (the "Escrow Account") funded from gold sales from the Company's Pine Cove gold project from which debt service and/or principal repayments will be made.

Each Debenture Unit may be converted (the "Conversion") into common shares of the Company on the following basis:

| Period | Conversion Rate per common share |
|---|---|
| Until September 15, 2010 | $0.75 |
| September 16, 2010 until September 15, 2012 | $0.90 |
| September 16, 2012 until September 15, 2013 | $1.10 |

The Company may accelerate conversion of the Debentures if the closing price of the Company's shares (listed on the Toronto Stock Exchange –TSX) is equal to or exceeds 100%, of the underlying conversion price for a period of 20 consecutive trading days during any conversion period.

The Company valued the conversion portion of the loan amount as described per *CICA 3861* using a discount factor of 15%, a factor it considered to be consistent with interest costs for a similar loan with no conversion feature. Since this factor is greater than the yield on the debentures, the value attributable to the equity component of the Debentures was zero.

Upon closing of the Debenture and in accordance with the terms of the Demand Loan, the Demand Loan was repaid in full.

***Pine Cove***

The project continues to work toward Commercial Production status and the Company is reviewing all possible alternatives to remedy the shortfall in throughput at the mill including the potential for custom milling, should it be economically viable to do so.

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

Despite the ongoing commitment and many operational modifications to the Gekko concentrator, the unit has not been able to perform as expected and consequently was taken off-line in November, 2008. The operation now relies entirely on directing all of its ore feed to grinding. This limits the throughput of the mill to approximately 100 tonnes per day (down from 500 tonnes per day, as originally specified to feed the Gekko concentrator). Discussions are ongoing with the supplier to identify and rectify the problems with the concentrator.

***San Gabriel***

The Company has entered into confidential commercial discussions with several companies regarding the continued development of the San Gabriel Iron Ore Project. With the significant downturn in the global financial markets negatively effecting demand for all commodities (including steel / iron ore), there is no guarantee that these discussions will result in a successful commercial transaction.

***Inca de Oro Sur (formerly known as Carmen)***

On November 20, 2008, the Company announced that it had received notice from its JV partner Minera Penoles de Chile Ltda ("Penoles") that it would not continue into the second year of the option and joint venture agreement governing the project. Subsequent discussions with the project's vendor on deferring or renegotiating the terms that remain outstanding on its underlying option, were not successful. At the date of this MD&A, the company has not made the US$1 million option payment required under the option agreement and the property has been returned to the vendor.

## *Results of Operations*

***3 months ended November 30, 2008 compared to 3 months ended November 30, 2007***

Net loss for the 3-month period ended November 30, 2008 was $580,843 ($0.01 per share) compared to $608,636 ($0.01 per share) last year, a decreased loss of $27,793. General and administrative expenses increased slightly by $9,138 together with an increase of $108,626 in consulting and professional fees and an increase of $26,038 in interest and financing costs. Shareholder and regulatory reporting costs decreased by $44,216. Previously expensed project investigation costs of $72,782 were reversed and charged to the San Gabriel project, reducing the quarter's loss and $84,225 of stock-based compensation costs were also reversed regarding forfeiture of options by former employees. The loss was increased by other comprehensive losses comprised of unrealized losses on the Company's available-for-sale securities of $1,111,918 (net of future taxes of $188,573) (2008 - $Nil). Total comprehensive loss for the second quarter amounted to $1,692,771 (2008 – $608,636), or $0.03 per share (2008 - $0.02 per share) on basic and fully-diluted basis.

## Summary of Quarterly Results

The following financial data was prepared in accordance with Canadian generally accepted accounting principles using reverse take-over accounting:

| 2008 | September 1, 2008 To November 30, 2008 | June 1, 2008 To August 31, 2008 | March 1 2008 To May 31, 2008 | December 1, 2007 To February 29 2008 |
|---|---|---|---|---|
| Total revenues | 2,999 | 2,829 | 17,931 | 31,920 |
| Net (income) loss | 580,843 | 942,400 | 7,711,461 | 1,323,882 |
| Net (income) loss per share[1] | $0.01 | $0.02 | $0.14 | $0.02 |
| Total assets | 19,316,779 | 19,886,258 | 19,856,802 | 25,042,583 |
| Long-term liabilities | 1,246,655 | 645,000 | 645,000 | 502,000 |
| Shareholders' equity | 12,472,255 | 14,228,486 | 15,226,994 | 19,792,507 |
| Cash dividends declared per common share | $0.00 | $0.00 | $0.00 | $0.00 |

| 2007 | September 1 To November 30 2007 | June 1 To August 31 2007 | April 1 To May 31, 2007[2] | January 1 to Mar. 31, 2007 |
|---|---|---|---|---|
| Total revenues | 62,938 | 61,657 | 39,558 | 3,598 |
| Net (income) loss | 608,636 | 1,256,885 | 188,218 | 91,222 |
| Net (income) loss per share[1] | $0.01 | $0.02 | $0.01 | $0.01 |
| Total assets | 22,16,652 | 23,402,928 | 23,492,368 | 2,341,664 |
| Long-term liabilities | 502,000 | 502,000 | 250,000 | - |
| Shareholders' equity | 19,209,434 | 19,423,716 | 19,646,073 | 1,580,119 |
| Cash dividends declared per common share | $0.00 | $0.00 | $0.00 | $0.00 |

[1]In 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]Prior to the Company's acquisition by Colorado Minerals Inc. ("Colorado"), Colorado's year end was September 30th. Upon completion of the acquisition, Colorado changed its year end to May 31st to be co-terminus with Anaconda's (its legal parent) year end.

### *Liquidity and Capital Resources*

In management's view, the Company's liquidity and solvency are critical information since Anaconda is not currently generating any income from its mineral properties.

Currently, the Company's only source of operating cash flow is from its Pine Cove project that continues to work toward Commercial Production status (defined as being 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) by refining its processes and optimizing its recovery circuits. The operation continues to experience difficulties with the concentration circuit at the front end of the plant. As well, unexpected wear on the pumps within the circuit has involved more maintenance that anticipated. Recoveries have not been up to expectations and throughput has been low, due to down time.

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

The Company intends to and is in the process of, raising additional funds required to complete any further capital requirements at its Pine Cove project and to discharge its current obligations. However, there is no assurance that the Company will be able to raise such funds on reasonable terms. 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 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 shareholders may suffer additional dilution. If adequate financing is not available, the Company may be required to relinquish rights to certain of its interest or terminate its operations.

## *Working Capital*

As at November 30, 2008, the Company had an unrestricted working capital deficiency of approximately $4.6 million of which approximately $2.9 million related to short term liabilities, $118,000 related to a promissory note and $1.5 million related to a facility that is repayable in June 2009. The Company used the proceeds from the closing of its Debenture to repay the Demand Loan and the remainder of the funds from the financing to discharge some of its current obligations. The Company also utilized further funding of $219,000 (in the form of a demand loan) by Thorsen to discharge some of it current liabilities. In order to meet its other short to medium-term working capital obligations, the Company intends on securing further financing to ensure that those obligations are properly discharged. There can be no assurance that Anaconda will be successful in its efforts to arrange additional financing on terms satisfactory to the Company.

## *Transactions with Related Parties*

The following transactions involved related parties during the 6-month period ended November 30, 2008 (November 30, 2007):

Keshill Consulting Associates Inc. ("KCA") charged the Company a total of $80,000 (2007 - $49,600) 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.

Tormin Resources Limited charged the Company a total of $42,500 (fiscal 2007 - $19,600) in respect of engineering and geological services of John Cook, a director of the Company.

The Company incurred interest expense of $44,000 (2007 - $Nil) on the 7.5% Facility. The interest is payable to Thorsen, a company that is controlled by Lewis Lawrick, Anaconda's CEO and a director of the Company.

## *Off-Balance Sheet Arrangements*

The Company has no off-balance sheet arrangements.

## *Significant Accounting Policies and Critical Accounting Estimates*

### Going concern

The interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume 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. The Company currently has limited operating cash flow from its Pine Cove project (see ***General*** and ***Review of Operations – Pine Cove*** sections). The Company intends to raise such funds as and when required to complete its projects and fund its working capital requirements. There is no assurance that the

Company will be able to raise additional funds on reasonable terms. The development of economically recoverable mineral deposits found on the Company's existing or future exploration properties depends on the ability of the Company to obtain financing through debt financing, equity financing or other means. If the Company's exploration programs are successful, additional funds will be required to develop the Company's properties and, if successful, to place them into commercial production. The only sources of future funds presently available to Anaconda are through gold sales from its Pine Cove project, the exercise of outstanding stock options, warrants, the sale of equity capital of the Company 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. If additional financing is raised by the issuance of shares from the treasury of the Company, control of Anaconda may change and shareholders may suffer additional dilution. If adequate financing is not available, the Company may be required to delay, reduce the scope of, or eliminate its current or future exploration activities or relinquish rights to certain of its interests. Failure to obtain additional financing on a timely basis could cause the Company to forfeit its interests in some or all of its properties and reduce or terminate its operations.

If the going concern assumption is not appropriate, then material adjustments may be necessary in the carrying amounts and/or classifications of assets and liabilities in the Financial Statements.

***Use of Estimates***

The preparation of the 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 the Company to continue as a going concern, the mineral properties and related deferred costs, asset retirement obligation and the assumptions used in calculating stock-based payments. Actual results could differ from those estimates.

***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 the property is placed into production, deferred costs will be amortization 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 gold sales during the bulk sampling development stage, the net realizable value of gold concentrate in inventory and any proceeds from gold sales prior to achieving Commercial Production will be netted against deferred exploration and development costs.

***Stock-based Compensation***

The Company applies the fair-value based method to all stock options granted. Accordingly, compensation cost is measured at fair value at the date of grant and is expensed on a straight line basis over the vesting period, with the related credit included in contributed surplus. Amounts expensed in the current year for unvested options are reversed upon forfeiture of the options by departing employees. The applicable contributed surplus is transferred to share capital, if and when stock options are exercised. Any consideration paid on the exercise of stock options is credited to capital stock.

The Company uses the Black-Scholes option pricing model to calculate option and warrant values. This model, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely tradeable, fully transferable warrants and options without vesting restrictions, which differ somewhat from the Company's stock option awards. The models also require highly subjective assumptions, including volatility and expected time until exercise, which affect the calculated values.

***Asset Retirement Obligations***

The Company follows the CICA Handbook Section 3110 "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement of fair value. As at November 30, 2008, the Company has estimated $645,000 (2007- $250,000) in asset retirement obligations related to its Pine Cove project.

## *Future Accounting Changes*

***International Financial Reporting Standards***

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 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, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## *Dividends*

The Corporation has neither declared nor paid any dividends on its Common Shares. The Corporation 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.

## *Risks and Uncertainties*

### *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.

### *Business Risk*

The gold and iron-ore industries are highly competitive, particularly with respect to searching for and developing new sources of gold and 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 is working toward Commercial Production at its Pine Cove project. Operational risks include reserve uncertainties, mine and mill performance uncertainties, environmental 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 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 are 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 capital will 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 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 US 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 do not hedge its foreign currency transactions.

***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 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 Regulation*

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.

## *Controls and Procedures*

#### *Disclosure Control Risks*

Disclosure controls and procedures 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 disclosure controls and procedures as of the date of this MD&A, that disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Company, subject to the weakness identified and disclosed below regarding the segregation of duties. 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 Risks

Management is responsible for certifying the design of the Company's internal control over financial reporting ("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 generally accepted accounting principles (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 of Directors.
- 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 internal controls over financial reporting and concluded, subject to the inherent limitations noted above, that the Company has sufficient controls to meet the requirements as stated above and that one weakness existed as at November 30, 2008, 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 November 30, 2008.

## *Disclosure of Outstanding Share Information*

The following table sets forth information concerning the outstanding securities of the Company as at November 13, 2009:

| Common Shares of no par value | Number |
|---|---|
| Shares | 60,021,260 |
| Warrants | 9,476,875 |
| Options | 3,595,000 |

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.

## *Additional Information and Continuous Disclosure*

This MD&A has been prepared as at January 13, 2009. 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).