



Management's Discussion and Analysis  
of the  
Financial Condition and Results of Operations  
Third Quarter and  
Nine Months Ended  
February 28, 2010

**April 14, 2010**

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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*This discussion and analysis has been prepared based on information available to Anaconda Mining Inc. ("Anaconda" or the "Company") as at April 14, 2010 and compares its fiscal 2010 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 third quarter and nine months ended February 28, 2010, should be read in conjunction with the Company's unaudited 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, 2009, 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](http://www.sedar.com).*

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### ***Management's responsibilities for financial reporting and controls***

The Consolidated Financial Statements of the Company have been prepared by management in accordance with Canadian GAAP and have been approved by the Company's 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 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.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### ***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 February 28, 2010 as determined by the Company's Chief Executive Officer and Chief Financial Officer.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### ***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.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **General**

The Company's principal business activity is that of a mineral exploration and mining company with operations in Canada and Chile. The Company completed the construction of its mining project in Baie Verte, Newfoundland (the "Pine Cove project") and has brought it into limited production. Pre-commercial production has been ongoing throughout the last nine months and the Company has made a series of limited-quantity gold pours as it continues to work 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. Inefficiencies encountered with the concentrator in the processing circuit have meant that the Company has thus far been unable to achieve Commercial Production. With the removal and write-off of the concentrator last year, the Company experienced improved gold recoveries in the circuit however the throughput capabilities of the mill were greatly reduced.

During the second quarter of fiscal 2010, the Board approved an upgrade and expansion of the Pine Cove milling infrastructure. Anaconda has retained leading mineral processing and project management personnel to assist with the re-design, engineering, implementation and commissioning of the Pine Cove mill as a stand-alone operation with a minimum nominal throughput rate of 700 tonnes per day ("tpd") with the potential to achieve 1,000 tpd. Expansion of the Pine Cove mill is based on replacing the Gekko concentrator with a primary ball mill followed by a flotation circuit and utilizing the existing ball mill as a regrind (concentrate) mill, followed by leaching. To-date, the Company has expended approximately \$1.2 million toward the completion of the expansion.

In December 2009, the Company announced that it had provided formal notice to Crew Gold (Canada) Ltd. with regard to the early termination of the toll-milling agreement that was entered into on June 1, 2009. Termination was in accordance with the agreement as the Company determined that the termination was in the mining joint venture's (operated by Anaconda) best economic interest. The Company estimates that early termination of this arrangement will result in savings of over \$2 million, representing the incremental processing and trucking costs required to support the toll-milling process to term versus processing this ore at its upgraded and expanded Pine Cove mill upon its anticipated commissioning in June 2010.

In April 2010, the Company received notice from its Pine Cove joint-venture partner, New Island Resources Inc. ("New Island") that it had started an arbitration procedure as contemplated under the terms of the Option and Joint Venture Agreement dated November 26, 2003 and the Custom Milling Agreement (the "Agreement") dated May 29, 2009. New Island has challenged Anaconda's interpretation of and distribution of net profits as defined under the Agreement and has made a claim against the Company of \$590,749.

Liquidity and capital resources are critical to the Company's success since Anaconda historically has not generated any income from its mineral properties. The reader is directed to review the **Liquidity and capital resource** and **Risk factors** sections of this MD&A.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### ***Restatement of quarterly comparative amounts***

As at May 31, 2009, the Company adopted CICA 3064 – Goodwill and Intangible Assets and as a result expensed \$362,190 and \$1,149,610 for the three and nine months ended February 28, 2009, respectively of costs incurred in the pre-operating period during fiscal 2009 that would otherwise have been capitalized as property, mill and equipment. As a result, for the three and nine months ended February 28, 2009, the Company's net loss increased to \$464,376 and \$2,775,051, respectively. Comprehensive net loss for the three months ended February 28, 2009 was unaffected. Comprehensive net loss for the nine months ended February 28, 2010 increased to \$4,093,889. Contemporaneously, as at February 28, 2009, mineral properties and deferred exploration expenditures and shareholders' equity were both reduced by \$1,149,610 to \$14,475,529 and \$11,237,629, respectively. References throughout this MD&A to amounts that have changed as a result of this restatement will be so indicated.

### ***Overall performance***

As at February 28, 2010, Anaconda had assets of \$20,024,379 and a net equity position of \$13,154,591. This compares with assets of \$18,529,938 (*restated*) and a net equity position of \$11,237,629 (*restated*) at February 28, 2009 and with assets of \$17,896,299 and a net equity position of \$11,730,270 at May 31, 2009.

### ***3 months ended February 28, 2010***

Assets decreased by \$184,411 over the third quarter of 2010. Current assets increased by \$137,709 due mainly to an increase in the Company's cash balance of \$1,084,944 and restricted cash balance of \$132,945 offset by a decrease in inventory position of \$914,646. The balance of the change results from a decrease in receivables (general accounts receivable, GST and subscriptions) and prepaids by \$165,535. Investments held-for-sale were marked-to-market resulting in an increase of \$38,250. Leasehold improvements, property, mill and equipment increased by \$345,110 (net of depletion and amortization of \$413,412) and expenditures on mineral properties and deferred exploration decreased by \$705,374.

Anaconda's increased cash position over the third quarter of 2010 of \$1,084,944 (2009 – reduction of \$51,404) was the result of the following activities: Cash used in operating activities of \$941,774 (2009 – \$626,006 (*restated*)); cash provided from financing activities of \$2,922,300 (2009 – \$596,965 (*restated*)) less cash used in investing activities of \$914,655 (2009 – \$16,570 (*restated*)). Interest rate fluctuations on foreign currencies held by the Company increased the Company's cash position by \$19,073 (2009 – decreased the cash position by \$5,793) for the quarter.

### ***9 months ended February 28, 2010***

Assets increased by \$2,128,080 over the period. Current assets increased by \$1,405,558 due to the following items: an increase in the Company's cash balance of \$863,463; increase to restricted cash balance of \$270,285; increase to GST recoverable of \$227,805 and increase to inventory of \$246,011. These increases were offset by decreases in other receivables (general accounts receivable and subscriptions receivable) and prepaids by \$16,629 and due from related party of \$4,120. Investments held-for-sale were marked-to-market resulting in a decrease of \$22,950. Leasehold improvements, property, mill and equipment increased by \$1,060,365 (net of depletion and amortization of \$553,749) and expenditures on mineral properties and deferred exploration decreased by \$493,768.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Anaconda's increased cash position over the 9 months of fiscal 2010 of \$863,463 (2009 – reduction of \$793,355) was the result of the following activities: Cash used in operating activities of \$496,655 (2009 – \$2,843,608 (*restated*)); cash provided from financing activities of \$3,457,320 (2009 – \$3,650,839 (*restated*)) less cash used in investing activities of \$2,113,094 (2009 – \$1,602,087 (*restated*)). Interest rate fluctuations on foreign currencies held by the Company increased Anaconda's cash position by \$15,902 (2009 – \$1,501).

### **Review of operations**

#### **Private placement**

In January 2010, the Company announced that it had closed on non-brokered, secured, 12% debentures (the "Debentures") for net proceeds of \$2,922,300, consisting of 3,247 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. Included with the Debenture Units were 3,984,069 common share purchase warrants (the "Warrants") with a value of \$474,104 (using Black-Scholes option pricing model with the following assumptions: an 18 month expected term; 182.7% volatility, risk free interest rate of 1.18% and a dividend yield of Nil%) that will be exercisable for 18 months from the date of issue at an exercise price of \$0.22 each.

Interest will be payable annually until maturity. At the Company's sole discretion, interest payable on the Debentures may be satisfied with the issuance of common shares of the Company, with the value based on the five-day weighted average closing price for the five-day trading period immediately preceding the interest payable date. The Debentures may be prepaid in whole or in part (including accrued interest) at any time without penalty or bonus subsequent to one year after the date of issue.

The Debentures will be secured by a first charge (ranking *pari passu* with the charge held by current Debentureholders) over certain of the Company's assets. The Company will use commercially reasonable efforts to apply 50% of any future financing proceeds between one year after the date of issue and the Maturity date towards repayment of the principal and interest under the Debenture.

In the event that the closing price of the Anaconda's common shares is equal to, or exceeds 100% of the underlying exercise price for a period of 20 consecutive trading days, the Company shall have the right on written notice to accelerate the exercise of all the outstanding Debenture Warrants.

The net proceeds of the offering will be used to fund the capital requirements of the Pine Cove mill expansion and for general working capital purposes.

#### **Pine Cove project**

#### **Operations**

During the third quarter ended February 28, 2010, the Company produced approximately 2,274 ounces of gold at an average cost of \$1,255 per oz. The average price of gold sales was \$1,180 (US\$1,120) per oz. The Pine Cove mill contributed approximately 613 oz of the total with the remaining gold (1,661oz) coming from the Company's toll-milling facility at Nugget Pond. During the current fiscal quarter, the Company announced the early termination of the toll-milling agreement. Anticipated savings through the original term of

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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the agreement is expected to be in excess of \$2 million and will be achieved by processing the ore at the expanded and upgraded Pine Cove mill.

### **Mill expansion and upgrade**

Work continues on the upgrade and expansion of the Pine Cove milling infrastructure and the planned commissioning date is still scheduled for June 1, 2010. The entire project is approximately 51% complete. Concrete slab has been poured, the structural steel has been delivered and installed and the building has been enclosed. Work continues in the ball mill and the contact cell platform arrived on site and has been erected.

### ***Results of operations***

#### ***3 months ended February 28, 2010 compared to 3 months ended February 28, 2009***

Net loss for the 3-month period ended February 28, 2010 was \$2,194,231 or \$0.025 per basic and fully-diluted share. This compares with a loss of \$464,386 (*restated*) or \$(0.008) per share, both on a basic and fully-diluted basis. The increase in net loss of \$1,729,845 is the result of the following items: Gross operating margin increase of \$192,074 and a decrease in stock-based compensation of \$228,728. These increases to net income are offset by increased costs: office and general of \$159,302, consulting and professional of \$434,618, interest costs (net of interest income) of \$229,773 and other costs of \$24,731. Foreign exchange gains decreased by \$52,451 offset by increases to future income tax recoveries of \$5,547. Write-downs of mineral properties and deferred exploration expenditures increased by \$725,438 and depletion and amortization increased by \$413,412.

#### ***9 months ended February 28, 2010 compared to 9 months ended February 28, 2009***

Net loss for the 9-month period ended February 28, 2010 was \$1,637,325 or \$0.019 per basic and fully-diluted share. This compares with a loss of \$2,775,051 (*restated*) or \$(0.046) per share, both on a basic and fully-diluted basis. The decrease in net loss of \$1,137,726 is the result of the following items: Gross operating margin increase of \$3,222,942; a decrease in stock-based compensation of \$12,365 and a decrease in project investigation costs of \$85,223. These increases to net income are offset by increased costs: office and general of \$270,277, consulting and professional of \$158,494, interest costs (net of interest income) of \$466,937 and other costs of \$59,510. Foreign exchange losses increased by \$168,729 offset by decreases to future income taxes of \$220,330. Write-downs of mineral properties and deferred exploration expenditures increased by \$725,438 and depletion and amortization increased by \$553,749.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Summary of quarterly results

	Dec. 1, 2009 - Feb. 28, 2010	Sep. 1, 2009 - Nov. 30, 2009	Jun. 1, 2009 - Aug. 31, 2009	Mar. 1, 2009 - May 31, 2009
Total revenues (\$)	2,684,721	4,457,526	3,182,874	445,031
Net (income) loss (\$)	2,194,231	(150,925)	(405,981)	2,390,084
Net (income) loss per share – basic <sup>1</sup>	\$0.03	\$(0.00)	\$(0.01)	\$0.03
Net (income) loss per share – fully-diluted <sup>1</sup>	\$0.03	\$(0.00)	\$(0.00)	\$0.03
Total assets (\$)	20,024,379	20,208,790	19,390,005	17,896,299
Long-term liabilities (\$)	4,741,397	2,238,146	2,203,022	2,167,974
Shareholders' equity (\$)	13,154,591	13,053,560	12,815,829	11,730,270
Cash dividends declared per common share	\$0.00	\$0.00	\$0.00	\$0.00

	Dec. 1, 2008 - Feb. 28, 2009 (restated)	Sep. 1, 2008 - Nov. 30, 2008 (restated)	June 1, 2008 - Aug. 31, 2008 (restated) <sup>2</sup>	Mar. 1, 2008 - May 31, 2008 (restated) <sup>2</sup>
Total revenues (\$)	403,612	537,224	340,249	-
Net (income) loss (\$)	464,173	1,062,647	1,247,730	7,711,461
Net (income) loss per share- basic <sup>1</sup>	\$0.01	\$0.02	\$0.02	\$0.14
Net (income) loss per share- fully-diuted <sup>1</sup>	\$0.01	\$0.02	\$0.02	\$0.14
Total assets (\$)	18,539,938	18,529,359	19,580,928	19,856,802
Long-term liabilities (\$)	4,256,549	1,246,655	645,000	645,000
Shareholders' equity (\$)	11,237,629	11,684,835	13,923,156	15,226,994
Cash dividends declared per common share	\$0.00	\$0.00	\$0.00	\$0.00

<sup>1</sup> 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.

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

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### ***Liquidity and capital resources***

In management's view, the Company's liquidity and solvency are critical information since Anaconda historically has not generated any income from its mineral properties. The Company commenced limited operations from its Pine Cove project in June 2008 and in July 2009 began toll milling Pine Cove ore at Nugget Pond. However, in December 2009, Anaconda announced the early termination of the toll-milling agreement.

As such, the Company's only source of revenue is from its limited production of saleable product (gold and silver) from the Pine Cove mill. During the quarter, additional funds were raised with the closing of a private placement (see ***Review of Operations*** section of this MD&A) which raised net proceeds of \$2,922,300.

The capital structure of the Company consists of the convertible loan, demand 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 debentures through 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.

### ***Working capital***

As at February 28, 2010, the Company had a working capital deficiency of \$2,164,704. Of this amount, \$1,972,445 relates to the convertible loan that is due for repayment on May 31, 2010. The Company is in discussions with the lender regarding an extension of the repayment to May 31, 2011 and it is confident that an extension will be granted to extend the expiry of the convertible loan to that date.

The Company has utilized the proceeds from the private placements completed during the first and third fiscal quarters of this year to discharge some of its current obligations. It continues to apply funds generated from its Pine Cove operations toward the discharge of existing obligations as well as other working capital requirements.

### ***Transactions with related parties***

#### ***Three months ended February 28, 2010:***

Keshill Consulting Associates Inc. ("KCA") charged the Company a total of \$44,800 (fiscal 2009 - \$41,600) 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 \$Nil (fiscal 2009 - \$22,028) in respect of engineering and geological services of John Cook, a former director of the Company.

The Company incurred interest expense of \$59,178 (fiscal 2009 - \$49,748) of which \$25,713 (fiscal 2009 - \$Nil) related to non-cash interest accretion on the valuation of the conversion feature of the convertible loan payable to Thorsen-Fordyce Merchant Capital ("Thorsen"), a company that is controlled by Lewis Lawrick, Anaconda's CEO and a director of the Company. The Company also repaid the demand loan to Thorsen.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### ***Nine months ended February 28, 2010:***

Keshill Consulting Associates Inc. ("KCA") charged the Company a total of \$128,000 (fiscal 2009 - \$121,600) 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 \$Nil (fiscal 2009 - \$64,526) in respect of engineering and geological services of John Cook, a former director of the Company.

The Company incurred interest expense of \$181,381 (fiscal 2009 - \$93,844) of which \$80,748 (fiscal 2009 - \$Nil) related to non-cash interest accretion on the valuation of the conversion feature of the convertible loan payable to Thorsen-Fordyce Merchant Capital ("Thorsen"), a company that is controlled by Lewis Lawrick, Anaconda's CEO and a director of the Company. The Company also repaid the demand loan to Thorsen.

### ***Off-balance sheet arrangements***

The Company has no off-balance sheet arrangements.

### ***Critical accounting policies and 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. Accordingly, it does not give effect to adjustments, if any, that would be necessary should the Company 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 the consolidated financial statements.

While the operation at Pine Cove continues to be limited with the current configuration of its ore-processing circuit, in June 2009, the Company entered into a toll-milling arrangement for processing of Pine Cove ore. On December 18, 2009, the Company announced the early termination of the toll-milling arrangement. Termination was in accordance with the agreement as the Company determined that early termination was in its best economic interest.

The Company has raised additional funds (see ***Review of operations – private placement*** in this MD&A) throughout the first and third quarters of the fiscal year and has utilized the funds together with the cash flow generated from the toll-milling arrangement to supplement its capital requirements to correct the mill configuration problems at its Pine Cove project. As well, the Company has utilized these funds to reduce its current obligations. However, there is no assurance that the Company will be able to raise additional funds in the public or private markets 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

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 interest or terminate its operations.

### ***Use of estimates***

The preparation of the consolidated financial statements in conformity with Canadian GAAP 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.

### ***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 the 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.

### ***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.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### ***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, 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.

#### ***Business combinations***

In January 2009, the CICA issued *Handbook Section 1582 - Business combinations* that replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's financial statements.

#### ***Non-controlling interests***

In January 2009, the CICA issued *Handbook Section 1602 - Non-controlling interests* which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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for 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's financial statements.

### ***Consolidated financial statements***

In January 2009, the CICA issued *Handbook Section 1601 - Consolidated financial statements* which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's financial statements.

### ***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.

### ***Risks and uncertainties***

#### ***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 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.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### ***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 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

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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.

### ***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.

### ***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 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.

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### ***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.
- 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 ICFR 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 February 28, 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

# Anaconda Mining Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 February 28, 2010.

### ***Disclosure of Outstanding Share Information***

The following table sets forth information concerning the outstanding securities of the Company as at April 14, 2010:

<b>Common shares of no par value</b>	<b>Number</b>
Shares	88,882,134
Warrants	31,289,863
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.

### ***Additional Information and Continuous Disclosure***

This MD&A has been prepared as at April 14, 2010. Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's web site ([www.anacondamining.com](http://www.anacondamining.com)).