

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2011**

The following management's discussion and analysis ("MD&A") of the financial condition and results for Celeste Copper Corporation, ("Celeste" or the "Corporation") as at August 31, 2011 should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended August 31, 2011 and the audited consolidated financial statements for the year ended November 30, 2010 and related notes therein as prepared in accordance with Canadian generally accepted accounting principles. Additional information relating to the Corporation and its operations is available on SEDAR at [www.sedar.com](http://www.sedar.com) under the name Celeste Copper Corporation and on the Corporation's website at [www.celestecopper.com](http://www.celestecopper.com). All references are to Canadian dollars unless otherwise indicated.

This MD&A is dated October 27, 2011 and incorporates all relevant information and considerations to that date.

**CORPORATION DESCRIPTION AND OUTLOOK**

Celeste was incorporated under the Business Corporations Act (Alberta) on April 27, 2007. The Corporation is a junior natural resource company currently engaged in the acquisition, exploration and, if warranted, the development of mineral properties of merit. The Corporation acquires properties by staking claims, negotiating for permits from government authorities, negotiating with holders of leases, claims or permits with a view to entering into option, joint venture or asset purchase agreements, or purchasing companies with leases, claims or permits. Celeste will commit its own resources to the initial evaluation of mineral properties, and in select situations if and when warranted, will enter into joint venture or farm-out agreements with other corporations to complete or continue the further exploration or development of such properties.

The Corporation is currently focused on the acquisition of an interest in Cornish Minerals Limited which controls mining rights in the historic Cornish mining region in Cornwall, England, including the South Crofty Mine (see South Croft Mine Agreement).

The Corporation continues to be engaged in the exploration for and development of copper mineral properties in the country of Chile.

Celeste is encouraged by the continued positive business environment in Chile, with a pro-business government and continued support for the mining and exploration business. The Corporation currently holds the Celeste IV – XII and the Manto Medio concessions and has directed its focus on the exploration of these concessions with a work program that commenced in March 2011. The scope of work includes detailed geological mapping with emphasis on lithology and hydrothermal alteration structures. All historical mining workings will be mapped, sampled and photographed. Satellite imaging will be completed along with basic spectral analysis. Systematic geochemical soil sampling will also be completed. The Corporation has also required a re-interpretation of previous ground magnetic surveys and an analysis of Aster Imaging.

Management also intends to assess other copper and copper-gold properties for exploration and development opportunities.

In March and May 2011, the Corporation completed non-brokered private placement for total gross proceeds of \$500,000. In October 2011, the Corporation announced a private placement for proceeds of up to \$10,000,000 (see Subsequent Events).

**SOUTH CROFTY MINE AGREEMENT**

On May 24, 2011, the Corporation entered into an arms-length earn-in agreement (the "Agreement") to acquire up to a 100% interest in Cornish Minerals Limited ("Cornish UK"), a corporation existing under the

laws of England which indirectly owns the property and assets known as the South Crofty Mine (the "South Crofty Mine") near Cornwall in England. The Agreement has been entered into among Celeste, Cornish UK, the shareholders of Cornish UK and Cornish UK's two wholly-owned subsidiaries.

The South Crofty Mine is an amalgamation of twelve mines that were historically mined primarily for tin and copper. The properties are located between Redruth and Camborne in Cornwall, England and comprise approximately 150 square kilometers of mineral rights in this historic mining district. Mining in this region goes back approximately 4,000 years and includes mines like South Crofty, Dolcoath and Roskear mines, which are included in these mineral rights. It is the first time in the region's history that such a large package of mineral rights has been assembled, with an opportunity to apply modern exploration and development mining techniques.

Under the terms of the Agreement, Celeste will acquire an initial 25% equity interest in Cornish UK (the "Initial Interest") by funding, by May 31, 2012, expenditures ("Expenditures") for the benefit of Cornish UK and its subsidiaries with respect to the exploration, development and mining operations of the South Crofty Mine of at least £4,670,000 (the "Initial Investment"). As at August 31, 2011, the Initial Investment is equal to \$7,437,400 Canadian dollars based on the Bank of Canada exchange rate of \$1.59 Canadian dollars per U.K. pound sterling.

Conditional upon Celeste acquiring the Initial Interest, Celeste shall then have the option to elect to fund additional Expenditures by September 30, 2013, of either (i) £9.33 million to acquire an additional 25% equity interest in Cornish UK (such that Celeste would then hold a 50% equity interest in Cornish UK), or (ii) £16.33 million to acquire an additional 35% equity interest in Cornish UK (such that Celeste would then hold a 60% equity interest in Cornish UK). In certain circumstances, if Celeste funds some, but not all, of the above threshold amounts, it will acquire a lesser pro rata interest in Cornish UK.

Conditional upon Celeste acquiring a 60% equity interest in Cornish UK, it will have the option, exercisable until September 30, 2013 (or earlier in certain circumstances), to acquire the remaining 40% equity interest of Cornish UK based on an agreed upon valuation of Cornish UK, for consideration to be agreed between the parties, which may include (i) common shares of Celeste, (ii) cash, or (iii) a combination of common shares and cash. Any common shares so issued will be at the per share price reflected by the then market price, less any applicable discounts as may be accepted by the TSX Venture Exchange (the "Exchange").

If Celeste does not exercise this option, the shareholders of Cornish UK will have the option, exercisable for 30 days thereafter, to subscribe for additional shares of Cornish UK so that together they hold up to 51% of the shares of the Corporation.

Closing of the transaction and Celeste's obligation to advance the Initial Investment is conditional upon, among other things, (i) receipt of applicable regulatory approvals (including acceptance of the Exchange), (ii) Celeste having arranged financing to satisfy the Initial Investment, (iii) completion of due diligence satisfactory to Celeste, (iv) closing by October 31, 2011 (unless extended by written agreement of the parties), and (v) other customary terms and conditions of a transaction of this nature. There is no certainty that the transaction will be completed.

On July 15, 2011, the Corporation filed documents with the Exchange required pursuant to this transaction, including a National Instrument 43-101 technical report.

On October 18, 2011, the Corporation announced the terms of a private placement financing of up to 55,555,555 units (the "Units") at a price of \$0.18 per Unit for aggregate gross proceeds of up to \$10,000,000. See Subsequent Events.

**SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION**

	2011	Quarterly Fiscal 2011		
	Year-to-date	August 31	May 31	February 28
Loss for the period (\$)	819,027	291,699	162,329	364,999
Loss per share (\$) <sup>(1)</sup>	0.02	0.01	–	0.01
Mineral property expenditures (\$)	261,123	92,923	94,146	74,054
Total assets (\$)	1,303,531	1,303,531	1,562,452	1,349,686
Shareholders' equity (\$)	1,471,932	1,471,932	1,471,932	1,140,373

	2010 Annual	Quarterly Fiscal 2010			
	November 30	November 30	August 31	May 31	February 28
Loss for the period (\$)	2,913,555	2,705,160	13,558	140,716	54,121
Loss per share (\$) <sup>(1)</sup>	0.08	0.07	0.00	0.00	0.00
Mineral property expenditures (\$)	78,490	7,366	-	–	71,124
Total assets (\$)	1,071,428	1,071,428	3,656,354	3,671,175	3,828,851
Shareholders' equity (\$)	632,465	632,465	3,336,075	3,349,633	2,240,349

	2009 Annual	Quarterly Fiscal 2009			
	November 30	November 30	August 31	May 31	February 28
Loss for the period (\$)	440,373	81,504	104,124	202,468	52,277
Loss per share (\$) <sup>(1)</sup>	0.02	0.00	0.01	0.01	0.00
Mineral property expenditures (\$)	1,721,099	299,653	262,247	938,123	221,076
Total assets (\$)	3,887,542	3,887,542	3,346,303	3,105,032	2,761,153
Shareholders' equity (\$)	2,290,270	2,290,270	2,281,471	2,385,595	2,101,580

<sup>(1)</sup> Sum of quarters may not add to year-to-date due to rounding

**MINERAL PROPERTIES AND EXPLORATION ACTIVITIES**

	August 31 2011	November 30 2010
<b>Celeste IV – X Project</b>		
Acquisition costs and option payments	8,201	7,979
Exploration and geological expenditures	141,797	23,105
Consulting fees	26,403	26,403
Travel and accommodation	54,405	41,362
Geologist fees and costs	108,119	20,061
Legal fees and maintenance costs	12,566	2,673
	351,491	121,583
<b>Manto Medio Project</b>		
Acquisition costs and option payments	556,581	556,581
Exploration and geological expenditures	98,287	85,099
Consulting fees	9,292	9,292
Travel and accommodation	8,351	5,176
Geologist fees and costs	46,754	33,180
Legal fees and maintenance costs	2,818	1,540
	722,083	690,868
<b>Negrita Project</b> <sup>(1)</sup>	–	197,541
	\$ 1,073,574	\$ 1,009,992

<sup>(1)</sup> The Negrita Project is comprised of Negrita, Celeste I – III, Zapallar and Manto de Oro claims.

Negrita and Celeste I – III Projects

On June 21, 2007, Celeste entered into a proposal for a Unilateral Purchase Option on Mining Concessions (the "Agreement") with arm's length parties. The Agreement is for the exploration concessions Celeste I, Celeste II, Celeste III and Negrita 1 to 13. The Agreement is in effect until March 20, 2011 for a total option price is US \$3,300,000, of which a US\$2,800,000 payment (the "Payment") remains due. In addition, the Corporation is required to incur US\$2,250,000 for exploration expenditures on the concessions, of which US\$1,751,113/C\$2,005,692 had been incurred.

Effective December 1, 2010, the Corporation and Peak Ridge Metal Equity Special Situation Fund ("Peak Ridge") executed a Right of First Refusal Agreement ("ROFR") with respect to the Corporation's rights, title and/or interest in the Agreement. If, on or before the expiry of the Agreement, the Corporation receives an offer from a third party (a "Third Party Offer") to purchase the Agreement from the Corporation, which the Corporation is prepared to accept, Peak Ridge shall, for 30 days, have the first right to purchase or obtain the Agreement upon the price and terms in the Third Party Offer. If Peak Ridge elects not to purchase, the Corporation may accept the Third Party Offer provided that it is completed within 60 days of the expiry of the ROFR.

Effective December 6, 2010, the Corporation and Peak Ridge and certain of their subsidiaries signed a Memorandum of Understanding ("MOU") whereby the Corporation sold and transferred its rights, title and interests in certain mineral concessions, including Zapallar 1/10 and Manto de Oro 1/20, in exchange for the settlement of \$197,541 of accounts payable and accrued liabilities due to Peak Ridge. Pursuant to the MOU, the Corporation also ceased to be responsible for any further costs related to the transferred mineral concessions.

As the Corporation was unable to make a \$2,800,000 balloon payment and fulfill exploration commitments by March 21, 2011 pursuant to an option agreement signed in June 2007, the option agreement expired.

#### Celeste IV – XII and Manto Medio Projects

The Celeste IV – XII and Manto Medio claims are located near Copiapo, Chile. The Corporation pays annual license fees on the claims which have an indefinite term and no work commitments attached to them.

The Celeste IV – XII claims cover approximately 20 square kilometers. The mineral claims in this area of Chile have the potential to host porphyry copper-gold deposits and iron oxide copper-gold deposits much like the Candelaria copper mine which is located approximately 45 kilometers northeast of these claims.

### RESULTS OF OPERATIONS

During the three and nine months ended August 31, 2011, the Corporation incurred a loss of \$291,699 and \$819,027, respectively, compared to losses of \$13,558 and \$208,395 for the 2010 comparative periods:

	Three months ended August 31		Nine months ended August 31	
	2011	2010	2011	2010
<b>Expenses</b>				
General and administrative	\$ 104,256	\$ 11,534	\$ 293,134	\$ 168,644
Business development and project evaluation	183,694	–	258,624	–
Exploration	–	8,726	–	43,258
Stock-based compensation	3,356	–	263,363	4,200
Foreign exchange loss (gain)	393	(6,702)	3,114	(7,707)
Interest and accretion	–	–	792	–
<b>Net loss and comprehensive loss</b>	<b>\$ 291,699</b>	<b>\$ 13,558</b>	<b>\$ 819,027</b>	<b>\$ 208,395</b>

- General and administrative expenses were higher in the 2011 periods due to an increase in corporate activities and consulting fees related to the restart of operating activities and reviving of shareholder and investor interest in the Corporation. Expenses were reduced in the third quarter of 2010 due to a reduction in personnel and consultants and a curtailment of corporate activity.
- Business development and project evaluation expenses are comprised of travel and professional fees primarily related to the negotiation, evaluation and due diligence for the South Crofty Mine Agreement.
- Exploration expenses reported in the 2010 comparative periods relate to exploration expenditures not specifically relating to a mineral property which were therefore expensed as incurred
- Stock-based compensation of \$263,363 in nine months ended August 31, 2011 relates to 3,250,000 stock options granted to officers and directors and 500,000 stock options granted to an investor relations firm in January 2011. Stock-based compensation of \$4,200 in 2010 relates to 500,000 options granted to a consultant in February 2010.
- Foreign exchange gains/losses relate to exchange rate fluctuations in the Chilean Peso, U.S. dollar and various conversions between the Chilean Peso/U.S. dollar and Canadian dollar. In the

nine months ended August 31, 2011, foreign exchange losses also relate to exchange rate fluctuations in the U.K. sterling pound.

- Interest and accretion expense relates to the 8% convertible debenture issued in November 2010 and converted to Units in March 2011. Interest and accretion in the 2011 periods includes a \$633 gain on the conversion.

## **FINANCING ACTIVITIES**

On December 24, 2010, the Corporation completed a private placement financing of 13,000,000 Units at a price of \$0.05 per Unit for gross proceeds of \$650,000. Each Unit consists of one common share and one-half of a common share purchase warrant. Each whole warrant is exercisable at \$0.10 per share until December 24, 2011. The common shares are subject to a four month hold period which ended April 24, 2011.

On March 29, 2011, the Corporation completed a non-brokered private placement of 2,500,000 Units at a price of \$0.10 per Unit for gross proceeds of \$250,000. Each Unit consists of one common share and one common share purchase warrant exercisable at a price of \$0.15 per share for a period of two years from the date of closing. The common shares are subject to a four month hold period which ends July 29, 2011.

On March 29, 2011, the Corporation issued 538,462 Units on the conversion of the Debenture. Each Unit is comprised of one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant will be exercisable at \$0.10 per share until November 2, 2011.

On Apr 27, 2011, the Corporation completed a non-brokered private placement to raise \$250,000 through the issuance of Units made up of one common share and one-half of a common share purchase warrant at a price of \$0.10 per Unit. Each whole warrant will be exercisable for a price of \$0.15 per share for a period of 18 months from the date of closing. The common shares are subject to a four month hold period which ends August 27, 2011.

## **CAPITAL SPENDING**

During the nine months ended August 31, 2011 and 2010, the Corporation incurred the following on its mineral property capital spending program:

	2011	2010
Cash expenditures		
Negrita Project	\$ -	\$ 61,860
Celeste I, II, III Project	-	4,857
Celeste IV – X Project	229,908	2,610
Manto Medio Project	31,215	1,797
	261,123	71,124

## **LIQUIDITY AND CAPITAL RESOURCES**

At August 31, 2011, the Corporation had positive working capital of \$161,442 compared to working capital deficit of \$326,100 at November 30, 2010.

The change in the Corporation's working capital position is due to \$555,784 of funds used for corporate and general and administrative activities, \$1,430 for the equity component of the convertible debenture and related accretion and conversion, \$261,123 of mineral property expenditures offset by the final \$1,073,338 of net private placement proceeds, \$35,000 for the conversion of the debenture and \$197,541 of accounts payable settled in exchange for certain of the Corporations mineral claims (see Mineral Properties and Exploration Activities).

On October 18, 2011, the Corporation announced the terms of a private placement financing of up to 55,555,555 units (the "Units") at a price of \$0.18 per Unit for aggregate gross proceeds of up to \$10,000,000. See Subsequent Events.

## **COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

In January 2011, the Corporation retained an investor relations and corporate communications firm for a term of one year for a fee of \$5,000 per month.

The Corporation has not entered into any hedging contracts. The Corporation does not have any special purpose entities nor is it a party to any off-balance sheet arrangements other than those previously disclosed.

## **SHARE CAPITAL**

### ***Common shares***

As at November 30, 2010, the Corporation had 37,022,852 common shares issued and outstanding. During the nine months ended August 31, 2011, the Corporation issued 18,538,462 common shares, increasing the number of shares outstanding as at August 31, 2011 to 55,561,314 common shares.

In September and October 2011, the Corporation issued a total of 560,000 common shares on the exercise of 560,000 warrants. As of the date of this MD&A, the Corporation had 56,121,314 common shares issued and outstanding.

### ***Warrants***

As at November 30, 2010, the Corporation had no warrants outstanding. During the nine months ended August 31, 2011, the Corporation issued 10,919,231 warrants pursuant to a private placement of units and the conversion of the debenture, all of which were outstanding as at August 31, 2011.

In September and October 2011, a total of 560,000 warrants were exercised. As of the date of this MD&A, the Corporation had 10,359,231 warrants outstanding.

### ***Stock options***

As at November 30, 2010, the Corporation had 750,000 stock options outstanding. In January 2011, the Corporation granted a total of 3,750,000 stock options. During the second quarter of 2011, 500,000 options expired. As at August 31, 2011, the Corporation had 4,000,000 stock options outstanding, of which 3,625,000 are exercisable.

In October 2011, the Corporation granted 1,500,000 stock options which vested immediately. As of the date of this MD&A, the Corporation had 5,500,000 stock options outstanding, of which 5,125,000 are exercisable.

## **RELATED PARTY TRANSACTIONS**

Except as disclosed elsewhere in this MD&A, the Corporation had the following related party transactions in the normal course of operations and measured at the exchange amounts:

During the three and nine months ended August 31, 2011, the Corporation was charged \$2,500 and \$54,375, respectively (2010 – \$nil) for consulting services by officers and/or companies controlled by officers of the Corporation. At August 31, 2011, \$9,844 was included in accounts payable in respect of these transactions.

Pursuant to the Unit private placement completed in December 2010, an officer of the Corporation subscribed for 400,000 Units (\$20,000).

**SUBSEQUENT EVENTS**

- (a) In September 2011, the Corporation granted 1,500,000 stock options to a director. The options vest immediately and are exercisable at \$0.13 per share for a period of five years from the date of grant.
- (b) In September and October 2011, the Corporation issued a total of 560,000 common shares on the exercise of 560,000 warrants for gross proceeds of \$56,000.
- (c) In October 2011, the Corporation announced the terms of a private placement financing for up to 55,555,555 units (the "Units") at a price of \$0.18 per Unit for aggregate gross proceeds of up to \$10,000,000 (the "Offering"). \$6,000,000 of the Offering will be on a best-efforts basis by a syndicate of investment dealers (the "Agents") and \$4,000,000 will be completed on a non-brokered basis.

It was further announced that Liberty Metals & Mining Holdings, LLC ("LMM") a wholly-owned subsidiary of Boston-based Liberty Mutual Group, agreed to subscribe for 100% of the non-brokered portion of the private placement, which has been conditionally accepted by the TSX Venture Exchange. The \$4,000,000 non-brokered portion of the private placement is initially for 22,222,222 Units. LMM has an option (the "Option") to acquire an additional 5,555,555 Units under the non-brokered portion of the private placement for additional gross proceeds of \$1,000,000.

The issuance of up to 22,222,222 Units (or 27,777,777 if the Option is exercised in full) to LMM pursuant to the Offering will make LMM a control person, as defined in the Securities Act (Alberta) and, on a fully diluted basis, LMM may hold up to approximately 30% (or 33% if the Option is exercised in full) of the total issued and outstanding common shares of the Corporation after giving effect to the full offering of 55,555,555 Units. As a result, the Corporation is seeking shareholder approval by way of a written resolution of shareholders holding at least 50% plus 1 of the issued and outstanding common shares for the purchase of the Units by LMM, in accordance with the policies of the TSX Venture Exchange.

Each Unit shall consist of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant shall entitle the holder to acquire one common share of the Corporation at a price of \$0.30 per common share for a period of 18 months following the date of closing of the Offering. The Corporation will pay the Agents an aggregate cash commission equal to 8% of the gross proceeds raised in respect of the brokered Offering and issue to the Agents an aggregate number of non-transferrable compensation options to acquire that number of common shares of the Corporation that is equal to 8% of the total number of Units sold on a brokered basis, exercisable at a price of \$0.18 per share for a period of 12 months following the date of closing of the Offering.

The previous \$10 million brokered financing announced on July 25, 2011 was withdrawn and replaced by this Offering. This Offering is subject to certain conditions including, but not limited to, the receipt of all necessary regulatory approvals. All securities to be issued under the Offering will be subject to a four-month statutory hold period in Canada.

It is proposed that concurrently with the Offering, the Corporation and LMM will enter into an investor rights agreement which will provide, among other things:

- (i) the right of LMM to request assistance with the sale of shares held by it including a request for an underwritten distribution by way of a short form prospectus;
- (ii) the right of LMM to request that shares held by it be included in any prospectus offering by the Corporation;
- (iii) for so long as LMM holds 10% or more of the issued and outstanding common shares of the Corporation, the right to appoint one nominee for election or appointment as a director of the Corporation; and
- (iv) provided LMM holds 10% or more of the issued and outstanding common shares of the Corporation, the right to participate in future issuances of equity securities or securities convertible into equity securities to such an extent as will allow LMM to maintain its percentage ownership in the Corporation.

**FINANCIAL INSTRUMENTS**

As at August 31, 2011, the Corporation's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their short periods to maturity.

**FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT**

Information about the Corporation's financial instruments, financial risk management and capital management can be found in Notes 14 and 15 to the November 30, 2010 audited consolidated financial statements.

**OPERATIONAL RISKS**Exploration and development

The mineral exploration industry in general is inherently risky in nature. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and the Corporation may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.

The Corporation focuses exploration efforts in areas in which it has existing knowledge and expertise. Exploration activities rely on the exploration results collected at that time and on professional judgment of people involved in the exploration business. There can be no assurance that exploration programs will result in a discovery being made. In the event that a discovery is made, no assurance can be given that the discovery will result in either resources or reserves being established on the property. If reserves are established, it may take a number of years and substantial expenditures until production is achieved, during which the economic feasibility of the project may change.

The long-term profitability of the Corporation's operation will, in part, be directly related to the success of its exploration programs to find additional reserves, which may be affected by a number of factors that are beyond the control of the Corporation.

Country risk

The Corporation's operations are subject to economic, political and social risks inherent in doing business in Chile. These risks include matters arising out of the policies of the government, economic conditions, imposition of, or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. Chile has had freely elected governments since 1990 with the last election being held in December 2009. The Corporation does not expect any changes in government policies in relation to the mining industry.

Regulations and mining law

The Corporation's exploration activities are subject to the laws and regulations of Chile. There is no assurance that these laws will not change in the future.

Environmental factors

All phases of the Corporation's operations are subject to environmental regulation in Chile. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. Although the Corporation takes the steps necessary to protect the environment around its operations, there is no assurance that future changes in environmental regulation, if any, will not adversely affect Celeste's operations or result in substantial costs and liabilities in the future.

Permits and licenses

The operations of the Corporation require permits from the government of Chile. The Corporation has secured the necessary permits for its current exploration and operations programs. There can be no assurance that the Corporation will be able to obtain all necessary permits that may be required to carry out its operations in the future.

Financing risks

Continued exploration and development of the Celeste Project is dependent on Celeste's ability to obtain the funds necessary to finance these planned activities. Failure to do so may result in the Corporation seeking additional equity programs to finance its programs. While the Corporation has been successful in attracting equity financing in the past, there can be no assurance that additional funding will be available in the future. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration plans.

Income and other taxes

The taxation system in Chile is characterized by numerous taxes and frequent changes in legislation, official pronouncements and court decisions. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Chile that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

**DISCLOSURE CONTROLS AND PROCEDURES**

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, the Corporation's certifying officers will file a Venture Issuer Basic Certificate with respect to the financial information contained in the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification includes a 'Notice to Reader' stating that the certifying officers do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

**CRITICAL ACCOUNTING ESTIMATES**

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of the Corporation's significant accounting policies is contained in note 2 to the audited consolidated financial statements for the year ended November 30, 2010. The Corporation's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

The Company believes the following are the most critical accounting estimates used in the determination of its financial results:

**Income taxes**

The Company records future tax assets and liabilities to account for the expected future tax consequences of events that have been recorded in its financial statements and its tax returns. These amounts are

estimates and the actual tax consequences may differ from the estimates due to changing tax rates and regimes, as well as changing estimates of cash flows and capital expenditures in current and future periods. A valuation allowance is recorded to the extent that there is uncertainty regarding utilization of future tax assets.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations, often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability and expense may differ from that estimated and recorded.

### **Stock-based compensation**

Stock-based compensation expense is recorded in the statement of loss and deficit for all options granted based on the estimated fair value at the time of the grant and recognized as expense over the vesting period of the option. The fair value of options is estimated using the Black-Scholes pricing model based on estimates and assumptions for expected life of the options, expected volatility, risk-free interest rate and dividend yield. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates could be material in future periods.

## **PENDING ACCOUNTING PRONOUNCEMENTS**

### International Financial Reporting Standards ("IFRS")

The changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles is interim and annual financial statements for fiscal years beginning on or after January 1, 2011, which is applicable for the Corporation's fiscal year beginning December 1, 2011 with the restatement for comparative purposes of amounts reported by the Corporation for the year ended November 30, 2011.

The key differences between Canadian GAAP, as currently applied by the Corporation, and IFRS have been assessed.

The following IFRS standards are considered most relevant to the Corporation's conversion process:

IFRS 1 - First-time Adoption of IFRS which generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively, with specific mandatory exemptions and a limited number of optional exemptions.

IFRS 2 – Share-based Payments which is not expected to impact the Corporation's financial statements as the Corporation's stock options generally vest immediately. For stock options that may vest over time, the Corporation recognizes stock-based compensation similar to IFRS requirements.

IFRS 6 – Exploration and Evaluation of Mineral Resources which will require an analysis of capitalized mineral property expenditures with respect to costs incurred in the pre-acquisition phase, prior to obtaining the right or license for a related mineral claim, which the Corporation will expense.

IAS 21 – The Effects of Changes in Foreign Exchange Rates which will require the Corporation to translate all foreign denominated monetary and non-monetary assets and liabilities at the period end exchange rate. Expenses and other income will continue to be translated at the rates prevailing on the respective transaction dates. All resulting exchange differences shall be recognized in comprehensive income.

Based on the preliminary assessment of IFRS, the Corporation anticipates the conversion to IFRS will primarily impact the reported amount for mineral properties. Financial statement disclosures will be greatly expanded. The Corporation continues to develop its plan for the conversion process.

### Business combinations and non-controlling interests

In January 2009, the Accounting Standards Board ("AcSB") issued Section 1582 Business Combinations,

Section 1601 Consolidations and Section 1602 Non-controlling Interests. Section 1582 replaces Section 1581 Business Combinations and provides the Canadian equivalent to IFRS 3 Business Combinations. Section 1601 and Section 1602 replace Section 1600 Consolidated Financial Statements. Section 1602 provides the Canadian equivalent to International Accounting Standard ("IAS") 27 Consolidated and Separate Financial Statements, for non-controlling interests. These standards are effective for business combinations with acquisition dates on or after January 1, 2011. The adoption of these standards is not expected to have an impact on the Corporation's financial statements.

## **FORWARD-LOOKING STATEMENTS**

Certain information set forth in this MD&A, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements, which are based on the Corporation's current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as "expects", "anticipates", "believes", "projects", "plans" and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause the Corporation's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. The Corporation is a mineral exploration company and is exposed to a number of risks and uncertainties that are common to companies in the same business. These risks and uncertainties include, among other things, the speculative nature of mineral exploration and development activities, the Corporation's need for additional funding to continue its exploration efforts, operating hazards and risks incidental to mineral exploration, the Corporation's properties are in the exploration stage only and do not contain a known body of commercial ore, uncertainties associated with title to mineral properties, changes in general economic, market and business conditions; competition for, among other things, capital, acquisitions of mineral properties and skilled personnel; ability to obtain required mine licenses, mine permits and regulatory approvals required to proceed with mining operations; ability to comply with current and future environmental and other laws; actions by governmental or regulatory authorities including increasing taxes and changes in other regulations; and the occurrence of unexpected events involved in mineral exploration, development and production.