



# **Chariot Resources Limited**

Annual  
Management Discussion and Analysis  
Year Ended April 30, 2005

**July 28, 2005**

This Management Discussion and Analysis is at April 30, 2005 and is for the year then ended. It has been prepared as of July 28, 2005 and should be read in conjunction with the Company's annual audited consolidated financial statements and notes thereto as at and for the years ended April 30, 2005 and 2004 and the Company's Annual Information Form for the year ended April 30, 2005. The Company's reporting currency is the Canadian dollar. The accounting principles followed in the preparation of the accounts of the Company are generally accepted in Canada and are described in the notes to the annual audited consolidated financial statements.

Management of the Company has designed and supervises control procedures over financial reporting and disclosure, which it believes provide reasonable assurance that material information is properly reported or disclosed in a timely manner. Management believes that the Company's control procedures provide reasonable assurance that the accounts of the Company and the Company's consolidated financial statements as at April 30, 2005 and 2004 and for each of the years in the two year period ended April 30, 2005 were prepared in accordance with Canadian generally accepted accounting principles. Management is of the opinion that there were no changes in the most recent interim or annual period that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

Additional information about the Company as well as the risks and uncertainties related to the Company's business may be viewed in the Company's April 30, 2005 Annual Information Form and audited consolidated financial statements at [www.sedar.com](http://www.sedar.com) or at Chariot's website at [www.chariotresources.com](http://www.chariotresources.com).

## **Introduction**

Chariot Resources Limited ("Chariot" or the "Company") is a Canadian junior resource company focused on the acquisition, exploration and development of natural resource properties located in the Andean region of Latin America, principally Peru. Chariot has no producing properties. The Company's principal asset is a 70% interest in the assets comprising the Marcona Copper Project ("Marcona") in southern Peru. Other assets consist of various mineral property interests located in Peru including the Bambas Este Copper-Gold Project and the Antash Copper-Gold Project.

During the fourth quarter of 2005 Chariot determined that it would make no further exploration efforts at the Yanama project and the adjacent Chonta project in Peru in order to focus on the development of Marcona. As a result of this decision, the Company wrote off the carrying values of these properties. The total of the fourth quarter write offs was approximately \$1,057,460 of which \$825,077 represented costs deferred in respect of the Yanama project, \$228,777 for Cello Ccasa and \$3,606 represented costs deferred in respect of the Chonta project. During the third quarter of 2005, the Company wrote off \$633,000 of costs previously deferred at the Cello Ccasa project. Project costs written off during the year totaled approximately \$1,690,360.

At a Special Meeting of Shareholders held on March 10, 2005 the shareholders confirmed the appointment of Mr. John Kutkevicius as a director of the Company and elected Messrs. David Bell and Edward Thompson as directors of the Company.

### **Equity Financing and Marcona Acquisition**

On December 30, 2004 Chariot closed a \$27.5 million equity financing and with a portion of the net proceeds acquired a 70% interest in Marcona. Concurrent with the closing of the financing and the acquisition of its 70% interest Chariot entered into a Shareholders Agreement that created certain joint venture arrangements with Korea Resources Corporation and LS-Nikko Copper Inc. (the "Korean Partners") who together acquired 30% of Marcona. Each of Chariot and the Korean Partners hold their interests in Marcona through ownership of a Peruvian company, Marcobre S.A.C. ("Marcobre"). The joint venture arrangements establish the rights and responsibilities of Chariot and the Korean Partners with respect to the ownership, development and operation of Marcona.

Under the terms of the equity financing the Company issued 110,000,000 units at a price of \$0.25 per unit. Each unit consisted of one common share in the capital of the Company and one-half of a common share purchase warrant (a "Unit"). Each whole common share purchase warrant entitles the holder on exercise to purchase one common share in the capital of the Company at a price of \$0.35 per common share on or before the close of business on December 22, 2006. Immediately upon issue the Units separated into tradable common shares and warrants.

On January 17, 2005 the Company announced that pursuant to an over-allotment option granted to the underwriters of the \$27.5 million equity financing it had issued an additional 7,200,000 Units for gross proceeds of \$1.8 million bringing the gross proceeds of the financing to \$29.3 million. In addition to the warrants issued as part of the Units, the Company issued, to the underwriters, non-transferable warrants representing an aggregate of 5% of the Units sold. Each non-transferable underwriter warrant entitles the holder on exercise to purchase one Unit at a price of \$0.25 per Unit on or before the close of business on December 22, 2006.

On July 13, 2005, the Company completed a brokered private placement of 16,644,000 units at \$0.32 per unit for gross proceeds of \$5.3 million. The units issued consisted of one common share in the capital of the Company and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the holder on exercise to purchase one common share in the capital of the Company at a price of \$0.35 per common share on or before the close of business on December 22, 2006.

A summary of the units issued, the gross and net proceeds of equity financings and changes in the capital structure of the Company as a result of the financings is set out in the table below:

	Units	Price per Unit	Proceeds	Common Shares Issued	Whole warrants	Warrant Exercise Price	Warrant Expiry
December 30, 2004	110,000,000	\$ 0.25	\$ 27,500,000	110,000,000	55,000,000	\$ 0.35	December 22, 2006
January 17, 2005	7,200,000	\$ 0.25	<u>1,800,000</u>	7,200,000	3,600,000	\$ 0.35	December 22, 2006
Gross proceeds			29,300,000				
Underwriters' fees			1,758,000				
Expenses			<u>1,010,450</u>				
Net proceeds			<u>\$ 26,531,550</u>				
July 13, 2005	16,644,000	\$ 0.32	\$ 5,326,080	16,644,000	8,322,000	\$ 0.35	December 22, 2006
Agents' fees			319,565				
Expenses			<u>100,000</u>				
Net proceeds			<u>4,906,515</u>				
	<u>133,844,000</u>	<u>\$ 0.26</u>	<u>\$ 31,438,065</u>	<u>133,844,000</u>	<u>66,922,000</u>	<u>\$ 0.35</u>	<u>December 22, 2006</u>

The cash consideration paid on December 30, 2004 for a 70% interest in Marcona was \$18.7 million consisting of a \$17.0 million payment to the former owners of Marcona and \$1.7 million paid in respect of Peruvian General Sales Tax ("IGV"). The funds did not clear the banking system until January 3, 2005 at which time they were available to the former owners of Marcona. The amount paid in respect of IGV is eventually refundable as a credit against future sales tax otherwise payable on production from Marcona. Consequently, it is recorded as a non-current asset on the Company's balance sheet.

On January 26, 2005 Chariot announced that it and its Korean Partners had agreed upon a CAD\$7.74 million (US\$6.292 million) 2005 Work Plan for the exploration and development of Marcona. Chariot will fund CAD\$5.41 million and the Korean Partners will fund CAD\$2.33 million of the 2005 Work Plan. At July 25, 2005 Chariot had funded US\$2.94 million (approximately CAD\$3.64 million) of the agreed Work Plan.

The acquisition cost of Marcona consists of two mandatory payments and certain contingent payments. The first mandatory payment was made on December 30, 2004 as described above. The second mandatory payment is due on January 3, 2007 and amounts to US\$13.0 million of which Chariot is required to fund US\$9.1 million in order to maintain its 70% interest. The contingent payments will not exceed US\$10.0 million. The amount of such contingent payments will be determined on whether Marcobre approves starting the construction of mine and processing facilities and the amount of copper contained in resource material at Marcona.

If Marcobre decides to start construction of mine and processing facilities an amount of US\$3.0 million is payable if the total mineral resource is greater than 300 million tonnes at a 0.80 % copper equivalent grade, which is approximately 2.58 million tonnes of contained copper metal and an additional amount of US\$7.0 million is payable if the total mineral resource is greater than 400 million tonnes at a 0.80% copper equivalent grade, which is approximately 3.44 million tonnes of contained copper metal.

Provided that warrant holders exercise their warrants before the second anniversary of the closing of the purchase of Marcona, the Company will have sufficient funds to make the second mandatory payment. If the warrant holders do not exercise their warrants the Company will be required to seek alternative financing to meet its commitment for the second mandatory payment.

The potential proceeds from the exercise of warrants issued in connection with the sale of units amount to \$23.4 million, the potential proceeds with respect to the exercise of the underwriters' warrants amount to \$2.5 million and potential proceeds from the exercise of other outstanding warrants amount to \$1.8 million for total potential proceeds from the exercise of warrants of \$27.7 million or approximately US\$22.7 million. There is no guarantee that warrant holders will exercise their warrants. If Chariot does not receive any proceeds from the exercise of warrants there is no assurance that other sources of funding will be available to allow the Company to make the second mandatory payment.

Chariot has agreed to guarantee the payment obligations of Marcobre under the terms of the Marcona purchase agreement. Chariot has also agreed to pledge the shares that it holds indirectly in Marcobre as security for the payment obligations. A similar guarantee and share pledge was provided by the Korean Partners. Each of Chariot's and the Korean Partners' guarantees and pledges are limited to their respective pro rata share ownership of Marcobre.

### **Granting of Stock Options**

On December 21, 2004 the Board of Directors of Chariot approved the grant of options, under the 2004 Stock Option Plan of the Company, to purchase 2,900,000 common shares in the capital of the Company. These options have a term of ten years from the date of the issue and sale of the Units (the "date of grant") and will vest as to one-third on the date of grant, one-third on the first anniversary of the date of grant and one-third on the earlier of the date on which a feasibility study with respect to Marcona has been completed and the second anniversary of the date of grant. The options are exercisable at a price of \$0.2625 per share representing the offering price of the Units plus 5%.

On January 26, 2005 the Board of Directors approved the grant of 385,000 options to purchase common shares in the capital of the Company to six individuals who are employees of or consultants to Chariot. The options are exercisable at \$0.2625 cents per share for a period of ten years until January 26, 2015 and they vest as to one-third on the date of grant, one-third on the first anniversary of the date of grant and one-third on the earlier of the date on which a feasibility study with respect to Marcona has been completed and the second anniversary date of the grant.

On March 10, 2005 the Board of Directors approved the grant of 350,000 options to purchase common shares in the capital of the Company. The options were granted to the newly elected directors of the Company and 150,000 options to a geological consultant to the Company. These options are exercisable until March 10, 2015 at an exercise price of \$0.2783 per common share and they vest as to one-third on the date of grant, one-third on

the first anniversary of the date of grant and one-third on the earlier of the date on which a feasibility study with respect to Marcona has been completed and the second anniversary date of the grant.

On April 5, 2005 the Board of Directors approved the grant of 3,235,000 options to purchase common shares in the capital of the Company. These options were granted to directors and officers of the Company and to seven individuals who are employees or consultants to the Company. These options are exercisable until April 5, 2015 at an exercise price of \$0.336 per common share and they vest as to one-third on the date of grant, one-third on the first anniversary of the date of grant and one-third on the earlier of the date on which a feasibility study with respect to Marcona has been completed and the second anniversary date of the grant.

The following table summarizes the options granted during the 2005 financial year to directors, officers, employees and consultants. Shares reserved for issued under the Company's stock option plan represented 5.8 % of the shares issued and outstanding at April 30, 2005 (5.2 % at July 25, 2005).

Individuals	December 21, 2004		January 26, 2005		March 10, 2005		April 5, 2005		Total	Weighted Average Exercise Price
	Number of Options	Exercise Price	Number of Options	Exercise Price	Number of Options	Exercise Price	Number of Options	Exercise Price		
Robert Baxter	800,000	\$ 0.263	-	-	-	\$ -	800,000	\$ 0.336	1,600,000	\$ 0.299
David Bell	-	-	-	-	100,000	0.278	100,000	0.336	200,000	0.307
Alex Black	500,000	0.263	-	-	-	-	500,000	0.336	1,000,000	0.299
John Kutkevicius	100,000	0.263	-	-	-	-	100,000	0.336	200,000	0.299
John Hannaford	100,000	0.263	-	-	-	-	100,000	0.336	200,000	0.299
Ulrich Rath	1,000,000	0.263	-	-	-	-	1,000,000	0.336	2,000,000	0.299
Edward Thompson	-	-	-	-	100,000	0.278	100,000	0.336	200,000	0.307
Anthony Hawkshaw	400,000	0.263	-	-	-	-	-	-	400,000	0.263
Others	-	-	385,000	0.263	150,000	0.278	535,000	0.336	1,070,000	0.301
	2,900,000	\$ 0.263	385,000	\$ 0.263	350,000	\$ 0.278	3,235,000	\$ 0.336	6,870,000	\$ 0.298

## General Activities and Overall Performance

During the year ended April 30, 2005 the Company focused on negotiating and closing the Marcona acquisition, finding and settling arrangements with a appropriate partners for the acquisition and development of Marcona, obtaining the financing necessary to acquire Marcona and commencing exploration and development of the Marcona project.

In order to allow for the time and costs associated with the Marcona acquisition and development, management conducted a review of is other mineral property interests and determined that after Marcona the best allocation of resources would be for the Antash and Bambas Este projects in Peru. Consequently, the Company's interests in the Yanama and Chonta projects were forfeited resulting in a write off of previously deferred costs amounting to \$828,683 and certain residual costs related to the Cello Ccasa project of \$228,777 which was included as a fourth quarter charge to operations.

Included in the \$1,690,360 write off of mineral property interests for the year ended April 30, 2005 was a third quarter charge of \$632,900. The third quarter charge was the result

of an analysis of drilling results from the Cello Ccasa project. It was determined that the results did not warrant additional exploration efforts by the Company.

During the year ended April 30, 2004, management concluded that no further expenditures were warranted at three projects and wrote off the combined \$890,090 carrying value of Neuvo California (\$706,109), Azulcocha (\$171,654) and Wolframfed (\$12,327).

Included in the results of operations is a charge amounting to \$551,216 (2004 - \$231,222) in respect of stock-based compensation. There were a total of 6,870,000 stock options granted over the 2005 financial year, of which 5,800,000 were granted to officers and directors and a former director. The weighted average fair value of the options granted was \$0.18 per option resulting in an estimated fair value of options granted during financial 2005 of \$1.24 million. One-third or (\$0.42 million) of the fair value of these options was charged to operations. The remaining two thirds will be charged equally to the operations of the next two financial years. The balance of the \$0.54 expense results from the allocation of the fair value of options granted in prior years to the current year's operations. The charge to the 2004 financial year was to allocate the fair value of options granted in 2003 and 2004.

Consulting and management expense for the current year amounted to \$907,331 an increase of \$605,120 when compared to the year ended April 30, 2004. General and administration expense increased significantly from \$231,222 in financial 2004 to \$551,216 in financial 2005. Legal expense increased by approximately \$61,936 to \$91,495 from financial 2004. These increases are directly attributable to the acquisition of the Marcona project and the expenses recognized for financial 2005 are more likely than not to be representative of similar costs for the financial 2006 year. If exploration and development efforts during financial 2006 are successful, it is more likely than not that management and consulting costs, general and administrative costs and legal costs will increase again in financial 2007.

During 2005 the Company added three executive positions and three administrative positions in its Lima office. Additionally, a consultant that had been working on a limited ad hoc basis was engaged on a full time basis. The additional personnel not only increased direct labour costs but result in increases in general and administrative costs. Increases in permitting, contract work and regulatory compliance advice were the causes of higher legal fees during financial 2005.

At the end of financial 2004, the contract for outside exploration services, which fell under a Technical Alliance Program, was terminated. There were no costs incurred in respect of this contract during 2005.

Prior to financial 2005 the Company's Peruvian subsidiary incurred expenditures in respect of Peruvian General Sales Tax. At that time there was a level of uncertainty about whether such expenditures would be recovered under the Peruvian sale tax regime. During financial 2005, this subsidiary entered into a contract to provide services to it

Korean partners under which it will be able to recover sales tax paid. Therefore, no expense for Peruvian General Sales tax was recorded during 2005.

#### Selected Annual Information

	2005	2004	2003
Net revenue	\$ -	\$ -	\$ -
Loss before discontinued operations and extraordinary items	3,594,346	2,114,285	362,042
Net loss	3,594,346	2,114,285	362,042
Net loss per share	0.05	0.08	0.04
Total assets	28,546,684	2,744,969	946,730
Long-term financial liabilities		-	-
Shareholders' equity	27,583,750	2,566,995	698,417
Cash dividends	\$ -	\$ -	\$ -

The net losses and changes in total assets and shareholders' equity are due to the fact that Chariot has no source of revenue and depends on its ability to attract capital from investors. The Company's operating results are driven by the level of the activities, which depend on the working capital available to fund activities, non-cash charges such as stock-based compensation expense and write downs of mineral property costs previously deferred. The Company's assets and shareholders' equity are a function of the funds raised from the issuance of capital stock. As described herein, efforts during the 2005 financial year focused on the acquisition, financing and development of Marcona. These efforts were largely successful and resulted in a higher level of activity and a commensurate increase in the level of spending and expenses. Also during the year a review was conducted of the potential future benefits of ongoing exploration efforts at various mineral properties (Cello Ccasa, Yamana and Chonta) and it was determined that no further efforts are warranted at this time. The carrying value of these property interests was written off. Also as described herein, stock purchase options were granted during the year, which resulted in a charge to the current year's operations. The next two years' operations will be charged with the residual amount of stock option benefits resulting from the grant of options during the course of the 2005 financial year. All of these items have been discussed above. The acquisition of Marcona and the fund raising concluded during the year have also been discussed previously.

During the 2004 financial year an active exploration and property acquisition program was conducted by Company personnel and outside consultants. That program was largely unsuccessful in identifying potentially important mineral deposits and was terminated. In financial 2003, the Company had relatively little working capital, which restricted its activities.

## Quarterly Results of Operations

The table below sets out the Company's selected unaudited quarterly information for the most recent eight quarters.

	April 30, 2005	January 31, 2005	October 31, 2004	July 31, 2004	April 30, 2004	January 31, 2004	October 31, 2003	July 31, 2003
Loss before property write-downs	\$ 102,031	\$ 1,078,806	\$ 399,541	\$ 323,608	\$ 302,922	\$ 80,108	\$ 692,085	\$ 149,080
Mineral property write- downs	1,057,482	-	632,878	-	72,482	493,188	160,179	164,241
Net loss for the period	1,159,513	\$ 1,078,806	\$ 1,032,419	\$ 323,608	\$ 375,404	\$ 573,296	\$ 852,264	\$ 313,321
Net loss per share (basic and diluted)	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03	\$ 0.02

The Company's quarterly results vary depending on the amount of property exploration activity and the results of such activity. The activities of the Company in the most recent quarter have been principally directed to the development of the Marcona Project. The most significant charges to the Company's operations result from the write down of mineral property interests either as a result of a review of the recoverability of the carrying value of such properties or the abandonment of properties and from the recording of non-cash stock-based compensation expense as stock options are granted. During the most recent quarter there was \$1,057,460 charged as mineral property write offs.

## Liquidity and Capital Resources

The Company has no long-term debt or other long-term financial obligations and no off balance sheet commitments other than under agreements to make payments to acquire or maintain mineral property interests, make certain capital lease payments and certain contractual obligations as described herein.

In connection with the 2005 Work Plan for Marcona the Company has entered into agreements to acquire services or equipment and has committed to make certain other expenditures expected to total \$5.41 million of which \$3.64 million has been funded. All of these commitments shall be discharged during calendar 2005.

Chariot's financial instruments include term deposits, accounts receivable and accounts payable. Due to the short-term nature of these financial instruments the Company does not believe that there is any measurement, liquidity, convertibility, interest rate or credit risk associated with such instruments.

Since April 30, 2004 the Canadian dollar has appreciated relative to both the Peruvian nuevo sol ("sole") and the United States dollar. The Canadian dollar was able to purchase approximately 0.73 of a United States dollar and approximately 2.54 soles on April 30, 2004. At July 22, 2005 the Canadian dollar would purchase approximately 0.82 of a United States dollar and 2.67 soles. If this trend continues or if these relative

exchange rates remain relatively stable over the next year the Company has little or no currency exchange rate risk.

If the Canadian dollar begins to depreciate either relative to the United States dollar or the sole the Company's foreign currency spending requirements would cost relatively more Canadian dollars. In order to partially manage the potential effect of a depreciating Canadian dollar the Company plans to maintain its cash balances in relative proportion to the anticipated expenditures in each of Canadian dollars, United States dollars or soles. At this time the Company is holding US\$0.7 million.

Under its various property agreements Chariot may decline to make further payments or exploration expenditures and suffer no financial penalty, but would be required to surrender its property interest rights. The following table sets out the Company's minimum future property payment obligations, the obligations under its Lima and Toronto office leases and various other spending commitments. Chariot has the right to accelerate or in some cases make additional payments to acquire increased interests in certain properties.

	Total	Less Than One Year	One to Three Years	Fourth and Fifth Years	After Five Years
Marcona 2005 Work Plan	\$ 1,770,000	\$ 1,770,000	\$ -	\$ -	\$ -
Marcona Second Mandatory Payment	11,097,561	-	11,097,561	-	-
<b>Subtotal</b>	<b>12,867,561</b>	<b>1,770,000</b>	<b>11,097,561</b>	<b>-</b>	<b>-</b>
Antash Exploration	1,780,000	150,000	1,630,000	-	-
Bambas Este Exploration	3,654,000	617,000	3,037,000	-	-
<b>Subtotal</b>	<b>5,434,000</b>	<b>767,000</b>	<b>4,667,000</b>	<b>-</b>	<b>-</b>
Capital leases	71,586	35,252	36,334	-	-
Software licences	10,476	-	3,492	3,492	3,492
Surface rights	48,000	12,000	12,000	12,000	12,000
Lima Office	212,040	42,408	84,816	84,816	-
Toronto Office	141,947	31,051	106,460	4,436	-
	<b>24,219,609</b>	<b>3,424,711</b>	<b>20,674,662</b>	<b>104,744</b>	<b>15,492</b>

Working capital at April 30, 2005 amounted to \$7,176,065 million. This compares to working capital of \$1,201,068 at April 30, 2004. The increase in working capital is due to the equity financings and property expenditures previously discussed. Working capital was supplemented by \$4.9 million from the July 13, 2005 financing and is sufficient to fund operations and commitments for the 2006 financial year. As discussed above, financing the second mandatory payment for Marcona will require additional sources of funds.

### **Related Party Transactions**

The Company contracts with certain officers and directors or with private companies controlled by officers and directors for the performance of managerial services instead of directly employing these individuals. These contacts are at normal commercial terms. For the year ended April 30, 2005 charges to the Company from related parties for

management services from five individuals or their controlled companies amounted to \$647,244. For the year ended April 30, 2004 the Company was charged \$462,096 by five individuals or their controlled companies. Charges for services during the years ended April 30, 2005 and 2004 were performed by and amounted to:

	Services	Terms and Conditions	2005	2004
Robert Baxter, Director	Consulting	Normal Commercial	175,506	168,187
Alex Black, Director	Consulting	Normal Commercial	163,535	118,527
John Hannaford, former Director	Consulting	Normal Commercial	114,157	87,182
Ulrich Rath, Director	Consulting	Normal Commercial	126,002	67,000
Anthony Hawkshaw, Officer	Consulting	Normal Commercial	68,044	-
John Tarrant, former Director	Consulting	Normal Commercial	-	21,200
			647,244	462,096

### **Risks and Uncertainties**

Chariot has no history of profitable operations and is at an early development stage. As such, the Company is subject to numerous risks common to such enterprises. In addition, the Company is subject to risks typical of the exploration, development and mining business as well as general business, investment climate and economic risks.

Risks that are common to early stage development companies and that are applicable to Chariot include, among others, under-capitalization, potential cash shortages or working capital constraints, limitations with respect to the Company's ability to recruit and retain qualified personnel, reliance on relatively few directors and officers and limited access to capital markets. To some extent these risks were alleviated with the closing of the \$29.3 million financing and the \$5.3 million financing subsequent to year end.

Risks typical of exploration, development and mining companies, such as Chariot, include various operating hazards such as unpredictable ground conditions; ground failures; weather related events or other acts of nature; complex and changing legal and regulatory, licencing, title registration and enforceability of title ownership, environmental and taxation requirements; competition from other companies with greater resources for prospective properties, personnel or equipment, services or supplies that might be in limited supply; and the potential political risk of operating in a foreign jurisdiction such as Peru.

General business, investment climate and economic risk include market prices for the Company's principal mineral asset (copper), costs to bring future production to a marketable state and location, inflation and currency fluctuations, underlying commodity and wage rates, the availability of adequate and reasonably priced insurance coverage, the rate of economic growth and expectations for future growth or lack thereof, a lack of investment market liquidity or investors or banks willing or able to provide funds to an early stage development company.

Readers should consider the potential affect of adverse changes in the circumstances or risks applicable to Chariot in evaluating past financial results and when attempting to assess potential future financial results of the Company.

### **Critical Accounting Estimates and Accounting Policies**

The Company's principal non-monetary asset consists of deferred costs related to mineral property interests. At this time none of the Company's property interests contain economically recoverable minerals. The recoverability of the carrying value of the Company's mineral property interests depends upon the discovery of economically recoverable reserves, the ability of the Company to finance the development and future profitable production from such reserves or the Company's ability to sell such property interests and recover the associated deferred costs. Changes in future conditions or unsatisfactory exploration results could result in material write downs of the carrying values of mineral property interests. Management conducts periodic reviews of its interests in mineral properties to determine whether write downs are required. As a result of the most recent review, Management determined that write offs in the amount of \$1.4 million were required for the year ended April 30, 2005.

The Company has adopted the Canadian Institute of Chartered Accountant's Handbook Section 3110 "asset retirement obligations" which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standards apply to legal obligations associated with the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. The standards require that a liability for an asset retirement obligation be recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost should be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated nominal future value.

Prior to development activities at Marcona the Company had no asset retirement obligations. During the last quarter of financial 2005 a camp and certain other facilities were erected at Marcona. Management estimates that the cost to remove the facilities and restore the site to amount to US\$250,000 (approximately CAD\$314,000). This amount has been recognized as a liability and a corresponding asset in the accounts at April 30, 2005. As development activity continues the retirement obligation will increase, but it is impossible at this time to estimate the amount and the timing of the expected increase in obligations.

## Forward-Looking Statements

This Management's Discussion and Analysis contains forward-looking statements regarding the business of the Company, its future intentions, business plans, proposed transactions and expectations about future results of operations and financial condition. These statements are not guarantees of the Company's future performance and are subject to risks, uncertainties, changes in circumstances, unforeseeable or unforeseen events and other important factors that could cause the Company's actual performance to be materially different than those projected or discussed herein. Given the uncertainties and risks associated with Chariot's business, the reader should not place undue reliance on forward-looking statements.

## Outstanding Shares, Warrants and Options

As at April 30, 2005 the Company had 159,830,636 common shares issued and outstanding. At the date of this discussion and analysis the Company has 178,373,533 common shares issued and outstanding.

The following options and warrants, which are convertible into common shares of the Company, are outstanding at July 25, 2005.

Number of Options	Number of Options Vested	Exercise Price	Expiry Date	Number of Months to Expiry	Potential Cash Receipts
1,225,000	1,225,000	\$ 0.1600	March 7, 2008	34.3	\$ 196,000
1,100,000	1,100,000	0.4500	December 5, 2008	43.2	495,000
41,333	41,333	0.4500	April 23, 2009	47.8	18,600
2,900,000	2,900,000	0.2625	December 21, 2014	115.8	761,250
385,000	128,333	0.2625	January 26, 2015	117.0	33,688
350,000	116,667	0.2783	March 10, 2015	118.4	32,468
3,235,000	1,078,333	0.3360	April 5, 2015	119.2	362,320
9,236,333	6,589,666	\$ 0.2984		97.4	\$ 1,899,326

Number of Whole Warrants	Number of Shares Reserved	Exercise Price	Expiry Date	Number of Months to Expiry	Potential Cash Receipts
1,885,397	1,885,397	\$ 0.2000	July 17, 2005	2.6	\$ 377,079
3,653,334	3,653,334	0.2000	September 10, 2005	4.4	730,667
2,316,666	2,316,666	0.4500	April 8, 2006	11.3	1,042,500
58,600,000	58,600,000	0.3500	December 22, 2006	19.8	20,510,000
66,455,397	66,455,397	\$ 0.3410		18.1	\$ 22,660,246
(1,885,397)	(1,885,397)	0.2000	Exercised		(377,079)
8,322,000	8,322,000	0.3500	December 22, 2006		2,912,700
6,250	6,250	\$ 0.3500	December 22, 2006		2,188
72,898,250	72,898,250	\$ 0.3457			\$ 25,198,054

Note – There may be up to 2,923,750 whole warrants issued to the underwriters of the \$29.3 million equity financing as part of the underwriters' right to acquire 5,860,000 Units. These warrants would be exercisable to purchase common shares in the capital of the Company until December 22, 2006 at \$0.35 per share