

# **Chariot Resources Limited**

(an exploration stage company)

Management Discussion and Analysis  
Six Month Period Ended October 31, 2008

**December 9, 2008**

## Management's Discussion and Analysis

This Management and Discussion Analysis (MD & A) of the activities and liquidity of Chariot Resources Limited ("the Company") for the three month and six months ended October 31, 2008 and 2007 is prepared as of December 9, 2008 and should be read in conjunction with the Company's audited consolidated financial statements, the related notes thereto and the Company's Annual Information Form for the year ended April 30, 2008. All dollar amounts referred to in this discussion and analysis are expressed in Canadian dollars except where indicated otherwise. 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 for the year ended April 30, 2008.

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, 2008 Annual Information Form and audited consolidated financial statements at [www.sedar.com](http://www.sedar.com) or at the Company's website at [www.chariotresources.com](http://www.chariotresources.com).

Chariot Resources Limited is a Canadian exploration stage company focused on the acquisition, exploration and development of natural resource properties located in the Andean region of Latin America, principally Peru. The Company has no producing properties. The Company's principal asset is a 70 per cent interest in the Marcona Copper Property ("Marcona") in southern Peru.

### Business Overview

During the six months ended October 31, 2008 the Company continued to focus on the Mina Justa ("Mina Justa") project, one of at least five copper prospects located on the Marcona property. Principal activities were centered on completing the upgrading of the Mineral Resource completed in June, the Feasibility Study, the Environmental and Social Impact Assessment study and on evaluating various options for utilizing cash resources in a challenging external environment.

#### *Mineral Resource*

The Company received in June, 2008, a resource update for the Mina Justa prospect. The resource update was prepared by Snowden Mining Industry Consultants Inc. (Snowden).

At a 0.30% total copper cut-off, the updated Indicated and Inferred resources of the Mina Justa prospect are as follows:

	Million Tonnes	CuT%(i)	MlbCu (ii)
Measured	-	-	-
Indicated	331.6	0.76	5,570
Measured + Indicated	331.6	0.76	5,570
Inferred Resources	81.0	0.67	1,190

(i) total copper

(ii) million pounds

On November 16, 2006 Chariot announced a resource estimate for Mina Justa which was also prepared by Snowden. At a 0.30% total copper cut-off, the Indicated and Inferred resources of the Mina Justa prospect in 2006 were as follows:

	Million Tonnes	CuT%(i)	MlbCu (ii)
Measured	-	-	-
Indicated	346.66	0.71	5,418
Measured + Indicated	346.66	0.71	5,418
Inferred Resources	127.90	0.60	1,690

- (i) total copper  
(ii) million pounds

Notes: Mineral resources that are not reserves do not have demonstrated economic viability. Although a 0.30% total copper cut-off grade is considered a likely cut-off grade for this deposit it has not been confirmed through the appropriate economic studies. The estimated metal content does not include any consideration of mining, mineral processing, or metallurgical recoveries. Resource classification categories are in accordance with CIM (2005) definition standards. Measured and Indicated mineral resources are that part of a mineral resource for which quantity and grade can be estimated with a level of confidence sufficient to allow the application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. An Inferred mineral resource is that part of a mineral resource for which quantity and grade can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified.

The key global differences in the June 2008 and October 2006 estimates are:

- Indicated tonnes now comprise 80% of total tonnes compared to 73% in the 2006 estimate
- The grade of the Indicated resource has increased by about 7%, and the grade of the Inferred resource has increased by about 12%
- Indicated tonnes have decreased by approximately 15 million (3.4%), and Inferred tonnes have decreased by approximately 47 million (26.7%)
- Contained pounds of copper in the Indicated category have increased by 2.8% while contained pounds in the Inferred category have decreased by 29%.

None of the holes drilled in 2008 have been included in the June 2008 resource update.

#### *Definitive Feasibility Study (DFS)*

Although there have been delays in the commencement of the completion of the Feasibility Study these delays have enabled an upgrade of the June 2008 resource model which includes incorporating the bulk of the 2008 drill hole data into this model. The completion of the upgrade of the resource model has facilitated the acceleration of mine planning which is now well underway. The DFS is now scheduled for completion in the fourth quarter of this year.

Comments upon a number of the other DFS components follow:-

- General layout of the project has been completed
- Vat leaching design completed
- Oxide crushing circuit design completed
- SX/EW circuit design completed
- Preliminary concentrator design completed
- Geotech completed
- Ripios dump and tailings area designs are well underway

- Power and water corridors selected and surveyed; designs have started
- Access road design completed
- Port study is underway
- Capital and Operating costs are being developed
- Site wide water balance is close to completion

*Environmental and Social Impact Assessment (ESIA)*

The ESIA continues to progress well, a summary of this program to date follows:-

- The company has sponsored a Ministry of Energy and Mines Working Group
- There has been active local participation in the production of the ESIA
- There has been positive feedback and support resulting from the holding of public meetings
- A Baseline Survey has been completed
- A Hydro-geological study has been completed
- The characterization of the waste rock has been completed

. It is estimated that within two months of completion of the DFS that the ESIA can be completed and submitted to the regulatory authorities in order to start the project approval and permitting process.

*Senior Debt Financing*

The Company, together with its Korean Partners had previously negotiated project debt financing in the form of one common term sheet for three banks and three governmental export credit agencies. Due to the current turmoil in the world financial markets however, all parties to this agreement have agreed to suspend certain financing activities and associated costs until the DFS and ESIA have been completed. It has been further agreed that the work of the Independent Engineer will continue unabated.

**Exploration and Development of the Project**

During the six months ended October 31, 2008 the Company expended \$7,469,171 being its pro rata share of the exploration and development 2008 work plan. The following table provides an analysis of these expenditures:

	<b>Cdn\$</b>
Exploration & Development	
Resource development	2,150,091
Metallurgical test work	166,670
Feasibility Study	1,589,976
Environmental Health, Safety & Community Relations	515,586
Senior Loan financing negotiations	665,345
Project support costs	<u>2,381,503</u>
	<u>\$ 7,469,171</u>

The Work Plan for the calendar year 2008 was set at US \$22.1 million with the Company's portion being US \$15.5 million, of which the company had spent US \$13.7 million as of October 31, 2008. The following table sets out the details of this plan:

	US\$
Exploration & development	
Resource Development	4,560,050
Metallurgical test work	606,000
Feasibility Study	1,396,503
Environmental Health, Safety and Community Relations	2,414,612
Senior Loan financing negotiations	6,840,622
Project support costs	<u>6,283,700</u>
	<u>\$ 22,101,487</u>

The Preliminary Work Plan for the calendar year 2009 has been set at US \$8.0 million with the Company's portion being US \$5.6 million. The following table sets out details of this plan:

	US\$
Exploration & Development	
Resource development	318,563
Metallurgical test work	119,000
Feasibility Study	1,436,330
Environmental Health, Safety & Community Relations	809,984
Senior Loan financing negotiations	673,558
Project support costs	<u>4,635,433</u>
	<u>\$ 7,992,868</u>

In the event that the Company and the Korean Partners approve the start of construction of a mine and plant to process mineralized material from Marcona, additional contingent payments will be required to complete the acquisition of an undivided 100% interest in Marcona as follows:

An amount of US \$3.0 million will be payable to Rio Tinto Mining and Exploration, Sucursal del Peru and Shougang Hierro Peru S.A.A (the "Vendors") if the total mineral resource on the TA1 concession (which includes the Mina Justa deposit and the Magnetite Manto deposit) is greater than the equivalent of 2.58 million tonnes of contained copper metal using a copper equivalent cut-off grade of 0.3%.

An additional amount of US \$7.0 million will be payable to the Vendors if the total mineral resource on the TA1 concession is greater than the equivalent of 3.44 million tonnes of contained copper metal using a copper equivalent cut-off grade of 0.3%.

These contingent payments to the Vendors will not exceed US \$10.0 million and the amounts of such payments will be determined by whether Marcobre approves commencing the construction of mine and processing facilities on the TA1 concession and the amount of copper equivalent contained in the mineral resource on the TA1 concession.

The Company has agreed to guarantee the payment obligations of Marcobre to the Vendors under the terms of the Marcona purchase agreement. The Company 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 the Company's and the Korean Partners' guarantees and pledges are limited to their respective pro rata share ownership of Marcobre. In addition, Marcobre has granted a security interest with respect to the Marcona property as security in respect of the contingent payments described above.

## Share Capital

As at October 31, 2008 the Company had 328,695,501 (2007 – 304,691,043) shares issued and outstanding. As at the date of this report the Company has 328,695,501 shares issued and outstanding.

## Financial Summary for the period

The Company continued its accelerated development efforts on the Mina Justa project, and expenditures during the six months ended October 31, 2008 remained well within the budgeted targets.

Salaries and consulting expenses for the six months ended October, 2008 amounted to \$222,152 compared to \$182,620 in 2007. Marcona project salaries are capitalized during the exploration and development phase. The Company's employee roster is comprised of two personnel in Canada and a further forty two in its operation in Peru.

General and administration expenses of \$444,376 incurred in the six months ended October 31, 2007 decreased to \$329,703 in the current period as a result of the Company's cost control measures.

Legal expenditures of \$306,266 in the current period were an increase from \$89,970 for the comparable period in 2007. This increase in legal costs reflects, in part, the additional legal work associated with responses to a number of third party groups interested in the Marcona project.

Stock-based compensation expensed in the period was \$109,151 compared to \$167,158 in the six months ended October 31, 2007. Stock-based compensation figures will vary from period to period depending upon the fair value and the amortization schedule of previous stock option grants.

Interest income received in the current period was \$405,464 compared to \$490,096 received in the six months ended October 31, 2007.

The Company recorded a foreign exchange loss of \$157,803 in the six months ended October 31, 2008 compared to a loss of \$209,979 in the comparable period in 2007. These results reflect the continued unrest in international currency rates of exchange.

## Quarterly Results of Operations

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

	October 31 2008	July 31 2008	April 30 2008	January 31 2008	October 31 2007	July 31 2007	April 30 2007	January 31 2007
	\$	\$	\$	\$	\$	\$	\$	\$
Net profit (loss) for the period	(897,757)	166,896	(38,107)	(581,065)	(260,652)	(368,816)	(1,167,026)	(150,744)
Net gain (loss) per share (basic and diluted)	(0.003)	0.001	(0.001)	(0.002)	(0.001)	(0.001)	(0.006)	(0.001)

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 have been principally directed to the exploration of the Mina Justa project. The most significant charges to the Company's operations result from salary expense, general and administration expenses, legal expenses and the recording of non-cash stock-based compensation expense as stock options are granted.

## **Liquidity and Capital Resources**

### *Operating Activities*

Cash flows in the six months ended October 31, 2008 were an increase in cash of \$514,266 compared to the \$1,793,414 cash used in the six months ended October 31, 2007. The increase in the current period was as a result of the large decrease in the current period's operating assets and liabilities.

### *Investing Activities*

The total cash investment in mineral properties for the six months ended October 31, 2008 was \$8,370,512. These costs related primarily to the resource development drilling program, metallurgical, feasibility and environmental studies and the ongoing negotiations for project financing. The investment in 2007 was comprised of similar project costs of \$6,537,431.

The Company continues to participate in the Exploration Early Recovery Agreement with the Peruvian tax authorities. During the current period the Company received \$365,626 under this plan (2007 - \$191,818).

The classification of bank guaranteed investment certificates with a maturity date in excess of ninety days as short term investments has caused the increase of short term investments of \$14,023,059 in the current period.

### *Financing Activities*

Stock options exercised in the six months ended October 31, 2008 realized \$260,356 (2007 - \$524,103).

The Company's financial instruments include cash, term deposits, accounts receivable and accounts payable. All of the Company's term deposits are placed in guaranteed investment certificates issued by a major bank. The Company does not believe that there is any material measurement, liquidity, convertibility, interest rate or credit risk associated with such instruments.

The Company has no long-term debt or other long-term financial obligations and no off-balance sheet commitments. The Company does have the option to make its portion of the pre construction payments totalling US \$7.0 million, the annual requirement to pay the Peruvian Government land taxes and to make capital and other lease payments and honor certain contractual work program obligations as described in the 2008 and 2009 Work Plans.

During recent months, the financial strength of exploration-stage resource companies has become a concern for many shareholders. As at October 31, 2008, the Company had approximately \$21.2 million in cash, cash equivalents and short term bank deposits and no debt. With 90% of the DFS completed to date; and the ESIA also well advanced the Company has estimated that based on the 2009 Work Plan it will utilize less than 50% of its cash to carry on with its activities to the end of the 2009 financial year.

## **Management Fees and Consulting Services**

The Company had no contracts with officers or directors for any consulting services during the period.

## **Related Party Transactions**

There have been no related party transactions during the six months ended October 31, 2008.

## **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 the Company 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.

Risks typical of exploration, development and mining companies, such as the Company, 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, licensing, 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 the Company in evaluating past financial results and when attempting to assess potential future financial results of the Company.

## **Critical Accounting Estimates**

The Company's principal monetary assets consist of cash, cash equivalents and short term bank certificates. The Company's non-monetary assets consist of property acquisition and deferred costs related to the Marcona mineral property interest. At this time the Company's property interest contains the potential to host economically recoverable minerals. The recoverability of the carrying value of the Company's mineral property interest depends upon 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 value of the Marcona mineral property interest. Management conducts periodic reviews of its interest in the Marcona mineral property in order to determine whether a write down is required.

## **Changes in accounting policies**

Effective July 31, 2008 the Company has adopted two new CICA accounting policies.

### *Section 1535 – Capital Disclosures*

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Company will be required to disclose the following, based on the information provided internally to the entity's key management personnel: qualitative information about its objectives, policies and processes for managing capital; summary quantitative data about what it manages as capital; whether during the period it complied with any externally imposed capital requirements to which it is subject; and, when the company has not complied with such externally imposed capital requirements, the consequences of such non-compliance. Disclosures required by this section are included in note 7 in the unaudited consolidated financial statements for the six month period ended October 31, 2008.

### *Section 3862 - Financial Instruments,*

This section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Entities are required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments. Disclosures required by this section are included in note 10 in the unaudited consolidated financial statements for the six month period ended October 31, 2008.

## **International Financial Reporting Standards (“IFRS”)**

In 2006, the Canadian Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with 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 May 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended April 30, 2011. While the Company has begun assessing the impact of the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## **Forward –Looking Statements**

This MD &A contains forward-looking statements regarding the business of the Company, its future intentions, budget targets and financial condition. These statements are not guarantees of the Company's future performance; therefore, actual results and future events could differ materially from those anticipated in such statements. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward looking statements, include, but are not limited to, factors associated with fluctuations in the market price of metals, mining industry risks and hazards, environmental risks and hazards, uncertainty as to calculation of mineral reserves and resources, requirement of additional financing, risks of delays in construction and other risks more fully described in the Company's Annual Information Form. This document is available on Sedar at <http://www.sedar.com>.

## **Outlook**

The Company's current policy is to vigorously accelerate the development of the Mina Justa project and bring it into production. In order to accomplish this objective the following critical activities are currently being undertaken:

- Initiation of mine planning
- Completion of a Feasibility Study
- Completion of an Environmental and Social Impact Assessment
- Initiating permit applications and finalizing project debt financing

The company has announced that following completion of the Feasibility Study it will review its current policy on Mina Justa and will consider other strategic alternatives for maximizing the value of Mina Justa.

## **Disclosure Controls and Internal Controls over Financial Reporting**

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 October 31, 2008 and 2007 were prepared in accordance with Canadian generally accepted accounting principles. Management is of the opinion that there were no changes in the year that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.