

**ACERO-MARTIN EXPLORATION INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FORM 51-102F1  
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2007**

This Management's Discussion and Analysis ("MD&A") of Acero-Martin Exploration Inc. ("Acero-Martin" or the "Company") has been prepared by management as of August 29, 2007 and should be read in conjunction with the unaudited interim consolidated financial statements and related notes thereto of the Company, as at and for the six months ended June 30, 2007 and with the audited consolidated financial statements and related notes thereto of the Company, as at and for the years ended December 31, 2006 and 2005 which were prepared in accordance with Canadian Generally Accepted Accounting principles. The Company is presently a "Venture Issuer", as defined in NI 51-102.

**FORWARD LOOKING STATEMENTS**

This MD&A may contain "forward-looking statements" which reflect the Company's current expectations regarding the future results of operations, performance and achievements of the Issuer. The Issuer has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as "anticipate," "believe," "estimate," "expect" and similar expressions. The statements reflect the current beliefs of the management of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Issuer to differ materially from those expressed in, or implied by, these statements. The Company undertakes no obligation to publicly update or review the forward-looking statements whether as a result of new information, future events or otherwise. Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

**DESCRIPTION OF BUSINESS**

Acero-Martin Exploration Inc. is a Canadian based, international mineral exploration and development Company with projects in North and South America. The Company is currently focused on developing its flagship Pinaya gold-copper project in southern Peru and is rapidly advancing the project toward commercial mineral production. The Company also maintains a 75% interest in the Red Mountain gold property in the Yukon and 100% interest in two early stage gold projects in Peru: La Mamita and Minas Lucho. Acero-Martin trades on the TSX-Venture exchange under the symbol ASD and the Frankfurt stock exchange under the symbol AMX.

**EXPLORATION PROJECTS**

**Pinaya Gold-Copper Property, southeastern Peru**

*Ownership*

The Pinaya gold-copper property is located in southern Peru approximately 110 km (68 miles) northeast of the city of Arequipa. The property consists of twenty-five mineral claims covering approximately 16,900 hectares. Through various agreements and direct application with the Peruvian Ministry of Mines, Acero-Martin has acquired 100% outright ownership of the claims with no underlying royalties or back-in interests on any of the concessions.

Canper Explorations S.A.C ("Canper") originally held rights to thirteen of the twenty-five mineral concessions. Acero-Martin acquired Canper in April 2004 for a total of 3 million shares over a three year period. To acquire all the outstanding shares of Canper, the Company agreed to issue:

1 million common shares of the Company within 7 days of TSX-V Exchange approval; **(shares have been issued)**  
500,000 common shares of the Company 6 months from the Approval Date; **(shares have been issued)**  
500,000 common shares of the Company 12 months from the Approval Date; **(shares have been issued)**  
500,000 common shares of the Company 24 months from the Approval Date; **(shares have been issued)**  
500,000 common shares of the Company 36 months from the Approval Date;

An additional 1 million shares of the Company may be issued as follows:

- a) If a probable reserve of 750,000 ounces of gold is outlined at Pinaya, then 500,000 shares will be issued; and
- b) If a probable reserve of 2,500,000 ounces of gold is outlined at Pinaya, then a further 500,000 shares will be issued.

The TSX Venture Exchange approved the acquisition of the Pinaya Project on November 2, 2004.

Compañía Minera Aurifera Los Andes de Pinaya S.A.C (“COMAPI”) originally owned three of the twenty-five mineral concessions. Acero-Martin recently completed a property option agreement with COMAPI to earn 100 percent interest in these three concessions by paying COMAPI US \$2,500,000 over a three-year period.

The Don Pedro mineral concession was originally owned by Minera Pinaya. To earn 100 percent interest in the Don Pedro concession, Acero-Martin had to make staged payments to Minera Pinaya totalling US\$250,000 over three years. The payments have been made ahead of schedule and the concession is now owned 100% by Acero-Martin.

All of the other concessions are wholly owned by Acero-Martin.

***Update on the property:***

Over the last several months, the Company has made significant progress at our Pinaya gold-copper project. At the outset of the year, our short-term objectives were to prove an overall increase in the size of the deposit and to fast-track the asset towards production. The Company has put considerable effort into accomplishing these objectives and since the beginning of the year we have:

- 1. Completed a total of 14,072 meters of drilling in 43 holes bringing the total metreage at Pinaya to 35,422 meters in 135 holes.**

To date diamond drilling has focused on delineating the mineralization within the Western Porphyry and Gold Oxide Skarn Zone areas. In September of 2006, based on just the first 70 of the 135 holes drilled so far the Company released an initial NI 41-101 compliant mineral resource estimate as prepared by J.D. Blanchflower, P. Geo. Using a US\$5.50 Gross Metal Value (GMV) cut off, the report estimated that the Western Porphyry and Gold Oxide Skarn Zones together contain an Indicated Resource of 29.13 million tonnes grading 0.53 g/t gold and 0.42% copper and an Inferred Resource of 12.72 million tonnes grading 0.41 g/t gold and 0.41% copper. This equates to approximately 498,000 troy ounces of gold and 269,000,000 pounds of copper in the Indicated category, and 168,000 troy ounces of gold and 115,000,000 pounds of copper in the Inferred.

The 2007 drilling to date indicates a significant increase in the size of the deposit. Ongoing drilling since the release of the initial resource estimate has expanded and further defined the Western Porphyry and Gold Oxide Skarn Zones, which remain open for expansion along strike and down dip.

- 2. Received trenching and soil sampling results that indicate the main deposit holds excellent potential to be extended further to the northwest and southeast and highlighted the potential for new discoveries on an adjacent mineralized belt to the east;**

**On April 4, 2007**, the Company announced a summary of the results from its 2006 trenching program at the Pinaya project in southern Peru. The 2006 program consisted of 46 trenches for a total of approximately 6.4 kilometers of exposure. Within those trenches 4287 channel samples with an average width of 1.5 meters were collected and sent to SGS Laboratories in Lima, Peru for analysis.

The objective of the 2006 program was to test several prospective areas along the two parallel northwest-southeast trending belts known to exist on the property; the main resource belt and the relatively untested eastern belt.

The main resource belt includes the Western Porphyry and Gold Oxide Skarn Zone resource areas and contains both porphyry copper-gold and structurally controlled copper-gold mineralization. The belt currently forms a

mineralized zone approximately 2.5 kilometers long and up to 500 meters wide and is open to the northwest and southeast.

The latest trenching results indicate that the belt holds excellent potential to be extended to the northwest and southeast. Positive trenching results were obtained from both the northwest (Cerro Antaña zone) and southeast (Viscachani zone) ends of the belt.

The second belt tested by trenching, the eastern belt, is located approximately one kilometer to the east of the previous and, from northwest to southeast, includes the Montaña de Cobre, Minas Jorge, and Don Pedro zones. These zones appear to be along strike from each other, and form northwest-southeast trending gold-silver-copper mineralized lenticular structures that are up to approximately 800 meters long and 200 meters wide. Out of the three zones identified in the belt only Montaña de Cobre has been tested by drilling. In 2006, PDH-43 cut 56.50 meters of 1.12 g/t Au at the zone.

The area of mineralization covered by the eastern belt is highly prospective and is potentially larger than the main resource belt to the west. Positive trench results were received from the Montana de Cobre and Minas Jorge zones. Exploratory drilling on these zones is planned for 2007.

**On July 9, 2007**, the Company announced that a soil sampling campaign outlined two new large gold-copper anomalies adjacent and contiguous to the deposit defined in 2006.

In early 2007, the Company started a new geochemical soil survey to cover parts of the Pinaya property that had never been sampled before. The existing soil sample grid (roughly 3km x 2km) that covers the Western Porphyry and Gold Oxide Skarn Zones was extended to the northwest by an area of roughly 2 km x 0.8 km, and to the southeast by an area roughly 4 km x 1.4 km. The objective was to extend the grid to cover the northwest and southeast extensions of the Tertiary Puno group, which hosts the known gold-copper mineralization at Pinaya.

A total of 723 soil samples were collected from the new grid areas and analyzed by fire assay for gold and 34 element ICP at SGS Laboratories in Lima, Peru.

The soil sampling in the northwestern grid revealed an anomalous area measuring 2.2 km x 400-600 meters wide. Copper values within the zone ranged up to 56.5 ppm and gold values up to 84 ppb. The anomaly remains open to the north and west.

Soil sampling in southeastern grid also revealed an area approximately 2.8 km x 200-600 meters wide which is strongly anomalous in copper, with values as high as 1212.8 ppm. There is a smaller coincident gold anomaly within this zone, with values as high as 126 ppb Au. The area is notable from a distance with a visible color anomaly containing abundant iron oxides in the soil and remains open to the southeast.

The zone of anomalous gold and copper mineralization defined by soil sampling at Pinaya has now been tripled from 3 kilometers to over 9 kilometers of strike length and remains open at both ends.

### **3. Added a Vice President of Mine Development with extensive industry experience to spearhead the development of an initial gold mining operation at Pinaya;**

**On May 24, 2007**, the Company announced that Mr. Ralph Stricklen B.Sc. (Metallurgical Eng.) joined the Company as Vice President, Mine Development. Mr. Stricklen has more than 30 years of mine development and project management experience, 12 of which were spent in Peru. Most recently, he was project manager for a smelter rationalization program at Inco Limited's Thompson Smelter in Manitoba, Canada. He has held similar project management and mine development positions at other major mining companies including HudBay Minerals Inc. and Southern Peru Copper.

Mr. Stricklen brings extensive development, process engineering and operation expertise to the Company. His primary role will be to lead the development of an initial open-pit gold operation at Pinaya.

**4. Obtained positive preliminary metallurgical results which demonstrated good gold recoveries and indicated that we have several options available for the extraction of the gold resource at Pinaya;**

**On May 11, 2007**, the Company announced that Process Research Associates, under the supervision of Minefill Services Inc. completed their first pass metallurgical test program on Pinaya drill core samples.

The program was aimed at assessing the recovery of gold by cyanide leaching to aid in the development of an initial starter pit at the high-grade Gold Oxide Skarn Zone (“GOSZ”). The work, done in preparation for a scoping study later in 2007 was very successful with the results suggesting that leaching for recovery of gold, either in a heap leach environment, or in a CIP/CIL circuit, is a viable option for extraction of the gold resource at Pinaya.

The test program consisted of 22 samples weighing about 6 kg/sample from a range of drill holes and sample depths. Samples were taken from both the Gold Oxide Skarn Zone and Western Porphyry geological targets. The samples comprised coarse rejects from assaying.

The samples were subject to 48 hrs leaching in a bottle roll test, at an initial NaCN concentration of 2.0 g/t, at a pH of 10.5. Recoveries of gold and copper were measured at intervals up to 48 hrs. The average gold recovery in the 22 samples was 70% with gold recoveries as high as 97% after 48 hours.

Additional testing is planned to specifically target samples from the high-grade portion of the GOSZ. The additional tests include column leach tests, as well as gravity recovery for coarse gold. Furthermore, the Company is planning on conducting thin section work to investigate the size of the gold grains and the associated mineralogical occurrences.

**5. Advanced towards initial gold production by commissioning Minefill Services to prepare a Preliminary Economic Assessment (“scoping study”);**

**On May 16, 2007**, the Company announced that MineFill Services, Inc. had been commissioned to prepare a Preliminary Economic Assessment (“scoping study”) in support of the development of a starter pit at the high grade Gold Oxide Skarn Zone at Pinaya. The scoping study will provide the Company with preliminary recommendations regarding mine planning and design and a general indication of overall project economics.

MineFill will evaluate a number of development options, including heap leaching, or milling with CIL and CIP recovery of gold. Minefill will also oversee additional metallurgical studies for Pinaya targeting core from the Gold Oxide Skarn Zone. The study is expected to be complete by Q3 2007 leading to a detailed engineering and pre-feasibility study shortly thereafter.

**6. Paid the final CDN\$1.1 million property payment due to Compañía Minera Aurifera Los Andes de Pinaya S.A.; thereby obtaining 100% ownership of the main concessions at Pinaya;**

**On May 28, 2007**, the Company announced that it had made its final property payment to Compañía Minera Aurifera Los Andes de Pinaya S.A. (“COMAPI”) for the three main concessions that make up the Pinaya deposit in Southern Peru.

The final payment of US\$1,100,000 was the last installment of a three year option agreement with COMAPI. Under the terms of the agreement signed in 2004, the Company could earn 100% interest in the concessions by making staged payments totaling US\$2,500,000 over three years. Acero-Martin has now made all of these payments and through its wholly owned Peruvian subsidiary Canper Exploraciones S.A.C. now owns 100% of the concessions which are not subject to any royalties or back-in interests by COMAPI.

**7. Strengthened our team by establishing an Advisory Board of key mining and exploration industry veterans;**

**On May 9, 2007**, the Company announced the establishment of a Technical Advisory Board to provide advice on the development of the Pinaya Gold-Copper project and the appointment of award winning professional geoscientist

Patrick McAndless, noted geologist and geochemist Dr. Barry Smee, and experienced mine developer Malcolm Swallow to the Board.

**8. Added approximately 5,800 hectares of land to the Pinaya property; bringing the total land package to 16,900 hectares;**

***Ongoing Exploration:***

Surface exploration, drilling, and development work is ongoing on the Pinaya property.

**Drilling:**

So far this year a total of 14,072 meters of drilling in 43 holes has been completed. In the upcoming months, drilling will continue to be focused on defining and expanding the Western Porphyry and Gold Oxide Skarn Zone resource areas. In addition, some newly emerging outlying targets areas such as Minas Jorge, Montana de Cobre, and Viscachani will be tested.

**Surface Exploration:**

Ongoing surface work includes trenching, mapping, and soil and rock sampling. Using soil and rock sampling to target trenching has been very successful on the project. In turn, the trenching is then used to help direct the drilling program.

**Development Work:**

Alongside the drilling and surface exploration, work in support of the development of an initial starter pit at the Gold Oxide Skarn Zone is underway. Currently, environmental (Vector Engineering), social-economic (Social Capital), and preliminary economic assessment studies (Minefill Services) are in progress.

**Red Mountain Gold Property**

The Company has 75% interest in 52 mineral property claims located in the Yukon Territory Canada, known as the Red Mountain Property. As part of the acquisition of the Red Mountain Property, the Company agreed to spend \$1.5 million on the property within 30 months from the date of the acquisition. To date, the Company has spent in excess of \$2.4 million on the property (before Yukon tax credits of approximately \$500,000) and has met the exploration expenditure requirements under the Option Agreement. The vendor retains a 2% NSR of which 1% may be purchased from the vendor for \$1 million.

**La Mamita Property, northern Peru**

La Mamita is located in northern Peru in the Ancash mining camp near the 7.1 million ounce Alto Chicama gold deposit. La Mamita consists of a single concession and covers an area of 1,000 hectares. Results from a recent surface sampling program showed highly anomalous gold values ranging from 0.23 to 6.37 g/t gold, and averaged 1.43 g/t gold. Consideration for La Mamita was \$25,000 (U.S.) (paid) and 25,000 common shares (issued). La Mamita is a grassroots to early exploration stage project.

**Minas Lucho Property, southeastern Peru**

The Minas Lucho concessions cover an area of about 1,200 hectares and are located southeast of the Pinaya Project in the Province of San Roman, Peru. The claims cover an extensive zone of alteration, which lies along a trend of structurally controlled zones gold mineralization. Minas Lucho is a grassroots project.

## **FINANCINGS**

In March, 2007, the Company closed a \$5,739,250 brokered private placement for 11,478,500 units. Each unit comprises of one common share and one non transferable share purchase warrant entitling the holder of each warrant to purchase one additional common share for \$0.75 up to and including March 5, 2008. The units are subject to a four month hold period. The Company paid \$459,140 to the broker and issued 1,147,850 broker units. Each broker unit consist of one common share and one share purchase warrant exercisable at \$0.75 per share for a period of 12 months up to March 5, 2008. The placement has received regulatory approval.

In March, 2007, the Company closed a \$1,342,500 non-brokered private placement for 2,685,000 units. Each unit comprises of one common share and one non transferable share purchase warrant entitling the holder of each warrant to purchase one additional common share for \$0.75 up to and including March 16, 2008. The units are subject to a four month hold period. Finders' fees of \$51,040 were paid in cash. The placement has received regulatory approval.

### **Stock Options**

As at June 30, 2007, there were 3,757,500 outstanding stock options exercisable at prices from \$0.50 to \$0.95 for up to 2012.

### **Warrants**

As at June 30, 2007, the following warrants were outstanding:

Number of Warrants	Exercise price	Expiry date
11,478,500	\$0.75	March 05, 2008
2,685,000	\$0.75	March 16, 2008

## **SELECTED FINANCIAL INFORMATION**

For the years ended December 31, 2006, 2005 and 2004 (\$)

<b>Audited</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Total assets	13,193,373	7,261,851	6,069,476
Total Liabilities	518,196	291,210	205,458
Shareholders equity	12,675,177	6,970,641	5,864,018

Revenues	27,480	14,926	3,126
<b>Major expense items</b>			
Accounting and audit	37,625	87,868	27,423
Consulting fees	510,507	63,429	26,270
Office, rent and misc.	119,850	96,346	87,587
Legal	152,391	156,189	159,434
Management fees	253,000	112,000	11,000
Public relations	227,608	29,108	24,000
Stock exchange and filing fees	30,106	17,482	14,636
Stock based compensation	1,102,856	433,125	1,393,000
Transfer agent fees	23,720	20,738	23,290
Net loss	2,633,640	1,396,297	1,901,015
Loss per share	0.07	0.05	0.09

By recent eight Quarters (\$)

	<b>June 30, 2007</b>	<b>Mar 31, 2007</b>	<b>Dec 31, 2006</b>	<b>Sep 30, 2006</b>	<b>June 30, 2006</b>	<b>Mar 31, 2006</b>	<b>Dec 31, 2005</b>	<b>Sep 30, 2005</b>
Total assets	19,462,156	19,230,592	13,193,373	13,227,895	11,077,998	10,470,833	7,261,851	6,998,209
Total liabilities	844,557	344,336	518,196	356,414	644,350	315,805	291,210	300,234
Shareholders equity	18,617,599	18,886,256	12,675,177	12,871,481	10,433,648	10,155,028	6,970,641	6,697,975
Revenues	25,359	13,350	7,382	10,652	9,144	302	963	7,777
<b>Major expense items</b>								
Accounting and audit	0	6,000	19,625	6,000	6,000	6,000	81,426	1,000
Legal	38,387	99,936	62,179	(3,560)	78,549	15,223	(159,802)	111,659
Management fees	46,400	43,000	48,000	46,000	108,000	51,000	30,000	24,000
Consulting fees	28,115	194,702	14,311	270,388	128,925	96,883	27,829	10,448
Office, rent and misc.	91,654	80,342	11,348	28,501	19,162	53,354	43,258	31,204
Public relations							7,273	-
Stock-based compensation	65,205	15,701	6,228	820,528	37,300	238,800	433,125	-
Stock exchange and filing fees	5,206	38,046	550	1,206	4,745	23,605	4,386	750
Transfer agent fees	14,797	3,687	3,988	5,307	9,777	4,648	2,319	3,410
Net loss	333,862	524,392	202,533	1,352,193	529,235	549,679	625,554	279,247
Loss per share	0.01	0.01	0.01	0.03	0.01	0.02	0.05	0.01

**SUMMARY OF QUARTERLY RESULTS**

For the three month period ended June 30, 2007, the Company had revenues of \$25,359 compared to \$9,144 for the same period last year. Net loss improved by \$195,373 to \$333,862 due largely to a decrease in Consulting and Legal fees as compared to the same period last year.

Year to date, the Company had revenues of \$38,709 compared to \$9,446 for the same period last year. Net loss improved by \$230,106 to \$896,963 due largely to a decrease in Stock-based compensation.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's working capital was \$2,829,762 as at June 30, 2007. The Company may raise additional funds to meet its ongoing commitments.

**RELATED PARTY TRANSACTIONS**

For the six month period ended June 30, 2007, the Company incurred management fees of \$89,400 for two Directors and one Officer. The management fees were incurred in the normal course of business.

**DISCLOSURE CONTROLS AND PROCEDURES**

Management has assessed the effectiveness of the Company's disclosure controls and procedures used for the financial statements and MD&A as at June 30, 2007. Management has concluded that the disclosure controls are effective in ensuring that all material information required to be filed has been made known to them in a timely manner. The required information was effectively recorded, processed, summarized and reported within the time period necessary to prepare the annual filings. The disclosure controls and procedures are effective in ensuring that

information required to be disclosed pursuant to applicable securities laws are accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. Additional disclosures pertaining to the Company's material change reports, press releases and other information are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)

#### **OFF- BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet arrangements.

#### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from those estimates.

#### **DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

The Company did not have significant revenues in its last three financial years.

#### **TECHNICAL ADVISORY BOARD, DIRECTORS, AND OFFICERS**

##### **Technical Advisory Board**

Patrick McAndless  
Dr. Barry Smee  
Malcolm Swallow

##### **Directors**

Donald Gee  
David Stone  
Michael Scholz  
Len De Melt  
Jody Dahrouge  
Greg Hall

##### **Officers**

Donald Gee- President and CEO  
Cary Pothorin- VP Exploration  
Ralph Stricklen- VP Mine Development  
Len De Melt- Chairman of the Board  
Wan Jung- Chief Financial Officer  
Des Balakrishnan- Corporate Secretary