

**SALARES LITHIUM INC.**  
*(formerly P2P Health Systems Inc.)*

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE THREE MONTHS ENDED OCTOBER 31, 2009**

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**MANAGEMENT DISCUSSION AND ANALYSIS**

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The following Management Discussion and Analysis (“MD&A”) of the financial condition and results of operations of Salares Lithium Inc. (*formerly P2P Health Systems Inc.*) (the “Company”), dated as at December 22, 2009, should be read in conjunction with the interim unaudited financial statements and accompanying notes for the three months ended October 31, 2009 and the audited financial statements and accompanying notes for the year ended July 31, 2009. The reader should note that there has been a change of management and a proposed change of business, which was announced in June 2009. Please refer to the Company’s June 3, October 15, November 11 and November 26, 2009 news releases.

All monetary amounts in this MD&A and in the financial statements are expressed in Canadian dollars, unless otherwise stated. All of the financial information referenced below has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applied on a consistent basis.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements (see “Forward-Looking Statements” reference in this report).

**Description of Business**

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The Company was formed on October 9, 2003 by the completion of a takeover bid by Technology and Resource Capital Corporation (“TRC”), a capital pool company listed on the TSX Venture Exchange (the “Exchange”) pursuant to which TRC acquired all of the issued and outstanding shares of Person to Person Health Systems Inc., a private company amalgamated under the *Nova Scotia Companies Act* on January 15, 2001 (“Person to Person”). Person to Person then became the Company’s wholly-owned subsidiary. In conjunction with the acquisition, TRC changed its name to P2P Health Systems Inc. and Person to Person was discontinued under Section 133 of the *Companies Act of Nova Scotia* and was granted a Certificate of Continuance under the British Columbia Company Act. Subsequent to the Company’s fiscal year ended July 31, 2008, the subsidiary Person to Person was wound up and dissolved.

The Company was previously focused on the development of its peer to peer video streaming technology which would enable viewers to watch secure on-demand video on their computer with no added investment for equipment or software. On March 11, 2008, the Company announced that it had reached a settlement with the University of British Columbia (“UBC”) regarding the software code underlying the Company’s Reel Joe peer to peer streaming technology. Under the terms of the settlement, the parties agreed that the Collaborative Research Agreement and associated Software License Agreement between the Company and UBC would be terminated and that all the technology licensed by the Company from UBC, including the Reel Joe peer to peer streaming technology, would be transferred to UBC in consideration for a \$200,000 payment by UBC to the Company. Consequently, the Company has ceased the development of the Company’s Reel Joe technology and has been seeking alternative business opportunities.

On June 3, 2009, the Company announced that it had entered into a letter agreement dated May 22, 2009, with Salares Atacama SCM (“SALA”), a private Chilean incorporated company, and its individual shareholders, namely Rinaldo Vecchiola Trabuco, Guido Vecchiola Trabuco, Edgar Vecchiola Trabuco, Alejandro Moreno Prhens and Juan Villarzu Rhode, all residents of Chile (collectively, the “Shareholders”). Pursuant to the letter agreement, the Company has the option to acquire up to 70% of the outstanding share capital of SALA. SALA is the 100% owner of seven salares (brine lakes) (“Salares 7”) known as Piedra Parada, Grande, Aguilar, Agua Amarga, La Isla, Las Parinas and Maricunga in Chile’s Region III.

The Company executed a definitive agreement (the “Agreement”) on November 25, 2009, which replaces and supersedes the letter agreement dated May 22, 2009, as amended, pursuant to which the Company was granted the option to acquire up to 70% in the share capital of SALA.

Effective November 26, 2009, the Company changed its name to ‘Salares Lithium Inc.’ from ‘P2P Health Systems Inc.’ and graduated from the NEX to the Exchange as a Tier 2 mining issuer under the symbol ‘LIT’.

### **Activities for the Reporting Period**

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During the three months ended October 31, 2009, the Company announced the closing of its private placement in the amount of \$1,500,000 subscription receipts which was originally announced on June 3, 2009. The Company added additional expertise to the board of directors by announcing the appointment of Dr. David Shaw as Chairman of the Board of Directors of the Company.

The Company proceeded to finalize the reorganization and focus of the Company per its announcement on June 3, 2009, which was concluded on November 25, 2009 and included:

1. Completion of a definitive agreement for the earn-in interest in SALA;
2. Change of business into the mining sector and reactivation on the Exchange as a Tier 2 mining issuer;
3. Consolidation of shares outstanding on a basis of two (2) existing common shares for one (1) new common share;
4. Change of name to ‘Salares Lithium Inc.’ from ‘P2P Health Systems Inc.’.

### **Subsequent Events**

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On November 10, 2009, the Company announced the outcome of a special meeting of shareholders which resulted in shareholders approving the following:

1. Change of business into the mining sector;
2. Consolidation of shares outstanding on a basis of two (2) existing common shares for one (1) new common share;
3. Change of name to ‘Salares Lithium Inc.’ from ‘P2P Health Systems Inc.’.

On November 25, 2009, the Exchange issued a final bulletin approving the change of business, graduation from NEX to the Exchange, symbol change, private placement, consolidation of share capital and change of name. Proceeds from the private placement, which closed on September 22, 2009, were released from escrow on November 26, 2009.

On December 1, 2009, the Company announced the appointment of Dr. Luis Ignacio Silva, PhD, C.Eng, as Exploration and General Manager, Chile and the initiation of exploration on its’ Salares 7 lithium project. The program includes geophysical surveys to define the size and extent of brine pools within the basins and detailed sampling of the brines within the salares.

### **Salares 7 Project**

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#### ***The Agreement***

The Definitive Agreement with SALA grants the Company an option to acquire up to 70% of the outstanding share capital of SALA which is the sole owner of seven salares (brine lakes) known as Piedra Parada, Grande, Aguilar, Agua Amarga, La Isla, Las Parinas and Maricunga (collectively, the

“Concessions”) in Chile’s Region III. Historical sampling has reported lithium and potash levels in all of the Concessions. Brine sources for lithium production accounted for over 60% of the world’s primary supply in 2008.

Under the Agreement, the Company has the exclusive right and option to acquire:

1. an initial 50% ownership interest (the “First Option”) in SALA, and indirectly the Concessions, upon filing with the Canadian regulatory authorities a National Instrument 43-101 compliant technical report regarding the Concessions, which was filed on October 15, 2009, and carrying out expenditures on the Concessions of US\$2,500,000 on or before the third anniversary of the entering into by the parties of the Definitive Agreement (as defined below); and
2. an additional 20% ownership interest (the “Second Option”) in SALA, and indirectly the Concessions, upon completion, at the Company’s expense, and delivery to SALA’s board of directors a bankable feasibility study (the “Feasibility Study”) on the Concessions within 24 months from the date the First Option is exercised.

Notwithstanding that the Company may elect to exercise the First Option, there is no obligation to complete and deliver the Feasibility Study or exercise the Second Option. If the Company exercises the First Option but does not exercise the Second Option, it will retain its 50% ownership interest in SALA. If the First Option is terminated other than by the exercise thereof, the Company will have no further obligations or interest in the Concessions.

Upon completion of the Feasibility Study, the Company will have the exclusive right to arrange for project financing for the Concessions which are the subject of the Feasibility Study.

The board of directors of SALA will at all times be comprised of three directors, with the Company entitled to appoint two nominees and the Shareholders collectively being entitled to appoint one nominee, regardless of the number of shares of SALA held by the Company or the Shareholders at any such time. Together with the Shareholders, the Company will appoint a technical management committee which will be comprised of three members, with the Company entitled to designate two members and the Shareholders collectively being entitled to designate one member, to oversee the operations of the exploration and development of the Concessions including the supervision of the preparation of the Feasibility Study.

If any of the Shareholders or the Company wishes to sell its ownership interest in SALA, the other parties have a pre-emptive right of first refusal to acquire such shares.

### The Project

The Salares 7 lithium project is made up of 7 salares (brine lakes) in Region III, Chile. The project comprises 39,404 hectares (400 square kilometres ("sq km")) of exploration potential within the salares.

A NI 43-101 technical report on the Salares 7 project dated August 31, 2009, was filed on SEDAR on October 15, 2009.

The Salares 7 lithium project has a unique feature in that 5 of the 7 salares are clustered within 200 sq km and in an area easily accessible by road. The second unique aspect of these 5 clustered salares is that they are, with the SALA partners, 100% owned. There is no severed ownership, allowing for the Company to advance beyond exploration, subject to feasibility, unencumbered by possible competing parties. The initial phase of the exploration program is based on the recommendations set forth in the technical report and will encompass geophysical surveys to define the size and extent of brine pools within the basins and detailed sampling of the brines within the salares.

## Annual Financial Information

The following selected financial information is derived from the audited financial statements of the Company for the years ended July 31, 2009, 2008 and the seven months ended July 31, 2007 and the year ended December 31, 2006, which are prepared in accordance with Canadian GAAP.

	Year Ended July 31, 2009	Year Ended July 31, 2008	Seven months Ended July 31, 2007	Year Ended December 31, 2006
	\$	\$	\$	\$
Operations:				
Revenues	-	-	-	-
Net loss	1,011,911	252,616	1,220,063	281,153
Net loss per share	0.05	0.02	0.04	0.01
Balance Sheet:				
Working capital (deficit)	(137,112)	108,082	(238,024)	(559,124)
Total assets	143,560	396,053	558,386	13,078
Total liabilities	224,734	207,193	779,046	716,199

## Quarterly Financial Data

The following is a summary of the Company's quarterly results for the eight most recently completed financial quarters ended October 31, 2009:

Description	October 31, 2009 \$	July 31, 2009 \$	Apr 30, 2009 \$	Jan 31, 2009 \$	Oct 31 2008 \$	Jul 31, 2008 \$	Apr 30, 2008 \$	Jan 31, 2008 \$
Total assets	289,746	143,560	119,930	313,503	235,559	396,053	201,176	159,290
Working capital (deficiency)	(434,144)	(137,112)	(124,300)	67,158	(46,995)	108,082	(647,195)	(729,918)
Shareholders' equity (deficiency)	(234,752)	(81,174)	(51,808)	143,918	34,330	188,860	(555,178)	(632,821)
Total Revenues	-	-	-	-	-	-	-	-
Operating expenses	451,662	262,454	238,402	259,051	197,205	728,158	744,427	552,765
Net income (loss)	(451,662)	(317,253)	(238,402)	(259,051)	(197,205)	(252,616)	8,338	(273,897)
Basic and diluted income (loss) per share	(0.02)	(0.02)	(0.01)	(0.01)	0.00	(0.01)	(0.01)	(0.01)

## **Results of Continuing Operations for the Three Months Ended October 31, 2009**

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This report represents the Company's operating results for the three months ended October 31, 2009 and 2008.

### **General and Administrative Expenses**

The Company reported a net loss of \$451,662 (2008 - \$197,205) which included non-cash stock based compensation expense of \$276,563 (2008 - \$42,675).

- Professional fees of \$9,033 (2008 - \$nil).
- Administrative related expenses decreased to \$8,476 (2008 - \$nil).
- Management fees decreased to \$35,000 (2008 - \$59,500).
- Filing and transfer fees of \$14,987 (2008 - \$4,494).
- Office related expenses decreased to \$14,987 (2008 - \$25,524)
- Legacy company research and due diligence fees including property of \$92,918 (2008 - \$nil).

General and administrative expenses excluding stock-based compensation during the three months ended October 31, 2009 increased by 13% compared to the prior year's comparable period.

### **Liquidity and Capital Resources**

Activities of the Company have historically been funded through the sale of common shares and government assistance (prior to the reactivation) relating to research and due diligence activities and sales and marketing operations.

As at October 31, 2009, the Company had a working capital deficit of \$434,144 compared to a deficit balance of \$137,112 at July 31, 2009. A cash balance of \$42,567 was held at October 31, 2009, compared to \$47,553 at July 31, 2009. The Company record deferred acquisition costs of \$199,392 related to costs incurred for the Agreement. As at October 31, 2009, the Company's liabilities comprised of accounts payable and accrued liabilities of \$374,498 compared to \$224,734 as at July 31, 2009 and a short term loan payable of \$150,000 bearing a 2.50% annual interest rate and is repayable on demand.

Net cash used in operating activities for the three months ended October 31, 2009 was \$33,049 compared to \$144,083 for the prior year's comparable period.

During the three months ended October 31, 2009, a total of 200,000 share purchase warrants were exercised for total proceeds of \$40,000 and 65,625 share purchase options were exercised for proceeds of \$13,125.

Subsequent to the three months ended October 31, 2009 and in conjunction with the proposed change of business and subsequent change in management, the Company closed a non-brokered private placement to raise gross proceeds of up to \$1,500,000 consisting of up to 9,375,000 subscription receipts, at a price of \$0.16 per subscription receipt. Proceeds of which were released from escrow November 26, 2009. Each subscription receipt entitled the holder to acquire, for no additional consideration, one unit of the Company comprised of one common share and one share purchase warrant. Each warrant will be exercisable to purchase an additional common share at a price of \$0.32 per share for a period of 36 months from the date of deemed exercise of the subscription receipts.

The proceeds from the private placement will be used for exploration work on the Concessions in accordance with the requirements of the Agreement and the recommendations contained in the technical report and for general working capital purposes.

### **Related Party Transactions**

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During the three months ended October 31, 2009, the Company had the following related party transactions:

- (a) Paid consulting fees to companies controlled by officers and a director of \$35,000 (2008: \$59,500), of which \$12,500 remained in accounts payable at October 31, 2009.

### **Outstanding Share Data**

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- a) Authorized: Unlimited number of common shares without par value.
- b) Issued and outstanding as at October 31, 2009: 22,480,462 common shares with a stated value of \$5,249,616.
- c) Outstanding incentive stock options:

<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>(post-consolidation)</b>		<b>Expiry Date</b>
62,500	\$0.60	April 4, 2012
50,000	\$1.26	July 12, 2012
400,000	\$0.20	May 26, 2013
1,760,000	\$0.20	October 13, 2014

During the three months ended October 31, 2009, 65,625 stock options were exercised and 9,375 stock options were forfeited and cancelled.

- d) Outstanding warrants:

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>(post-consolidation)</b>		
1,725,000	\$0.20	January 9, 2010
1,660,000	\$0.20	January 23, 2010

During the three months ended October 31, 2009, 200,000 warrants were exercised for proceeds of \$40,000.

- e) Shares in escrow or pooling agreements: Nil

## **Market Risks**

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Market risks represent the risk of loss that may impact the Company's consolidated financial statements due to adverse changes in financial market prices and rates. Management monitors the movement of currency exchange rates and, on that basis, decides on the appropriate measures to take. The Company does not hold or issue financial instruments for trading purposes.

## **Market for Securities**

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Effective November 26, 2009, the Company's common shares are listed and posted for trading on the Exchange under the trading symbol "LIT". Prior to this date, they were listed on the NEX under the symbol 'PTP.H'.

## **Off Balance Sheet**

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No off balance sheet transactions or commitments as defined by National Instrument 51-102 have been transacted during the three months ended October 31, 2009.

## **Critical Accounting Estimates**

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The preparation of financial statements in accordance with GAAP requires the Company to select from possible alternative accounting principles and to make estimates and assumptions that affect the reported results. Critical accounting policies that affect the financial statements are summarized in Note 2 to the audited consolidated financial statements for the year ended July 31, 2009 and unaudited interim financial statements for the three months ended October 31, 2009.

## **Changes in Accounting Policies including Initial Adoption**

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There were no changes in accounting policies for the three months ended October 31, 2009.

## **Management's Responsibility for Financial Information**

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Management has prepared the information and representations in this report. The financial statements have been prepared to conform to GAAP and, where appropriate, reflect management's best estimates and judgment. The financial information presented throughout this report is consistent with the data presented in the audited consolidated financial statements.

## **Additional Disclosure for Venture Issuers without Significant Revenue**

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Additional disclosure concerning the Company's general and administrative expenses and mineral property costs is provided in its audited consolidated statements of operations, deficit and comprehensive loss and the notes contained in its consolidated interim financial statements for the three months ended October 31, 2009.

## **Increased Costs and Compliance Risks**

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Legal, accounting and other expenses associated with public company reporting requirements have increased significantly in the past few years. The Company anticipates that costs may continue to increase with recently adopted corporate governance requirements, including new rules implemented by the Exchange. Like many smaller public companies, the Company face a significant impact from compliance with the requirement for management to evaluate the effectiveness of internal control over financial reporting. Any failure to effectively implement new or improved internal controls, or to resolve difficulties in their implementation, could harm the Company's operating results, cause us to fail to meet reporting obligations

or result in management being required to give a qualified assessment of its internal controls over financial reporting. Any such result could cause investors to lose confidence in the Company's reported financial information, which could have a material adverse effect on its share price.

### **Approval**

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The Company's board of directors has approved the disclosure contained in this MD&A.

### **Additional Information**

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Additional information relating to its company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Statements**

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This document contains forward-looking statements, which may include sales, earnings, and profitability comments. These statements may contain words such as "anticipated", "expected", "could", "should", "may", "plans", "will", or similar expressions that are based on and arise out of its experience, its perception of trends, current conditions and expected future developments as the Company as other factors. These statements are not a guarantee of future performance. By their very nature, forward-looking statements involve uncertainties and risks that the forecasts and targets will not be achieved.

Readers are cautioned not to place undue reliance on forward-looking statements as a number of important factors, as disclosed herein and in its other continuous disclosure documents, could cause actual results to differ materially from those expressed in such forward-looking statements. The Company includes in publicly available documents filed from time to time with securities commissions and the Exchange, a thorough discussion of the risk factors that can cause its anticipated outcomes to differ from actual outcomes. The Company disclaims any intention or obligation to update or revise forward-looking statements.