

# **SALAZAR RESOURCES LIMITED**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

### **Background**

This discussion and analysis of financial position and results of operation is prepared as at November 21, 2008, and should be read in conjunction with the unaudited interim consolidated financial statements for the nine months ended September 30, 2008, of Salazar Resources Limited (the "Company") where necessary. Those financial statements have been prepared in accordance with Canadian generally accepted accounting policies ("GAAP"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Company Overview**

The Company's principal business activity is the acquisition, exploration and development of mineral properties in Latin America. The Company presently has no proven or probable reserves and, on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. Consequently the Company considers itself to be an exploration stage company.

The Company is currently a reporting issuer in British Columbia, Alberta, Ontario and Nova Scotia. The Company's shares trade on the TSX Venture Exchange ("TSXV") under the symbol "SRL" as a junior mining issuer.

On March 8, 2007 (the "Effective Date"), the Company, purchased all of the issued shares of Curimining in exchange for the issuance of 15,000,000 common shares of the Company to the shareholders of Curimining (the "Curimining Shareholders") and assumption of US \$970,000 debt (collectively the "Acquisition"). In addition up to 7,000,000 additional common shares may be issued to the Curimining Shareholders on an earn-out basis. To fully earn these additional shares, a total of 11.2 million ounces of gold in an "indicated category" must be identified within a period of four years.

The completion of the Acquisition resulted in the Curimining Shareholders holding the majority of the Company's combined issued and outstanding common shares. Since the transaction resulted in the Curimining Shareholders acquiring control of the Company the Acquisition has been treated for accounting purposes as a recapitalization. In accounting for this transaction:

- (i) Curimining is deemed to be the purchaser and parent company for accounting purposes. Accordingly, its net assets are included in the consolidated balance sheets at their historical book value;
- (ii) control of the net assets and business of the Company was acquired on the Effective Date. The transaction has been accounted as a purchase of the assets and liabilities of the Company by Curimining. The assets and liabilities of the Company have been recorded at their fair values.

### **Mining Mandate in Ecuador**

During April 2008, the National Constituent Assembly of Ecuador introduced a mandate revoking tenements in payment default, without EIA studies, and inside environmental protection areas, and suspending all mineral exploration activities until a new Constitution and Mines Act are introduced. The time period of the moratorium is not specified in the Mandate, but statements by the Government indicate six month suspension of work. Although the immediate effect of the Mandate has delayed the planned work program of the Company, the regularization of the industry with the new mining legislation will be beneficial in the long term.

The Company has taken the following actions as a result of the Mandate:

- Immediate cessation of all field exploration activities
- Retention of core technical and management teams

- Termination of substantially all support staff
- Continued regulatory reporting on environmental monitoring, payment of license and rental fees on mineral tenements

Draft copies of the new mining legislation in public circulation indicate that there will be no major changes which will materially affect the exploration activities of the Company. The new legislation will include stricter environmental protection measures, increased tenement rental fees, and a production royalty.

The new mining legislation is planned to be implemented in January 2009 and the Company will restart the exploration activities sometime after the new mining legislation is introduced.

### **Properties Update**

On April 18, 2008, Ecuador's constitutional assembly approved a mining mandate and as a result the Company has curtailed operations in Ecuador. See "Mining Mandate in Ecuador".

Ecuador's new Minister of Mines and Petroleum, Derlis Palacios, declared that the new mining law should be enacted by early January 2009. On October 22, 2008 the Ministry confirmed that the Mining Mandate issued on April 18, 2008 will continue until January 2, 2009 when the period of 180 working days expires. Salazar has maintained key staff in the towns of Las Naves and El Congreso during the mining suspension and is well-positioned to resume the phase 2 exploration program on its Curipamba Property, especially at El Domo Anomaly.

No significant exploration work was completed this quarter. A review of work to date is included under "Curipamba Project, Ecuador."

The Company is well financed and has assembled a strong exploration team. Operations and expenditures in Ecuador were shortened and placed on a maintenance basis since April 2008. At the present time the Company is focusing its efforts to review other opportunities to acquire resource properties outside of Ecuador.

### ***Curipamba Project, Ecuador***

The Curipamba Project, a 100% owned property (71,297.83 hectares), is a gold, silver and copper exploration district located in central-west Ecuador in the Western Mountain range about a 2.5-hour drive from Guayaquil.

#### *Exploration Summary*

- No exploration activities have been executed during this quarter due to the mining moratorium, but Salazar's social team is still working with the communities and has maintained a good relations.
- An Inferred Resource Calculation is being prepared for the El Domo anomaly by PGeo. Peter Karelse.
- An update to the NI 43-101 of the Curipamba Project is being prepared by PGeo. John Buckle.
- The final report of the geophysics survey carried out by Geofisica Consultores has been finalized and coincides with results obtained of John Buckle's interpretations. It includes 76 km of magnetometry and 56 km of induce polarization ("IP") throughout the Curipamba Project.

#### *El Domo Anomaly*

The El Domo anomaly was identified by a ground geophysics program at Las Naves. An IP anomaly was identified between lines 5100N to 5500N with amplitudes consistent with very high chargeability and low resistivity values which are characteristic of semi-massive to massive sulphide bodies.

Along this anomaly 2,634 metres were drilled in 13 holes and the drill program confirmed the intersection of a newly discovered massive sulphide body, rich in chalcopyrite-sphalerite-pyrite-galena with 50% - 90% sulphides. The widths vary from 5.8 to 19 metres. Hydrothermal breccia with disseminated pyrite plus stockwork of sphalerite and chalcopyrite lies below the massive sulphide.

Latest results of El Domo are presented in the following table:

Drill Hole	From (m)	To (m)	Intercept (m)	Gold (g/t)	Silver (g/t)	Copper (%)	Lead (%)	Zinc (%)
<b>CURI-08-049</b>	60.9	69.1	8.2	1.69	22.31	1.05	0.22	2.24
<b>CURI-08-050</b>	117	127.33	10.33	1.8	54.52	1.89	0.12	1.42
	136.15	139.75	3.6	1.06	15.68	1.94	0.1	0.8
<b>CURI-08-051</b>	NO SIGNIFICANT VALUES							

### *Conclusions*

- The geophysics program identified 11 anomalies with high chargeability and low resistivity (characteristic of massive sulphides bodies), some are similar to El Domo.
- To date the Company has only tested the El Domo Anomaly and the geochemical anomalies that do not correspond with the geophysics. There are ten additional geophysics anomalies to be tested.

### *Work Program*

- Regional geophysics program; 93 linear kilometres of IP with lines every 500 metres, magnetometry and gravimetry which will comprise the area between La Vaquera going by the El Domo Anomaly and finishing at the Piedras Blancas Anomaly.
- Geological mapping at a detailed scaled will be carried out at Sesmo Sur and La Vaquera, with the purpose to comprehend the mineralized body intercepted during phase I drilling program, and also the significant geochemical and geophysics anomalies in the area.
- Phase II drill program:
  - 5000 metres of drilling in 20 diamond drill holes (“DDH”) along the El Domo Anomaly with the purpose to delineate the VMS mineralization (Tambo Grande type) encountered in that area.
  - 4400 metres in 22 DDH at geochemistry and geophysics anomalies of Sesmo Sur and La Vaquera anomalies and at the other geochemistry and geophysics anomalies along the area.
  - 2800 metres in 14 DDH along the other geochemistry and geophysics anomalies at the Las Naves concession.

### *Exploration in Colombia*

Since the introduction of the Mining Mandate in Ecuador the Company has been actively seeking new opportunities in South America with a focus on Colombia and Peru. Subsequent to quarter end the Company has established a branch company, Mataje Colombia S.A., in Bogota, the capital city of Colombia. The Company has retained local staff and has sent a qualified exploration team to Colombia. The Company has filed applications for approximately 70,000 hectares in 35 concessions, which are still in progress at Ingeominas, the government body in charge of the mining properties. The geological team has been doing regional reconnaissance in different parts of the country.

- Preliminary exploration has been conducted on approximately 50% of the ground applied for. The results to date have not been encouraging.
- The exploration team has visited several projects offered by other companies. Two grass root projects have been considered by Salazar’s technicians and management to be of economic interest. Unfortunately there has not been an agreement due to excessive demands of the vendors.
- During this quarter the exploration team have collected 97 rock samples and 84 stream sediment samples at its initial recognizance phase along the properties still in progress at Ingeominas by SRL. Results are still pending from the lab.

### *Exploration in Peru*

Subsequent to quarter end a new subsidiary was established in Peru, Salazar Resources Peru C. A. The Company has sent qualified staff to manage operations in the country and has filed applications for approximately 6,200 hectares in 5 concessions, which are still in the process of being granted. The team has been doing regional reconnaissance in different parts of the country.

- During this quarter the exploration team has collected 261 rock samples at its initial recognizance phase along the properties. Results are still pending from the lab.
- The exploration team has visited several projects offered by other companies. Some of these projects are of interest and are being re-visited.

The Company has expensed, as general exploration, all costs related to identifying and review of potential properties in Colombia and Peru.

### Selected Financial Data

The following selected financial information is derived from the unaudited consolidated interim financial statements of the Company prepared in accordance with Canadian GAAP.

Three Months Ended	Fiscal 2008			Fiscal 2007			Fiscal 2006	
	Sep. 30 \$	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$	Sep. 30 \$	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$
<b>Operations:</b>								
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expenses	(685,933)	(762,222)	(360,592)	(724,899)	(933,498)	(672,078)	(1,036,241)	(30,189)
Other items	74,680	44,826	138,408	89,036	(91,198)	(109,510)	(28,185)	Nil
Net loss	(611,253)	(717,396)	(222,184)	(635,863)	(1,024,696)	(781,588)	(1,064,426)	(30,189)
Basic and diluted loss per share	(0.02)	(0.02)	(0.01)	(0.03)	(0.04)	(0.03)	(0.13)	(94.93)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Balance Sheet:</b>								
Working capital (deficiency)	6,874,782	7,441,251	8,727,485	10,297,426	11,390,883	11,490,214	2,647,914	(252,957)
Total assets	14,020,385	14,611,238	15,379,268	15,492,918	15,476,964	14,416,400	5,290,744	290,561
Total long-term liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

### Results of Operations

During the nine months ended September 30, 2008 (the “2008 period”) the Company reported a net loss of \$1,550,833, compared to a net loss of \$2,870,710 for the nine months ended September 30, 2007 (the “2007 period”), a decrease in loss of \$1,319,877. The decrease in loss during the 2008 period is mainly attributed to the stock-based compensation of \$1,571,400 in the 2007 period versus \$336,598 in the 2008 period and the corporate sponsorship fee of \$123,000 in the 2007 period.

General and administrative expenses decreased by \$833,070 from \$2,641,817 during the 2007 period to \$1,808,747 during the 2008 period. Specific expenses of note are as follows:

- \$ incurred \$53,941 (2007 - \$42,472) for accounting, administrative and management services and \$3,006 (2007 - \$3,006) for office rent provided by Chase Management Ltd. (“Chase”) a private corporation owned by Mr. Nick DeMare, a director of the Company;
- \$ incurred corporate development costs of \$67,668 (2007 - \$132,585) for attendance at investment conferences in North America and Europe and for a marketing campaign. During the 2007 period the Company had several marketing campaigns in Canada and Europe;
- \$ legal fees of \$34,036 (2007 - \$49,912) were paid. During the 2007 period, the fees were mainly for services with respect to the recapitalization of the Company;
- \$ incurred \$254,663 (2007 - \$214,129) for salaries and benefits for the administrative staff in Ecuador;
- \$ effective March 1, 2007, the Company entered into an investor relations agreement with Empire Communications Inc. (“Empire”) to provide market awareness and investor relations activities on a monthly basis. During the 2008 period, the Company paid \$87,000 (2007 - \$59,500) for investor relations to Empire;
- \$ incurred \$558,638 (2007 - \$36,522) for general exploration expenses. During the 2008 period the Company has been actively seeking new mineral properties in Columbia and Peru;
- \$ the Company recorded \$336,598 (2007 - \$1,571,400) non-cash stock-based compensation expense attributed to the granting and vesting of stock options;
- \$ incurred audit fees of \$39,875 (2007 - \$17,458) for the audit of the Company’s year-end financial statements. During the 2007 period the recorded audit fees were lower due to the change in the basis for recording audit fees;

- \$ during the 2007 period the Company incurred \$123,000 for corporate sponsorship by Canaccord Capital Corporation, comprising of a cash payment of \$25,000 and issuance of 140,000 common shares, at an ascribed value of \$98,000;
- \$ incurred office expenses of \$156,315 (2007 - \$87,090) for maintaining an office in Canada and Ecuador;
- \$ recorded amortization of \$38,747 (2007 - \$8,326) on its capital assets in Ecuador; and
- \$ consulting fees decreased by \$46,000 from \$94,056 in the 2007 period to \$48,056 in the 2008 period. During the 2007 period consulting fees were for services mainly to assist in securing financing for the Company.

During the 2008 period, the Company reported interest and other income of \$173,532 (2007 - \$175,635).

During the 2008 period, the Company incurred a total of \$2,291,125 (2007 - \$3,498,636) for mineral property interests and related exploration activities.

### **Financial Condition / Capital Resources**

As at September 30, 2008, the Company had working capital of \$6,874,782. The Company believes that it currently has sufficient financial resources to conduct the exploration programs on its existing mineral properties, make property payments and patent fees, and meet anticipated corporate administration costs for the upcoming 12 month period. However, exploration activities may change due to ongoing results and recommendations, or the Company may acquire additional properties, which may entail significant funding or exploration commitments. In the event that the occasion arises, the Company may be required to obtain additional financing. The Company has relied solely on equity financing to raise the requisite financial resources. There can be no assurance that the Company will be successful in raising future financing should the need arise.

On April 18, 2008, Ecuador's constitutional assembly passed a decree revoking most of the mining concessions in the country. The Company will be reassessing its level of exploration activities in Ecuador, pending clarification of how this law impacts on the Company's mineral property interests. See also "Ecuador Mining Mandate" in Note 13. In light of the Ecuador Mining Mandate the Company is actively identifying and reviewing properties in Columbia and Peru.

### **Contractual Commitments**

The Company has no contractual commitments.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Proposed Transactions**

The Company has no proposed transactions.

### **Critical Accounting Estimates**

A detailed summary of all the Company's significant accounting policies is included in Note 2 to the audited consolidated financial statements for the year ended December 31, 2007.

### **Changes in Accounting Policies**

The Company has no changes in accounting policies.

## Transactions With Related Parties

During the nine months ended September 30, 2008 and 2007 the Company was billed by certain directors and private corporations owned by directors of the Company, as follows:

	September 30, 2008 \$	September 30, 2007 \$
Accounting, administration and management	53,941	23,465
Management fees	-	19,007
Professional fees	27,537	19,793
Rent	3,006	2,004
	<u>84,484</u>	<u>64,269</u>
Mineral resource expenditures	<u>447,961</u>	<u>-</u>

The above transactions have been recorded at the exchange amounts agreed to by the related parties and the Company. As at September 30, 2008, accounts payable and accrued liabilities include \$10,960 (2007 - \$50,805) due to the related parties.

## Risks and Uncertainties

The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral concessions, claims and other interests, as well as for the recruitment and retention of qualified employees.

The Company is in compliance in all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's material mineral properties are located in Ecuador and consequently the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry. See also "Ecuador Mining Mandate" in Note 13.

## Investor Relations Activities

Effective March 1, 2007, the Company entered into an investor relations agreement with Empire Communications Inc. ("Empire") to provide market awareness and investor relations activities on a monthly basis. The agreement may be terminated with written 30 days notice. During the 2008 period, the Company paid \$87,000 (2007 - \$59,500) for investor relations to Empire.

## Outstanding Share Data

The Company's authorized share capital is unlimited common shares with no par value. As at November 21, 2008, there were 28,891,445 issued and outstanding common shares, 6,766,527 warrants outstanding at exercise prices ranging from \$1.40 to \$4.00 per share, 110,000 agent's options at an exercise price of \$0.70 per share and 2,721,100 stock options outstanding at exercises prices ranging from \$1.00 to \$3.00 per share.