

---

---

# SALAZAR RESOURCES LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2007

*(Unaudited - Prepared by Management)*

---

---

## **MANAGEMENT'S COMMENTS ON UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of Salazar Resources Limited for the three months ended March 31, 2007, have been prepared by and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

**SALAZAR RESOURCES LIMITED**  
**INTERIM CONSOLIDATED BALANCE SHEETS**

*(Unaudited - Prepared by Management)*

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	\$	\$ <i>(Note 4)</i>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	3,219,294	17,966
Amounts receivable	14,116	48,894
Prepaid expenses and deposits	<u>131,494</u>	<u>-</u>
	3,364,904	66,860
<b>CAPITAL ASSETS</b> (net of accumulated amortization of \$2,775)	118,154	60,247
<b>MINERAL PROPERTY INTERESTS</b> (Note 5)	<u>1,807,686</u>	<u>193,643</u>
	<u><u>5,290,744</u></u>	<u><u>320,750</u></u>

**LIABILITIES**

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	290,417	150,590
Advances payable (Note 4)	-	169,227
Amount due (Note 9(b))	<u>426,573</u>	<u>-</u>
	<u>716,990</u>	<u>319,817</u>

**SHAREHOLDERS' EQUITY**

<b>SHARE CAPITAL</b> (Note 6)	5,050,165	933
<b>CONTRIBUTED SURPLUS</b> (Note 7)	801,650	-
<b>DEFICIT</b>	<u>(1,278,061)</u>	<u>-</u>
	<u>4,573,754</u>	<u>933</u>
	<u><u>5,290,744</u></u>	<u><u>320,750</u></u>

**NATURE OF OPERATIONS** (Note 1)

**RECAPITALIZATION AND ACQUISITION** (Note 4)

**SUBSEQUENT EVENTS** (Note 13)

APPROVED BY THE DIRECTORS

"Fredy Salazar" , Director

"Nick DeMare" , Director

*The accompanying notes are an integral part of these interim consolidated financial statements.*

**SALAZAR RESOURCES LIMITED**  
**INTERIM CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

	\$
<b>EXPENSES</b>	
Accounting and administration	5,505
Amortization	2,775
Consulting	10,452
Corporate development	30,666
Corporate sponsorship (Note 4)	123,000
General exploration	13,144
Investor relations	8,500
Legal	25,361
Office	38,919
Regulatory	3,317
Rent	1,834
Salaries and benefits	82,361
Shareholder costs	1,930
Stock-based compensation (Note 7)	674,200
Transfer agent	2,295
Travel	11,982
	<u>1,036,241</u>
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(1,036,241)</u>
<b>OTHER ITEMS</b>	
Interest and other income	7,134
Foreign exchange	<u>(35,319)</u>
	<u>(28,185)</u>
<b>NET AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u><u>(1,064,426)</u></u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u><u>\$(0.13)</u></u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u><u>7,940,961</u></u>

*The accompanying notes are an integral part of these interim consolidated financial statements.*

**SALAZAR RESOURCES LIMITED**  
**INTERIM CONSOLIDATED STATEMENT OF DEFICIT**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

	\$
<b>DEFICIT - BEGINNING OF PERIOD</b>	-
Net liabilities assumed at time of recapitalization (Note 4)	<u>(213,635)</u>
	(213,635)
<b>LOSS FOR THE PERIOD</b>	<u>(1,064,426)</u>
<b>DEFICIT - END OF PERIOD</b>	<u><u>(1,278,061)</u></u>

*The accompanying notes are an integral part of these interim consolidated financial statements.*

**SALAZAR RESOURCES LIMITED**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

	\$
<b>CASH PROVIDED FROM (USED FOR)</b>	
<b>OPERATING ACTIVITIES</b>	
Net loss for the period	(1,064,426)
Adjustment for items not affecting cash	
Amortization	2,775
Stock-based compensation	674,200
Corporate sponsorship	<u>98,000</u>
	(289,451)
Decrease in amounts receivable	(130,994)
Increase in prepaid expenses and deposits	43,217
Increase in accounts payable and accrued liabilities	<u>(97,286)</u>
	<u>(474,514)</u>
<b>INVESTING ACTIVITIES</b>	
Cash assumed on recapitalization	1,777,003
Additions to mineral property interests	(429,474)
Additions to capital assets	<u>(60,682)</u>
	<u>1,286,847</u>
<b>FINANCING ACTIVITIES</b>	
Issuance of common shares	2,654,500
Share issue costs	(201,418)
Advances from legal parent, prior to recapitalization	638,333
Repayment of amount due	<u>(702,420)</u>
	<u>2,388,995</u>
<b>INCREASE IN CASH FOR THE PERIOD</b>	3,201,328
<b>CASH - BEGINNING OF PERIOD</b>	<u>17,966</u>
<b>CASH - END OF PERIOD</b>	<u><u>3,219,294</u></u>

**SUPPLEMENTARY CASH FLOW INFORMATION** (Note 12)

*The accompanying notes are an integral part of these interim consolidated financial statements.*

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**1. NATURE OF OPERATIONS**

On March 7, 2007, the Company changed its name from Consolidated Kookaburra Resources Ltd. to Salazar Resources Limited.

With the acquisition of Curimining S.A. ("Curimining"), as discussed in Note 4, the Company's principal business activity is the acquisition, exploration and development of mineral properties in Ecuador. 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 amounts shown as mineral property interests represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The underlying value of the mineral properties and related deferred costs is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and upon future profitable production.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. Accordingly, the financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

These interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian GAAP and include the accounts of the Company and its wholly-owned subsidiary, Curimining. Inter-company balances and transactions are eliminated on consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. Actual results could differ from these estimates. These interim consolidated financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

*Mineral Property Interests*

Mineral property costs and exploration, development and field support costs directly relating to mineral properties are deferred until the property to which they relate is placed into production, sold or abandoned. The deferred costs will be amortized over the life of the orebody following commencement of production or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property are expensed as incurred.

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

On a periodic basis, management reviews the carrying values of deferred mineral property acquisition and exploration expenditures with a view to assessing whether there has been any impairment in value. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or interest will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or interest.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received.

The Company also accounts for foreign value added taxes as part of deferred costs. The recovery of these taxes will commence on the beginning of foreign commercial operations. Should these amounts be recovered they would be treated as a reduction in the carrying costs of mineral property interests.

***Cash Equivalents***

Cash includes cash and short-term deposits maturing within 90 days of the original date of acquisition. As at March 31, 2007, the Company does not hold any short-term deposits.

***Capital Assets***

Capital assets is recorded at cost less accumulated amortization. Amortization is recorded on a straight line basis at the following annual rates:

Office equipment and furniture	10%
Vehicles	20%
Computer equipment	33%

***Asset Retirement Obligations***

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at March 31, 2007, the Company does not have any asset retirement obligations.

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Impairment of Long-Lived Assets***

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings. Fair value is generally determined using a discounted cash flow analysis.

***Stock Based Compensation***

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

***Income Taxes***

Future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

***Translation of Foreign Currencies***

Integrated foreign operations are translated using the temporal method. Under this method, the Company translates monetary items at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at rates in effect during the period in which they were earned or incurred. Revenues and expenses are translated at average rates in effect during the period except for depreciation and amortization which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income.

***Loss Per Share***

Loss per share is computed by dividing loss to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**3. CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2007 the Company has adopted two new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

*Financial Instruments - Recognition and Measurement (Section 3855)*

In accordance with this new standard, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivables, or other financial liabilities. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized on the statement of loss.

Upon adoption of this new standard, the Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Exploration advances and other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. As at March 31, 2007, the Company did not have any financial assets classified as available-for-sale and therefore the adoption of the standards noted above had no effect on the presentation of the Company's financial statements.

*Comprehensive Income (Section 1530)*

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports a statement of comprehensive income and a new category, accumulated other comprehensive income, in the shareholders' equity section of the balance sheet. The components of this new category will include unrealized gains and losses on financial assets classified as available-for-sale.

**4. RECAPITALIZATION AND ACQUISITION**

On September 20, 2006, the Company, Curimining and Messrs. Fredy Salazar and Pablo Acosta (collectively the "Curimining Shareholders"), entered into an agreement (the "Curimining Agreement") whereby the Company agreed to purchase all of the issued shares of Curimining in exchange for the issuance of 15,000,000 common shares of the Company to the Curimining Shareholders and assumption of US \$970,000 owing to Mr. Salazar (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 common shares will be subject to escrow restrictions in accordance with the policies of the TSX Venture Exchange (the "TSXV"). The Company also agreed to issue 500,000 common shares, at an ascribed value of \$350,000, as a finder's fee in connection with the Acquisition.

The Company agreed to make advances to Curimining for working capital purposes. As at March 8, 2007, the Company had advanced \$807,560 to Curimining. In addition the Company agreed to pay Canaccord Capital Corporation ("Canaccord") \$25,000 cash and issue 140,000 common shares, at an ascribed value of \$98,000, as a corporate sponsorship fee.

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**4. RECAPITALIZATION AND ACQUISITION** (continued)

On March 8, 2007 (the "Effective Date"), the Company completed all of the transactions contemplated under the Acquisition. 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 interim 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, as follows:

	\$
Cash	1,777,003
Amounts receivable and prepaids	8,939
Accounts payable and accrued liabilities	<u>(181,537)</u>
Net working capital	1,604,405
Advances to Curimining, eliminated on consolidation	807,560
Share subscriptions received	<u>(2,625,600)</u>
Net liabilities assumed	<u><u>(213,635)</u></u>

- (iii) the comparatives figures as at December 31, 2006, are those of Curimining. As Curimining was incorporated on August 8, 2006, there are no comparative figures for the interim consolidated statements of operations, deficit and cash flows for the three months ended March 31, 2007.

**5. MINERAL PROPERTY INTERESTS**

	March 31, 2007			December 31, 2006		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$
Curipamba	966,976	198,188	1,165,164	57,445	94,190	151,635
Ruminahui	410,416	35,141	445,557	6,312	12,726	19,038
Other	<u>174,226</u>	<u>22,739</u>	<u>196,965</u>	<u>17,890</u>	<u>5,080</u>	<u>22,970</u>
	<u><u>1,551,618</u></u>	<u><u>256,068</u></u>	<u><u>1,807,686</u></u>	<u><u>81,647</u></u>	<u><u>111,996</u></u>	<u><u>193,643</u></u>

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**5. MINERAL PROPERTY INTERESTS (continued)**

(a) Curipamba Project

The Company owns or has a right to acquire a 100% interest in 16 concessions covering approximately 71,297 hectares located in the provinces of Bolivar and Cotopaxi, Ecuador.

A portion of these concessions were acquired pursuant to an option agreement which requires three additional option payments of US \$25,000 on June 30, 2007, US \$30,000 on June 30, 2008 and US \$500,000 on June 30, 2009.

(b) Ruminahui Project

The Company owns or has a right to acquire a 100% interest in nine concessions covering approximately 33,896 hectares located in the provinces of Pichincha, Ecuador.

One concession, the Moncayo concession, was acquired pursuant to an option agreement which requires four additional option payments of US \$42,000 payable on September 1, 2007, March 1, 2008, September 1, 2008 and March 1, 2009. A further payment of US \$110,000 is payable if the Company wishes to sell its interest in this concession.

**6. SHARE CAPITAL**

Authorized: unlimited number of common shares without par value

	Number of Shares	Amount \$
Issued:		
Balance, December 31, 2006	<u>800</u>	<u>933</u>
Adjustment of shares to reflect shares of the legal parent at time of recapitalization	16,694,982	-
Issued for cash		
Private placements	5,958,000	5,220,600
Exercise of warrants	42,500	59,500
Issued for commissions and fees on private placements	485,000	392,550
Issued for fees on recapitalization (Note 4)	<u>640,000</u>	<u>448,000</u>
	23,820,482	6,120,650
Less: share issue costs	<u>-</u>	<u>(1,071,418)</u>
	<u>23,820,482</u>	<u>5,049,232</u>
Balance, March 31, 2007	<u><u>23,821,282</u></u>	<u><u>5,050,165</u></u>

(a) During the three months ended March 31, 2007, the Company:

- (i) completed a non-brokered private placement of 1,500,000 units at \$1.00 per unit for gross proceeds of \$1,500,000. Each unit comprised one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional share at a price of \$1.50 per share on or before March 8, 2009.

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**6. SHARE CAPITAL** (continued)

- (ii) completed a short-form offering with Canaccord and issued 2,000,000 units at \$1.00 per unit for gross proceeds of \$2,000,000. Each unit comprised one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase an additional share at a price of \$1.50 per share on or before March 19, 2009. The Company paid Canaccord a \$160,000 cash commission and a \$5,000 administration fee and issued a total of 325,000 units at an ascribed value of \$325,000. Each unit comprised one common share and one-half share purchase warrant. Each whole warrant entitles Canaccord to purchase an additional share at \$1.00 per share on or before March 19, 2009.

The fair value of the agent's warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 85%; a risk free interest rate of 3.97%; and an expected life of 2 years. The value assigned to the agent's warrants was \$29,250.

The Company incurred \$36,418 for costs associated with the financing.

- (iii) completed a private placement of convertible debentures (the "Debentures") for gross proceeds of \$1,720,600, under which the Company had received \$1,616,000 proceeds as at December 31, 2006, and the remaining \$104,600 during the three months ended March 31, 2007. On March 8, 2007, the Debentures were converted into 2,458,000 units of the Company at \$0.70 per unit, with each unit comprising one common share and one-half warrant. Each full warrant entitles the holder to purchase an additional common share at a price of \$1.40 per share on or before March 8, 2009. The Company also issued 160,000 units, at an ascribed value of \$112,000, to Canaccord as a finder's fee. Each unit comprised one common share and one-half warrant. The units issued to Canaccord have the same terms as the units issued under the private placement.

The fair value of the agent's warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 85%; a risk free interest rate of 3.97%; and an expected life of 2 years. The value assigned to the agent's warrants was \$15,200.

The Company also granted an agent's option to Canaccord to acquire 200,000 units at a price of \$0.70 per unit on or before December 22, 2008. Each unit is comprised of one common share and one-half warrant. Each full warrant will entitle Canaccord to purchase an additional common share at a price of \$1.40 per share on or before December 22, 2008. The agent's option remained unexercised at March 31, 2007.

The fair value of the agent's option have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 85%; a risk free interest rate of 4.06%; and an expected life of 2 years. The value assigned to the agent's option was \$83,000.

The Company incurred a total of \$34,817 for costs associated with the private placement.

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**6. SHARE CAPITAL** (continued)

- (b) A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at March 31, 2007, and the changes for the three months ended March 31, 2007, is as follows:

	Number	Weighted Average Exercise Price \$
Balance, beginning of period	152,500	1.40
Issued	3,971,500	1.47
Exercised	<u>(42,500)</u>	1.40
Balance, end of period	<u>4,081,500</u>	1.47

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at March 31, 2007:

Number	Exercise Price \$	Expiry Date
110,000	1.40	October 27, 2007
1,309,000	1.40	December 22, 2008
1,500,000	1.50	March 8, 2009
<u>1,162,500</u>	1.50	March 19, 2009
<u>4,081,500</u>		

- (c) As at March 31, 2007, 15,000,000 common shares are held in escrow.
- (d) See also Note 13.

**7. STOCK OPTIONS AND STOCK BASED COMPENSATION**

The Company has established a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of the stock options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSX Venture Exchange. The stock options have a maximum term of five years.

During the three months ended March 31, 2007, the Company granted 2,010,000 stock options to directors, employees, and consultants and recorded compensation expense of \$674,200.

The fair value of stock options granted to directors, employees and consultants is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants made during the three months ended March 31, 2007:

Risk-free interest rate	3.92%
Estimated volatility	85% - 123%
Expected life	3 years
Expected dividend yield	0%

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**7. STOCK OPTIONS AND STOCK BASED COMPENSATION** (continued)

The weighted average fair value of all stock options granted during the three months ended March 31, 2007, to the Company's directors, employees and consultants was \$0.37 per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

A summary of the Company's stock options at March 31, 2007 and the changes for the three months ending March 31, 2007, is presented below:

	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	-	-
Granted	<u>2,010,000</u>	1.07
Balance, end of period	<u><u>2,010,000</u></u>	1.07

The following table summarizes information about the stock options outstanding and exercisable at March 31, 2007:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
1,760,000	1,760,000	1.00	February 26, 2010
200,000	-	1.36	February 28, 2010
<u>50,000</u>	<u>50,000</u>	2.51	March 12, 2010
<u><u>2,010,000</u></u>	<u><u>1,810,000</u></u>		

**8. CONTRIBUTED SURPLUS**

Contributed surplus for the three months ended March 31, 2007, comprises the following:

	\$
Balance, beginning of period	-
Stock-based compensation (Note 7)	674,200
Stock-based compensation on agent's options and warrants (Note 6)	<u>127,450</u>
Balance, end of period	<u><u>801,650</u></u>

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**9. RELATED PARTY TRANSACTIONS**

- (a) During the three months ended March 31, 2007, the Company was billed by private corporations owned by directors of the Company, as follows:

	\$
Accounting and administration	2,000
Management fees	3,505
Professional fees	3,168
Rent	334
	9,007
	9,007

The above transactions have been recorded at the exchange amounts agreed to by the related parties and the Company. As at March 31, 2007, accounts payable and accrued liabilities include \$11,944 due to the related parties.

- (b) The Company incurred an amount of \$1,128,993 (US \$970,000) due to Mr. Fredy Salazar under the terms of the Curimining Agreement, of which it has since retired \$702,420 (US \$600,000) and \$426,573 (US \$370,000) remains outstanding as at March 31, 2007. The amount due is non-interest bearing and is due upon completion of the Company's next equity financing.
- (c) As at March 31, 2007, accounts payable and accrued liabilities include \$28,071 for unpaid past directors' fees.

**10. SEGMENTED INFORMATION**

The Company operates in one industry segment, the exploration and development of unproven mineral property interests. The Company's unproven mineral property interests are located in Ecuador and its corporate assets, comprising mainly of cash, are located in Canada.

	<b>March 31, 2007</b>		
	<b>Corporate</b>	<b>Mineral</b>	<b>Total</b>
	\$	\$	\$
Current assets	2,968,915	395,989	3,364,904
Capital assets	-	118,154	118,154
Unproven mineral property interests	-	1,807,686	1,807,686
	2,968,915	2,321,829	5,290,744
	2,968,915	2,321,829	5,290,744
	<b>December 31, 2006</b>		
	<b>Corporate</b>	<b>Mineral</b>	<b>Total</b>
	\$	\$	\$
Current assets	-	66,860	66,860
Capital assets	-	60,247	60,247
Unproven mineral property interests	-	193,643	193,643
	-	320,750	320,750
	-	320,750	320,750

**SALAZAR RESOURCES LIMITED**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**  
*(Unaudited - Prepared by Management)*

**11. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair values of financial instruments at March 31, 2007, were estimated based on relevant market information and the nature and terms of financial instruments. Management is not aware of any factors which would significantly affect the estimated fair market amounts, however, such amounts have not been comprehensively revalued for purposes of these financial statements. Disclosure subsequent to the balance sheet dates and estimates of fair value at dates subsequent to March 31, 2007, may differ significantly from that presented.

Fair value approximates the amounts reflected in the financial statements for cash, amounts receivable and accounts payable and accrued liabilities. It is not practicable to estimate the fair value of the Due to Shareholder.

The Company may be subject to currency risk due to the fluctuations of exchange rates between the Canadian dollar and other foreign currencies. However, the Company is not subject to significant interest and credit risks arising from these instruments.

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

Non-cash activities were conducted by the Company as follows:

	\$
Operating activity	
Increase in accounts payable and accrued liabilities	<u>55,576</u>
Investing activity	
Additions to mineral property interests	<u>(1,184,569)</u>
Financing activities	
Share issue costs	(968,000)
Shares issued on share issue costs	840,550
Contributed surplus	127,450
Amount due on acquisition	<u>1,128,993</u>
	<u>1,128,993</u>

**13. SUBSEQUENT EVENTS**

Subsequent to March 31, 2007, the Company issued 311,750 common shares for proceeds of \$391,000 on the exercise of 248,000 warrants and 60,000 agent's options.

**SALAZAR RESOURCES LIMITED**  
**INTERIM CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS**

	<u>Three Months Ended March 31, 2007</u>				<u>Period ended December 31, 2006</u>
	<u>Curipamba \$</u>	<u>Ruminahui \$</u>	<u>Other \$</u>	<u>Total \$</u>	<u>Total \$</u>
<b>BALANCE</b>					
<b>- BEGINNING OF PERIOD</b>	<u>151,635</u>	<u>19,038</u>	<u>22,970</u>	<u>193,643</u>	<u>-</u>
<b>EXPENDITURES DURING THE PERIOD</b>					
<b>EXPLORATION COSTS</b>					
Camp costs	16,696	1,360	3,417	21,473	12,152
Camp supervision and personnel	60,963	17,656	11,263	89,882	49,898
Mobilization	16,200	1,547	1,540	19,287	5,366
Exploration site	(2,706)	-	-	(2,706)	38,213
Supplies	<u>12,845</u>	<u>1,852</u>	<u>1,439</u>	<u>16,136</u>	<u>6,409</u>
	<u>103,998</u>	<u>22,415</u>	<u>17,659</u>	<u>144,072</u>	<u>112,038</u>
<b>ACQUISITION COSTS</b>					
Acquisition (Note 4)	752,662	376,331	-	1,128,993	-
Concession payments	22,308	1,379	59,722	83,409	59,520
Legal	65,726	653	620	66,999	7,306
Patents	59,502	25,741	94,887	180,130	5,775
Other	<u>9,333</u>	<u>-</u>	<u>1,107</u>	<u>10,440</u>	<u>9,004</u>
	<u>909,531</u>	<u>404,104</u>	<u>156,336</u>	<u>1,469,971</u>	<u>81,605</u>
	<u>1,013,529</u>	<u>426,519</u>	<u>173,995</u>	<u>1,614,043</u>	<u>193,643</u>
<b>BALANCE - END OF PERIOD</b>	<u><u>1,165,164</u></u>	<u><u>445,557</u></u>	<u><u>196,965</u></u>	<u><u>1,807,686</u></u>	<u><u>193,643</u></u>