

# **SALAZAR RESOURCES LIMITED**

*(formerly Consolidated Kookaburra Resources Ltd.)*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2007**

### **Background**

This discussion and analysis of financial position and results of operation is prepared as at May 28, 2007 and should be read in conjunction with the unaudited consolidated financial statements for the three months ended March 31, 2007 and the audited consolidated financial statements for the years ended December 31, 2006 and 2005 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**

With the acquisition of Curimining S.A. ("Curimining"), as discussed below, 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.

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

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 comparative 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.

Led by a senior Ecuadorian management team and most notably by its namesake Fredy Salazar, this team has been instrumental in other major discoveries throughout Ecuador, including Aurelian's Fruta del Norte discovery, IAM Gold's Quimsacocha Deposit, Mozo Deposit, Ex Newmont's Cangrejos Project and International Minerals Rio Blanco and Gaby Deposit. Being an Ecuadorian based company gives the Company a strategic advantage enabling it to do the exploration at a more rapid pace.

### **Properties**

With the completion of the Acquisition, the Company's wholly-owned subsidiary, Curimining, holds a portfolio of properties in Ecuador.

As part of the Company's ongoing review of acquisition opportunities several applications to acquire, by staking, new mining concessions to add to the various projects were submitted to the Ministry of Energy and mines; most are still in process.

#### ***The Curipamba Property***

The Company acquired surface rights to 80 hectares of land at the Curipamba Project. This extends across the Sesmo Sur anomaly, which is one of our most prospective targets.

In order to obtain the environmental permit to allow the Company to commence its advanced exploration program an Environmental Impact Assessment ("EIA") has to be completed, filed and approved. The EIA was filed subsequent to quarter end.

At Sesmo Sur and Las Naves Central the Company has been focusing on the geological mapping of creeks, manual pits, trenches and highway slopes at scales of 1:500, 1:1000 and 1:2500. A total of 388 soil samples have been collected (Normal soil and Auger), 394 rock samples have been collected in channels and chip composite of 1 to 5 meters long (outcrops, trenches and manual pits).

Grids have been cut at Sesmo Sur and El Gallo, every 50 meters and staked every 25 meters; which brings to a total of 60 linear km. of grids.

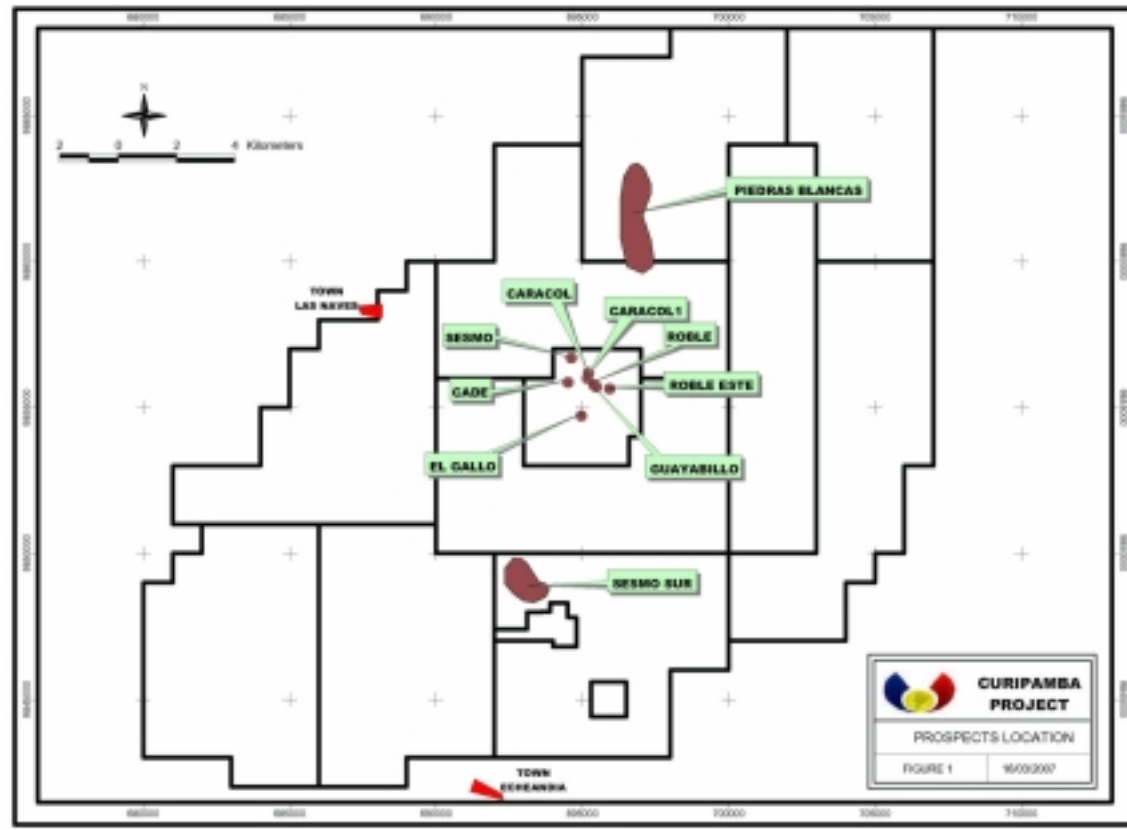
For QA/QC purposes 24 standard samples (SRL), 5 (CU130), 5 (PM1110), 33 duplicates and 35 blank (SRL) samples were randomly inserted into the sample lot. In addition the Company started an automatic re-analysis procedure where one of every ten samples is sent to a second laboratory for check assays; also samples with values higher than 5 g/t gold and with more than 2 % of copper and/or zinc are also submitted for check assays.

An independent consultant was hired as contractor to lead the Company's regional mapping program of Curipamba Sur at scale 1:25000. The end product is to create a geologic map, geologic cuts, stratigraphic column and hand in a report of all the activities and results.

Dr. Howard Lahti visited the Mendez Property, Curipamba and La Aventura, collected a few samples in order to re sample at El Gallo and Sesmo Sur.

## Results

All the results from this period are in our data base at the Ecuador office. Nevertheless the highlights are the following.



Naves Central Anomalie's group: related to hidrothermal breccia structures with silica clasts with silver - pyrite minerals in argilic matrix.

- Caracol (1.6 Km. north from El Gallo) is 16 meters at an average of 1.98 g/t gold and 1.7 % zinc, includes 6 meters averaging 2.8 g/t gold and 2.18 % zinc; 2m averaging 3.1 g/t gold and 0.29% zinc.
- Caracol 1 (1.5 Km. north from El Gallo) reports 10 meters averaging 5.72 g/t gold, 155 g/t silver, 0.14 % lead, 0.15% zinc, copper are not significant values.
- At Sesmo (2 Km. north from El Gallo) there are 15 m with an average of 39.1 g/t gold, 741 g/t silver, 0.16% zinc, copper and lead are not significant values. Includes 2 m with 186.5 g/t gold and 1,055 g/t silver; 9.54 g/t gold and 634 g/t silver over 10m; 12.3 g/t gold and 469 g/t silver over 3m; and 3.67 g/t gold and 12 g/t silver over 3m.
- At Cade (1,5 Km. north west from El Gallo) 4 samples were taken and the resulting gold values range from 0.55 to 1.72 g/t.
- Cade 1 (0.9 Km. north - west from El Gallo) 12 meters with an average of 6.68 g/t gold, 284 g/t silver, 0.1% copper, 0.29% lead and over 1% zinc. Includes 7 m at an average of 9.8 g/t gold, 409 g/t silver and over 1% zinc.
- Close to Roble lies a float of 1 m diameter of massive sulphide, values are: 53 g/t gold, 695 g/t silver, more than 1% copper, 10.05% lead, more than 1% zinc and over 1,000 g/t cadmium.
- Guayabillo (1.3 Km. north - east from El Gallo) gold values vary from 0.27 to 1.83 g/t gold. 5 samples were taken.

### Sesmo Sur

With the new results from work at Sesmo Sur, 3 new anomalies have been found. They lie surrounding the main anomaly:

1. anomaly of 40 m x 85 m, values vary from 0.35 to 7.40 g/t Au, 13 samples;

2. another of 35 m x 110 m, values from 0.09 to 5.64 g/t Au, in 10 manual pit samples; and
3. anomaly El Muerto Creek of 45 x 130 m, and the values vary from 0.01 a 2.76 g/t Au, in 55 samples.

#### *Work Program*

- 40 km Grid at Sesmo sur and La Vaquera.
- Using the same grid soil sampling will be carried out, as well as rock and geological mapping at a detailed scale.
- Mapping and geochemistry of the Agua Santa Creek.
- Geophysics.

#### ***Rumiñahui Property***

A semi regional geological mapping and geochemistry is being done in this zone at scale 1:10,000, mainly along creeks and some roads, covering an area of 3 x 3 km.

The geology of the project consists primarily of andesite of the Cretaceous of the Piñón Formation and intruded by quartz-diorite porphyries. Gold mineralization was found in sheeted veins of quartz - pyrite and chalcopyrite that cut a regional fault serpentized with chlorite and pyrite alteration. A strong shear zone was found strike N-S, varying 20 degrees to the East. This fault has an approximate width of 400 meters.

During this period a total of 162 rock samples were collected (141 outcrops, 21 floats) for QC purposes there were 6 standards (SRL), 3 blank (SRL) and one duplicate.

#### *Results*

- Sune and San Francisco Anomaly were previously found. They are both a system of parallel veins of up to 2 meters wide (sheeted veins);
- 0.3 km. north east of Sune anomaly, at coordinates 735344 E, 10009582 N lies a 0.20 cm. wide vein graded 1.85 g/t gold;
- 0.2 km north of the San Francisco anomaly there are 3 quartz vein floats grading 1.42 g/t gold, 0.92 g/t gold and 0.55 g/t gold; and
- at the borders of the concessions Bettys and Ventura (coordinates 733700 E, 10009100 N), lies an area of 0.8 x 0.6 Km. of red colored breccias, hematized with sulphides dissemination and native copper traces.

#### *Work Program*

- Continuation of the systematic mapping program and sampling along creeks and roads.
- Stream sediments program at the concessions group.

#### *Other Properties*

Also included are three other properties covering an area of 33,000 hectares. These are non-strategic properties and the Company proposes to conduct limited initial exploration and will be considering joint venture opportunities for these properties.

#### **Change of Directors and Officers of the Company at Closing**

On Closing of the Acquisition, the Company's management and board of directors were reconstituted, as follows:

##### *Fredy Salazar, President, CEO and Director*

Mr. Salazar is a professional geologist registered in Ecuador. Mr. Salazar holds a Bachelor's degree in geology and a Master's degree in environmental sciences from Central University, Quito.

From 1988 through 2000, Mr. Salazar worked in the mineral resource sector throughout Ecuador. From November 1990 through November 1998, Mr. Salazar worked with Newmont Overseas Exploration Limited as the regional exploration geologist, reviewing and evaluating over 100 gold prospect submittals. Mr. Salazar has an extensive and detailed knowledge of Ecuador's geological potential.

During a worldwide downturn in resource exploration activities in 2001, Mr. Salazar established an environmental consulting company, Congeminpa Ltda. (“Congeminpa”), which provides services to both mineral exploration and oil and gas exploration companies. Congeminpa has a staff of over 120 people. Congeminpa has a separate management structure and will continue to operate though Mr. Salazar will devote most of his time to advancing the Curimining exploration projects. In 2004, Mr. Salazar resumed his efforts in resource exploration opportunities.

*Pablo Acosta, CFO and Director*

Mr. Acosta is an Ecuadorian certified public accountant and has been a director and officer of several private companies in Ecuador since 1985. Mr. Acosta earned his Bachelor of Commerce from the Pontificia Universidad Católica del Ecuador (PUCE), Quito Ecuador, 1987; audit manager at Romero & Asociados from 1985 to 1987; managed Bermúdez & Asociados Cía. Ltda audit department from 1987 to 2003. Mr. Acosta has specialized in providing accounting, external auditing, project and operations auditing, instructors training, company valuations, finance management, cost and budget planning, quality management standards and environmental matters. Since 2003 Mr. Acosta has worked with Mr. Salazar.

*Nick DeMare, Corporate Secretary and Director*

Mr. DeMare is a chartered accountant and has been a director and officer of many publicly listed companies in Canada since 1986. Mr. DeMare earned his Bachelor of Commerce from the University of British Columbia in May 1977. Since 1991, as President of Chase Management Ltd., he has specialized in providing accounting, management, securities regulatory compliance and corporate secretarial services to companies listed on the TSXV and its predecessors. Mr. DeMare is currently a director and/or officer of several TSXV listed companies including Tumi Resources Limited, Tinka Resources Limited, Mawson Resources Limited, Halo Resources Ltd., Golden Peaks Resources Ltd., Gold Point Exploration Ltd., Andean American Mining Corp. and GGL Diamond Corp.

*Etienne Walter, Director*

Mr. Walter is the Honorary Consul General of the Republic of Ecuador with jurisdiction over the Provinces of Alberta and British Columbia, the Northwest Territories and the Yukon Territory. His appointment was in December 1993, with recognition by the Canadian Government since March 17, 1994. Mr. Walter lived in Ecuador from the age of three years, until he graduated from high school, then traveled to Europe to further his studies in France, Germany and Great Britain. He earned his diploma in Hotel Management and Financial Administration from the Ecole Hôtelière de la Société Suisse des Hôtelières in Lausanne, Switzerland in November 1972. He has worked for some of the world’s leading hotels. Since coming to Canada in 1975, Mr. Walter worked for public and private corporations until forming his own company, Andes Trade and Investment Ltd.

*Graeme Robinson, Director*

Mr. Robinson has been serving as a director of the Company since 1991 and as President of the Company since 1997. Mr. Robinson is also the managing director and officer of Xenolith Gold Limited, Sydney, Australia.

## **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

## 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. Curimining was incorporated on August 8, 2006 therefore there are no interim consolidated financial statements prior to that date. See “Company Overview” for details of the Acquisition and the resulting accounting treatment.

	Three Months Ended March 31, 2007 \$	Period from August 8, 2006 to December 31, 2006 \$
<b>Operations:</b>		
Revenues	Nil	Nil
Expenses	(1,036,241)	Nil
Other items	(28,185)	Nil
Net (loss)	(1,064,426)	Nil
Basic and diluted income (loss) per share	(0.13)	(0.00)
Dividends per share	Nil	Nil
<b>Balance Sheet:</b>		
Working capital (deficiency)	2,647,914	(252,957)
Total assets	5,290,744	320,750
Total long-term liabilities	Nil	Nil

## Results of Operations

Curimining was incorporated on August 8, 2006. Accordingly there are no comparative figures to the three month period ended March 31, 2007 (the “2007 period”).

During the 2007 period, the Company incurred a net loss of \$1,064,426, comprising \$1,036,241 for general and administrative expenses and \$28,185 for other items. Specific general and administrative expenses of note during the 2007 period are as follows:

- \$ incurred \$5,505 for accounting, administrative and management services provided by Chase Management Ltd. (“Chase”) a private corporation owned by Mr. Nick DeMare, a director of the Company;
- \$ incurred \$123,000 for corporate sponsorship by Canaccord of the Company on the Exchange, comprising of a cash payment of \$25,000 and issuance of 140,000 common shares, at an ascribed value of \$98,000;
- \$ incurred corporate development costs of \$30,666 for attendance at investment conferences in Calgary and Frankfurt, Germany;
- \$ legal fees of \$38,919 were paid mainly for services with respect to the recapitalization of the Company;
- \$ incurred \$82,361 for salaries and benefits for the administrative and exploration staff in Ecuador;
- \$ incurred office expenses of \$38,919 for supplies and office furnishing for the office 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. Empire is paid a monthly fee of \$8,500. During the 2007 period, the Company paid \$8,500 for investor relations to Empire; and
- \$ during the 2007 period, the Company recorded \$674,200 stock-based compensation expense attributed to the granting of 2,010,000 stock options.

During the 2007 period, the Company completed private placements totalling 3,500,000 units for gross proceeds of \$3,500,000 and received the remaining \$104,600 on the private placement of \$1,720,600 of convertible debentures.

## Financial Condition / Capital Resources

As at March 31, 2007, the Company had \$2,647,914 working capital. In addition, subsequent to March 31, 2007, the Company received \$391,000 on the exercises of warrants and agent’s options. The Company believes that it currently has sufficient financial resources to conduct the Phase I exploration program on the Curipamba Property, 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.

### **Contractual Commitments**

See "Company Overview".

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

The Company has no off-balance sheet arrangements.

### **Proposed Transactions**

See "Company Overview".

### **Critical Accounting Estimates**

A detailed summary of all the Company's significant accounting policies is included in Note 2 to the unaudited interim consolidated financial statements for the three months ended March 31, 2007.

### **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 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.

## Transactions With Related Parties

- (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
	<hr/>
	9,007
	<hr/> <hr/>

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 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 payable 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.

## 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.

## 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 Company will pay Empire a monthly fee of \$8,500 and issue 200,000 stock options at an exercise price of \$2.51 per share expiring March 12, 2010. The options vest on a quarterly basis over a twelve month period. The agreement may be terminated with written 30 days notice. During the 2007 period, the Company paid \$8,500 for investor relations to Empire.

## Outstanding Share Data

The Company's authorized share capital is unlimited common shares with no par value. As at May 28, 2007, there were 24,133,032 issued and outstanding common shares, 3,859,750 warrants outstanding at exercise prices ranging from \$1.40 to \$1.50 per share, 140,000 agent's options at an exercise price of \$0.70 per share and 2,110,000 stock options outstanding at exercises prices ranging from \$1.00 to \$2.90 per share.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer has concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), are effective to ensure that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules. In conducting the evaluation it has become apparent that management relies upon certain informal procedures and communication, and upon "hands-on" knowledge of senior management. Management intends to formalize certain of its procedures. Due to the small staff, however, the Company will continue to rely on an active Board and management with open lines of communication to maintain the effectiveness of the Company's disclosure controls and procedures. Lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company will take whatever steps necessary to minimize the consequences thereof.

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

Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. During the process of management's review and evaluation of the design of the Company's internal control over financial reporting, it was determined that certain weaknesses existed in internal controls over financial reporting. As is indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring which exists. The Company is taking steps to augment and improve the design of procedure and controls impacting these areas of weakness over internal control over financial reporting. It should be noted that a control system, no matter how well conceived or operated, can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met.