



FINANCIAL REVIEW

Year Ended December 31, 2006

RADIUS GOLD INC.
(An Exploration Stage Company)

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(Expressed in Canadian Dollars)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders,
Radius Gold Inc.
(An Exploration Stage Company)

We have audited the consolidated balance sheets of Radius Gold Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and cash flows for each of the years in the three year period ended December 31, 2006, in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
April 9, 2007

“AMISANO HANSON”
Chartered Accountants

RADIUS GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

	2006	2005
<u>ASSETS</u>		
CURRENT		
Cash and cash equivalents	\$ 933,697	\$ 1,423,554
Marketable securities - Note 3	9,023,890	11,936,277
Advances and other receivables - Notes 5 and 7	838,139	305,864
GST receivable	13,688	26,052
Due from related parties - Note 7	147,870	256,649
Prepaid expenses and deposits	96,744	102,641
	11,054,028	14,051,037
PROPERTY AND EQUIPMENT - Note 4	330,962	384,720
MINERAL PROPERTIES - Notes 5 and 7, and Schedule I	13,438,248	13,731,865
	\$ 24,823,238	\$ 28,167,622
<u>LIABILITIES</u>		
CURRENT		
Accounts payable and accrued liabilities - Note 7	\$ 213,689	\$ 251,398
Due to related parties - Note 7	10,510	35,129
	224,199	286,527
<u>SHAREHOLDERS' EQUITY</u>		
SHARE CAPITAL - Note 6		
Authorized:		
Unlimited common shares without par value		
Issued:		
53,385,988 common shares (2005: 53,310,988)	42,486,069	42,402,819
CONTRIBUTED SURPLUS	3,443,487	2,244,987
	45,929,556	44,647,806
DEFICIT	(21,330,517)	(16,766,711)
	24,599,039	27,881,095
	\$ 24,823,238	\$ 28,167,622

Commitments - Notes 5, 6 and 10

ON BEHALF OF THE BOARD:

“signed” _____, Director
Simon Ridgway

“signed” _____, Director
Mario Szotlender

SEE ACCOMPANYING NOTES

RADIUS GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Expressed in Canadian Dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
EXPENSES			
Amortization	58,780	50,096	55,379
Consulting fees - Note 7	18,301	38,710	69,870
Donations	20,748	25,360	-
Legal and accounting fees	86,561	158,705	291,233
Management fees and salaries - Note 7	60,000	60,000	45,000
Non-cash compensation charge	1,230,750	40,850	1,173,784
Office and miscellaneous	36,609	46,888	33,521
Public relations	132,828	222,073	703,715
Property investigations	24,835	11,790	-
Rent and utilities	26,965	37,102	37,454
Repair and maintenance	7,158	17,220	13,194
Salaries and wages	133,244	178,014	178,766
Telephone and fax	14,923	14,908	15,222
Transfer agent and regulatory fees	17,120	24,262	51,058
Travel and accommodation	61,654	100,580	98,513
Write off of mineral properties	3,052,802	5,917,734	1,350,205
	<u>(4,983,278)</u>	<u>(6,944,292)</u>	<u>(4,116,914)</u>
OTHER INCOME (EXPENSES)			
Foreign currency exchange	42,413	(76,231)	(256,135)
Investment income	352,037	268,470	431,676
Other income	25,022	72,655	6,234
Gain on settlement of old debt	-	-	26,800
	<u>419,472</u>	<u>264,894</u>	<u>208,575</u>
Net loss for the year	<u>\$ (4,563,806)</u>	<u>\$ (6,679,398)</u>	<u>\$ (3,908,339)</u>
BASIC AND DILUTED LOSS PER COMMON SHARE	<u>\$ (0.09)</u>	<u>\$ (0.13)</u>	<u>\$ (0.09)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>52,991,262</u>	<u>52,898,829</u>	<u>44,916,963</u>

SEE ACCOMPANYING NOTES

RADIUS GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Expressed in Canadian Dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES			
Net loss for the year	\$ (4,563,806)	\$ (6,679,398)	\$ (3,908,339)
Items not involving cash:			
Amortization	58,780	50,096	55,379
Write off of exploration costs	3,052,802	5,917,734	1,350,205
Non-cash compensation charge	1,230,750	40,850	1,173,784
Changes in non-cash working capital items:			
Advances and receivables	(532,275)	395,168	(482,081)
GST receivable	12,364	4,941	7,359
Prepaid expenses	5,897	(31,145)	(12,710)
Accounts payable and accrued liabilities	(37,709)	(60,867)	(257,763)
Net cash used in operating activities	<u>(773,197)</u>	<u>(362,621)</u>	<u>(2,074,166)</u>
INVESTING ACTIVITIES			
Acquisition of equipment	(5,022)	(60,864)	(253,876)
Mineral properties	(2,759,185)	(2,830,001)	(3,304,848)
Due from related parties	108,779	(175,809)	126,355
Due to related parties	(24,619)	-	(275,812)
Marketable securities	2,912,387	219,863	(12,156,140)
Net cash acquired on amalgamation	-	-	6,491,647
Net cash provided by (used in) investing activities	<u>232,340</u>	<u>(2,846,811)</u>	<u>(9,372,674)</u>
FINANCING ACTIVITY			
Proceeds on issuance of common shares	51,000	255,140	1,040,199
Net cash provided by financing activity	<u>51,000</u>	<u>255,140</u>	<u>1,040,199</u>
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(489,857)	(2,954,292)	(10,406,641)
Cash and cash equivalents - beginning of year	<u>1,423,554</u>	<u>4,377,846</u>	<u>14,784,487</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 933,697</u>	<u>\$ 1,423,554</u>	<u>\$ 4,377,846</u>
Supplementary disclosure of cash flow information:			
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and cash equivalents is comprised of:			
Cash	\$ 933,697	\$ 1,173,554	\$ 836,337
Term deposits	<u>-</u>	<u>250,000</u>	<u>3,541,509</u>
	<u>\$ 933,697</u>	<u>\$ 1,423,554</u>	<u>\$ 4,377,846</u>
Non-cash Transaction - Note 8			

SEE ACCOMPANYING NOTES

RADIUS GOLD INC.
(An Exploration Stage Company)
STATEMENTS OF SHAREHOLDERS' EQUITY
for the years ended December 31, 2006, 2005 and 2004
(Expressed in Canadian Dollars)

	<u>Common Stock</u>		Share <u>Subscriptions</u>	Contributed <u>Surplus</u>	Deficit Accumulated during the Exploration <u>Stage</u>	<u>Total</u>
	<u>Issued Shares</u>	<u>Amount</u>				
Balance, December 31, 2003	38,395,242	\$ 27,539,692	\$ -	\$ 234,500	\$ (5,168,074)	\$22,606,118
Accounting change for stock-based compensation	-	-	-	1,010,900	(1,010,900)	-
Amalgamation	-	-	-	-	-	11,415,742
Pursuant to property acquisition agreement	-	-	-	-	-	1,937,000
Issued for cash pursuant to the exercise of share purchase options						
- at \$0.60	35,000	21,000	-	-	-	21,000
- at \$0.65	117,000	76,050	-	-	-	76,050
- at \$0.68	69,000	46,920	-	-	-	46,920
- at \$0.90	30,000	27,000	-	-	-	27,000
- at \$0.95	55,000	52,250	-	-	-	52,250
- at \$0.99	79,444	78,650	-	-	-	78,650
- at \$1.10	65,000	71,500	-	-	-	71,500
Issued for cash pursuant to the exercise of share purchase warrants						
- at \$0.25	2,649,800	662,450	-	-	-	662,450
- at \$0.55	11,250	6,188	-	-	-	6,188
Non-cash compensation charge	-	-	-	1,173,784	-	1,173,784
Transfer of contributed surplus on exercise of options	-	128,350	-	(128,350)	-	-
Less: issue costs	-	(1,810)	-	-	-	(1,810)
Net loss for the year	-	-	-	-	(3,908,339)	(3,908,339)
Balance, December 31, 2004	53,091,188	42,060,982	-	2,290,834	(10,087,313)	34,264,503

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SEE ACCOMPANYING NOTES

RADIUS GOLD INC.
(An Exploration Stage Company)
STATEMENTS OF SHAREHOLDERS' EQUITY
for the years ended December 31, 2006, 2005 and 2004
(Expressed in Canadian Dollars)

Continued

	<u>Common Stock</u>		Share <u>Subscriptions</u>	Contributed <u>Surplus</u>	Deficit Accumulated during the Exploration <u>Stage</u>	<u>Total</u>
	<u>Issued Shares</u>	<u>Amount</u>				
Issued for cash pursuant to the exercise of share purchase options						
– at \$0.90	40,000	36,000	-	-	-	36,000
– at \$0.99	50,000	49,500	-	-	-	49,500
– at \$1.00	35,000	35,000	-	-	-	35,000
– at \$1.30	37,800	49,140	-	-	-	49,140
Issued for cash pursuant to the exercise of share purchase warrants						
– at \$1.50	57,000	85,500	-	-	-	85,500
Non-cash compensation charge	-	-	-	40,850	-	40,850
Transfer of contributed surplus on exercise of options	-	86,697	-	(86,697)	-	-
Net loss for the year	-	-	-	-	(6,679,398)	(6,679,398)
Balance, December 31, 2005	53,310,988	42,402,819	-	2,244,987	(16,766,711)	27,881,095
Issued for cash pursuant to the exercise of share purchase options						
– at \$0.68	75,000	51,000	-	-	-	51,000
Non-cash compensation charge	-	-	-	1,230,750	-	1,230,750
Transfer of contributed surplus on exercise of options	-	32,250	-	(32,250)	-	-
Net loss for the year	-	-	-	-	(4,563,806)	(4,563,806)
Balance, December 31, 2006	<u>53,385,988</u>	<u>\$ 42,486,069</u>	<u>\$ -</u>	<u>\$ 3,443,487</u>	<u>\$(21,330,517)</u>	<u>\$ 24,599,039</u>

SEE ACCOMPANYING NOTES

RADIUS GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES
FOR THE YEAR ENDED DECEMBER 31, 2006
(Expressed in Canadian Dollars)

	Guatemala	Nicaragua		Mexico		Argentina	Colombia	Canada	Ecuador	Tanzania	Year Ended
	Mineral	General	Mineral	General	Mineral	General	General	General	Cerro	General	December 31,
	Concessions	Exploration	Concessions	Exploration	Concessions	Exploration	Exploration	Exploration	Colorado	Exploration	2006
<u>ACQUISITION COSTS</u>											
Balance, beginning of year	\$ 3,864,669	\$ -	\$ 19,315	\$ -	\$ 102,289	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,986,273
Cash	278,195	-	-	-	-	-	-	-	113,130	-	391,325
Write-off acquisition costs	-	-	(19,315)	-	(102,289)	-	-	-	-	-	(121,604)
Balance, end of year	4,142,864	-	-	-	-	-	-	-	113,130	-	4,255,994
<u>DEFERRED EXPLORATION COSTS</u>											
Balance, beginning of year	\$ 5,470,075	\$ 897,668	\$ 2,848,219	\$ 307,330	\$ 185,314	\$ 29,524	\$ 7,461	\$ -	\$ -	\$ -	\$ 9,745,591
Property Payment/Investigation	26,280	1,422	13,214	-	764	-	-	-	-	-	41,680
Automobile	4,773	51,515	15,135	19,357	5,425	-	-	-	22	799	97,027
Camp, food and supplies	6,491	29,058	20,583	22,867	6,142	-	-	-	-	-	85,141
Drafting, maps and printing	203	1,020	487	8,567	167	-	-	-	-	6	10,449
Exploration administration	4,303	30,488	11,276	9,435	743	-	-	-	-	102	56,347
Environment	-	485	6,156	-	-	-	-	-	-	-	6,641
Geochemistry	301	14,746	167,282	34,553	35,438	-	-	-	-	-	252,321
Geological consulting - Note 7	77,043	262,597	170,906	259,309	108,974	-	8,250	4,129	3,904	1,390	896,503
Other consulting	16,365	39,033	45,072	21,966	3,223	-	-	-	-	102	125,761
Legal and accounting	7,427	21,290	7,008	45,223	1,425	-	-	-	-	-	82,373
Licenses, rights and taxes	24,703	5,818	66,462	5,384	23,989	-	-	-	-	-	126,357
Linecutting & trenching	4,265	9,171	14,166	9,538	-	-	-	-	-	-	37,140
Materials	868	5,419	4,444	4,288	2,829	-	-	-	-	-	17,850
Maintenance	3,413	4,588	5,351	2,285	1,202	-	-	-	-	-	16,839
Miscellaneous	2,326	1,246	2,360	527	4,088	-	-	-	-	-	10,547
Medical expenses	7,263	10,018	6,831	10,051	2,184	-	-	-	185	-	36,532
Rent and utilities	30,678	37,639	9,893	4,132	1,233	-	-	-	-	-	83,575
Rental equipment	13,410	-	-	1,235	-	-	-	-	-	-	14,645
Salaries and wages	40,698	86,140	31,000	25,954	11,152	-	-	-	-	-	194,944
Shipping	888	8,694	5,305	3,352	311	-	-	-	-	-	18,550
Telephone and communications	4,766	17,675	4,015	8,412	3,647	-	-	-	-	2	38,517
Travel and accommodation	7,435	44,048	16,046	35,440	9,096	-	-	-	622	5,436	118,122
	283,898	682,110	622,993	531,875	222,034	-	8,250	4,129	4,734	7,837	2,367,861
Less: write-offs	-	(897,666)	(733,905)	(839,205)	(407,350)	(29,524)	(15,711)	-	-	(7,837)	(2,931,198)
Balance, end of year	5,753,973	682,112	2,737,307	-	-	-	-	4,129	4,734	-	9,182,254
TOTAL MINERAL PROPERTIES - END OF YEAR	\$ 9,896,837	\$ 682,112	\$ 2,737,306	\$ -	\$ -	\$ -	\$ -	\$ 4,129	\$ 117,864	\$ -	\$ 13,438,248

SEE ACCOMPANYING NOTES

RADIUS GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES
for the year ended December 31, 2005
(Stated in Canadian Dollars)

Schedule I – (cont'd)

	Guatemala		Nicaragua		Mexico		Argentina	Colombia	Dominican Republic	Year ended December 31, 2005
	General Exploration	Mineral Concessions	General Exploration	Mineral Concessions	General Exploration	Mineral Concessions	General Exploration	General Exploration	Camila	
Acquisition Costs										
Balance, beginning of year	\$ -	\$ 5,267,670	\$ 185,478	\$ 2,572,232	\$ -	\$ -	\$ -	\$ -	\$ 366,191	\$ 8,391,571
Cash	-	-	-	-	-	231,913	-	-	-	231,913
Write-off acquisition costs	-	(1,403,001)	(185,478)	(2,552,917)	-	(129,624)	-	-	(366,191)	(4,637,211)
Balance, end of year	-	3,864,669	-	19,315	-	102,289	-	-	-	3,986,273
Deferred Exploration Costs										
Balance, beginning of year	-	5,712,900	574,907	2,081,035	46,006	-	-	-	13,179	8,428,027
Automobile	1,139	232	46,572	50,803	32,917	7,012	391	25	-	139,091
Camp, food and supplies	2,118	-	37,064	41,305	10,005	3,249	-	-	-	93,741
Drafting, maps and printing	54	-	2,351	212	941	389	157	-	-	4,104
Drilling	-	-	-	113,474	-	-	-	-	-	113,474
Exploration administration	3,614	4	19,235	5,264	3,352	1,930	-	-	-	33,399
Environment	-	-	-	6,601	-	-	-	-	-	6,601
Geochemistry	321	-	66,524	169,701	5,592	14,834	-	-	-	256,972
Geological consulting – Note 7	23,722	1,328	296,744	401,378	97,481	155,302	16,545	4,648	-	997,148
Other consulting	13,424	-	21,062	23,021	4,269	2,064	-	-	-	63,840
Legal and accounting	20,696	-	22,603	6,088	12,283	4,616	-	-	4,370	70,656
Licences, rights and taxes	3,526	-	33,930	89,271	1,217	23,273	-	-	-	151,217
Materials (recovery)	(610)	20	5,603	29,399	4,333	231	-	-	-	38,976
Maintenance	17	51	3,738	5,649	123	-	-	-	-	9,578
Miscellaneous	1,085	2,587	5,836	1,751	300	18	-	-	-	11,577
Medical expenses	2,687	-	11,221	11,554	2,338	6,461	469	207	-	34,937
Property investigation	-	-	381	1,549	-	11,750	-	-	-	13,680
Rent and utilities	4,247	922	20,781	20,107	3,385	1,005	-	-	-	50,447
Rental equipment	-	-	-	-	-	4,826	-	-	-	4,826
Salaries and wages	8,155	1,169	85,243	96,330	15,325	2,405	-	-	-	208,627
Shipping	1,183	476	7,896	6,060	537	212	41	-	-	16,405
Telephone and communications	108	12	18,806	24,046	3,418	1,145	16	16	-	47,567
Travel and accommodation	365	-	72,570	50,386	63,508	29,925	11,905	2,565	-	231,224
	<u>85,851</u>	<u>6,801</u>	<u>778,160</u>	<u>1,153,949</u>	<u>261,324</u>	<u>270,647</u>	<u>29,524</u>	<u>7,461</u>	<u>4,370</u>	<u>2,598,087</u>

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SEE ACCOMPANYING NOTES

RADIUS GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES
for the year ended December 31, 2005
(Stated in Canadian Dollars)

Schedule 1 – (cont'd)

	Guatemala		Nicaragua		Mexico		Argentina	Colombia	Dominican Republic	Year ended
	<u>General Exploration</u>	<u>Mineral Concessions</u>	<u>General Exploration</u>	<u>Mineral Concessions</u>	<u>General Exploration</u>	<u>Mineral Concessions</u>	<u>General Exploration</u>	<u>General Exploration</u>	<u>Camila</u>	<u>December 31, 2005</u>
	<u>85,851</u>	<u>5,719,701</u>	<u>1,353,067</u>	<u>3,234,984</u>	<u>307,330</u>	<u>270,647</u>	<u>29,524</u>	<u>7,461</u>	<u>17,549</u>	<u>11,026,114</u>
Less: write-offs	<u>(85,851)</u>	<u>(249,626)</u>	<u>(455,399)</u>	<u>(386,765)</u>	<u>-</u>	<u>(85,333)</u>	<u>-</u>	<u>-</u>	<u>(17,549)</u>	<u>(1,280,523)</u>
Balance, end of the year	<u>-</u>	<u>5,470,075</u>	<u>897,668</u>	<u>2,848,219</u>	<u>307,330</u>	<u>185,314</u>	<u>29,524</u>	<u>7,461</u>	<u>-</u>	<u>9,745,591</u>
Totals	<u>\$ -</u>	<u>\$ 9,334,744</u>	<u>\$ 897,668</u>	<u>\$ 2,867,534</u>	<u>\$ 307,330</u>	<u>\$ 287,603</u>	<u>\$ 29,524</u>	<u>\$ 7,461</u>	<u>\$ -</u>	<u>\$ 13,731,864</u>

SEE ACCOMPANYING NOTES

Radius Gold Inc.
An Exploration Stage Company
Notes to the Consolidated Financial Statements
For the years ended December 31, 2006, 2005 and 2004
(Expressed in Canadian Dollars)

1. Nature and Continuance of Operations

Radius Gold Inc. (The Company) was formed by the amalgamation of Radius Explorations Ltd. (Radius) and PilaGold Inc. (PilaGold) which became effective on July 1, 2004.

The Company is engaged in acquisition and exploration of mineral properties located primarily in Central and South America. The amounts shown for the mineral properties represent costs incurred to date and do not reflect present or future values. The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. Accordingly, the recoverability of these capitalized costs is dependant upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their development and upon future profitable production or disposition thereof.

2. Significant Accounting Policies

Management has prepared the consolidated financial statements of the Company in accordance with Canadian generally accepted accounting principles which conform, in all material respects, with those generally accepted in the United States of America, except as explained in Note 14. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement and within the framework of the significant accounting policies summarized below.

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

- i) Minerales Sierra Pacifico S.A. and Exploraciones Mineras de Guatemala S.A., companies incorporated under the laws of Guatemala;
- ii) Minerales de Nicaragua S.A. and Desarrollo Geologico Minerao, S.A., companies incorporated under the laws of Nicaragua;
- iii) Recursos Del Cibao, S.A., a company incorporated under the laws of the Dominican Republic;
- iv) Radius Panamá Corporation, Weltern Resources Corp. and Corporación Geológica de Panamá, companies incorporated under the laws of Panamá.
- v) Radius (Cayman) Inc. and Pavon (Cayman) Inc., companies incorporated under the laws of Cayman Island; and
- vi) Geometalos Del Norte-Geonorte, a company incorporated under the laws of Mexico.

All significant inter-company transactions have been eliminated upon consolidation.

b) Cash and Cash Equivalents

Cash and cash equivalents included highly liquid investments with original maturities of three months or less.

c) Marketable Securities

Marketable securities are recorded at the lower of cost or market value.

Radius Gold Inc.

An Exploration Stage Company

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)**2. Significant Accounting Policies – (cont'd)**

d) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

e) Property, Equipment and Amortization

Property and equipment are recorded at cost. Equipment is amortized over their estimated useful lives using the following methods:

Leasehold improvements	5 years straight-line
Trucks	5 years straight-line
Computer equipment	30% declining balance
Geophysical equipment	20% declining balance
Furniture and equipment	20% declining balance
Website	30% declining balance

Additions to equipment are amortized at one-half rate during the year of acquisition.

Radius Gold Inc.

An Exploration Stage Company

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

2. Significant Accounting Policies – (cont'd)

f) Financial Instruments

Under the provisions of the Canadian Institute of Chartered Accountants 3855 “Financial Instruments – Recognition and Measurement” the financial assets and liabilities of the Company are designated as other financial assets and liabilities, accordingly they are initially measured at fair value, which is the amount of consideration that would be agreed upon in an arm’s-length transaction between knowledgeable, willing parties under no compulsion to act.

Subsequent to initial measurement at fair value, any gain or loss experienced on derecognition or impairment of the asset or liability is recorded in the statement of income.

The Company’s financial instruments comprise cash and cash equivalents, marketable securities, advances and other receivables, due from related parties, accounts payable and accrued liabilities and due to related party. Cash and cash equivalents, marketable securities, advances and other receivables, accounts payable and accrued liabilities are reported at their fair values on the balance sheet. The fair values are the same as the carrying values due to their short-term nature. The fair value of the amount due to and from related parties has not been disclosed due to the fact that the cash flow stream is not determinable.

Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, exchange or credit risks arising from these financial instruments.

g) Basic and Diluted Loss Per Share

Basic loss per share (“LPS”) is calculated by dividing loss applicable to common shareholders by the weighted average number of common shares outstanding for the year. Diluted LPS reflects the potential dilution that could occur if potentially dilutive securities are exercised or converted to common stock. Due to the losses, potentially dilutive securities were excluded from the calculation of diluted LPS, as they were anti-dilutive. Therefore, there is no difference in the calculation of basic and diluted LPS.

h) Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income taxes assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

i) Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

Radius Gold Inc.

An Exploration Stage Company

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

2. Significant Accounting Policies – (cont'd)

j) Stock-based Compensation

The Company has a stock-based compensation plan as disclosed in Note 6, whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

k) Asset Retirement Obligation

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put to use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset.

At December 31, 2006, the fair value of the mineral properties site restoration costs is not significant.

l) Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized.

3. Marketable Securities

The carrying value of marketable securities approximate their market value at December 31, 2006.

Radius Gold Inc.

An Exploration Stage Company

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)**4. Property and Equipment**

	2006		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Land	\$ 103,077	\$ -	\$ 103,077
Leasehold improvements	15,322	13,417	1,905
Trucks	195,765	122,427	73,338
Computer equipment	87,305	49,219	38,086
Furniture and equipment	170,511	82,725	87,786
Geophysical equipment	36,445	10,942	25,503
Website	<u>4,800</u>	<u>3,533</u>	<u>1,267</u>
	<u>\$ 613,225</u>	<u>\$ 282,263</u>	<u>\$ 330,962</u>
	2005		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Land	\$ 103,077	\$ -	\$ 103,077
Leasehold improvements	15,322	10,353	4,969
Trucks	195,765	94,554	101,211
Computer equipment	78,818	37,331	41,487
Furniture and equipment	170,511	69,551	100,960
Geophysical equipment	36,445	5,160	31,285
Website	<u>4,800</u>	<u>3,069</u>	<u>1,731</u>
	<u>\$ 604,738</u>	<u>\$ 220,018</u>	<u>\$ 384,720</u>

5. Mineral Properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing. The properties in which the Company has committed to earn an interest are located primarily in Guatemala and Nicaragua, and the Company is therefore relying on title opinions by legal counsel who are basing such opinions on the laws of Guatemala and Nicaragua, respectively.

A) Guatemala**i) El Tambor**

The El Tambor Property consists of 6 exploration concessions located in south-central Guatemala.

a) Unidad Tipo, Santa Margarita, El Injerto and Carlos Antonio

In 2002, the Company acquired a 100% interest in the La Laguna concession, and in 2004, the Company acquired a 100% interest (subject to a 2.5% net smelter returns royalty) in the Unidad Tipo, the Santa Margarita, Tizate, El Injerto and Carlos Antonio concessions. In 2006, the Company terminated its rights to the Tizate concession.

Radius Gold Inc.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)**5. Mineral Properties – (cont'd)**

i) El Tambor – (cont'd)

b) Progreso VII Concessions

The Company acquired the right to a 100% interest (subject to a 4% net smelter returns royalty) in the Progreso II to VII Concessions under an exploration lease and option to purchase agreement dated May 7, 2002, and amended October 14, 2004, with Entre Mares De Guatemala, S.A. The Company incurred the minimum aggregate exploration costs required to be made by May 6, 2006 of US\$800,000, and in June 2006 purchased the Progreso VII Concession for US\$250,000 (paid). It had been mutually agreed to drop the Progreso II to VI concessions from the company's right to purchase. One-half of the 4% royalty may be purchased by the Company for US\$2.0 million.

The Company entered into an agreement dated November 29, 2001 with Orogen Holding (BVI) Limited ("Orogen"), an affiliate of Gold Fields Explorations Inc., pursuant to which Orogen acquired the right to acquire a 55% beneficial interest in the Tambor Project in consideration for incurring exploration expenses of at least US\$5,000,000. Orogen subsequently conducted exploration work on the Tambor Project in the approximate amount of US\$3,250,000.

Pursuant to an agreement dated November 19, 2003 with Orogen, the Company re-acquired from Orogen all of its interest in the Tambor Project in consideration for the issuance and delivery of 1,300,000 common shares of the Company (issued) to Orogen.

Option Agreement with Fortuna Ventures Inc. ("Fortuna")

During the year ended December 31, 2004, the Company granted an option to Fortuna to earn a 60% interest in the El Tambor project in consideration of Fortuna incurring exploration expenditures totalling US\$4,000,000 over four years. During the year ended December 31, 2005, this agreement was terminated by Fortuna.

During the year ended December 31, 2004, the Company explored additional areas around El Tambor. During the year ended December 31, 2005, the Company decided to discontinue further exploration on these additional areas of the project, based on its exploration results to date, and has written off \$133,393 in costs.

ii) Marimba and Holly/Banderas

a) Marimba

At December 31, 2006, the Company held a 100% interest in the Marimba Project, which consisted of two exploration concessions, located in southeastern Guatemala covering approximately 23,500 hectares.

During the year ended December 31, 2005, the Company decided, based on its exploration results to date, to do no further exploration on the property, and wrote-off \$1,515,242 in costs to operations. Subsequent to December 31, 2006, the Company terminated its rights to the property concessions.

Radius Gold Inc.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

5. Mineral Properties – (cont'd)

A) Guatemala – (cont'd)

ii) Marimba and Holly/Banderas – (cont'd)

b) Holly/Banderas

The Company holds a 100% interest in the Holly/Banderas Project which consists of two exploration concessions covering approximately 48,048 hectares.

During the year ended December 31, 2005, the Company explored additional areas around Holly/Banderas and wrote-off \$3,993 of these costs to operations.

Option Agreement with Glamis Gold Ltd. (“Glamis”)

During the year ended December 31, 2004, the Company entered into an agreement with Glamis, giving Glamis an option to explore and develop the Holly/Banderas and Marimba properties. The agreement gave Glamis the right to acquire a 51% interest in the properties by spending US\$4 million over a four-year period. During the year ended December 31, 2006, Glamis terminated its option on these properties.

iii) Regional Exploration

During the year ended December 31, 2005, deferred exploration costs incurred by the Company on various properties in Guatemala totalling \$85,851 (2004: \$893,643) were written off to operations, as management is not planning any further work on those properties.

B) Nicaragua

i) Nicaragua Concessions

Since 2003, the Company has conducted exploration on a number of mineral concessions in Nicaragua. As at December 31, 2006, the Company had been granted title to 11 of the concessions with the remaining 13 applications for title pending.

a) El Pavon

Joint Venture Agreement with Meridian Gold Inc. (“Meridian”)

The Company entered into a joint venture agreement with Meridian on September 22, 2004, with an effective date of May 25, 2005, giving Meridian the option to acquire a 60% interest in El Pavon which consists of 5 of the Company’s granted concessions and 4 of the applications towards earning the interest, Meridian spend a minimum of US\$3.5 million in exploration expenditures within the first two years of the agreement. In 2006, Meridian terminated its option to earn an interest in the Pavon property.

Advances and other receivables as at December 31, 2006 includes \$735,523 (2005: \$182,119) spent by the Company on behalf of Meridian for exploration costs incurred under this agreement.

Radius Gold Inc.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

5. Mineral Properties – (cont'd)

B) Nicaragua – (cont'd)

ii) Kuikuinita Project

In 2002, the Company acquired an option to earn a 70% interest in the Kuikuinita project which consists of three exploration concessions located in northeastern Nicaragua.

In order to earn the interest the Company was required to make cash payments totalling US\$315,000 and incur US\$2,000,000 in exploration expenditures. During the year ended December 31, 2005, the Company decided, based on its exploration results to date, to do no further exploration on the property, and wrote-off \$1,681,592 in costs to operations.

iii) Mena Properties

In 2003, the Company was granted an option to earn a 70% interest in a series of mineral concessions in Nicaragua. During 2005, three groups of concessions remained subject to this option, namely, Kisolala, Columbus and San Ramon. In order to earn the interest, the Company was required to make cash payments totalling US\$625,000 and incur US\$2,000,000 in exploration expenditures over three year period for each concession.

By agreement dated July 20, 2004 and amended February 20, 2005, Coastport Capital Inc. ("Coastport") was granted an option to acquire a 50% interest in the San Ramon concessions from the Company. In order to exercise the option, Coastport was required to incur exploration expenditures of \$200,000 by December 1, 2004 (incurred), a total of US\$1 million by December 31, 2005, and a total of US \$2 million by July 1, 2006.

As at December 31, 2005, Coastport determined that it would not continue with its option on the San Ramon concession.

Advances and other receivables as at December 31, 2006, include \$44,343 (2005: \$44,343) spent by the Company on behalf of Coastport for exploration costs incurred under this agreement.

During the year ended December 31, 2005, the Company decided, based on its exploration results to date, to do no further exploration on the Kisolala, Columbus and San Ramon properties and wrote-off \$1,258,510 in costs to operations.

iv) Regional Exploration

During the year ended December 31, 2006, the Company incurred and wrote-off costs on various properties in Nicaragua totalling \$1,650,886 (2005: 640,877; 2004: \$456,562) as management is not planning any further work on these properties.

C) Dominican Republic

The Company had applied for by staking two concessions covering approximately 19,165 hectares known as the Camila project located in southern Dominican Republic.

During the year ended December 31, 2005, the Company decided, based on its exploration results to date, to do no further exploration on the property, and wrote-off \$383,740 in costs to operations.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

5. Mineral Properties – (cont'd)

D) Mexico

i) Amatista Project

During the year ended December 31, 2005, the Company acquired the right to earn a 100% interest in the Amatista epithermal gold-silver project, a 13,735 hectare mineral exploration property within the historical mining area of San Francisco. The owner will retain a 2% net smelter return royalty, which may be purchased for US\$2,000,000. The Company can earn 100% of the property by making cash payments totalling US\$425,000 and issuing 200,000 common shares and incur US\$1,750,000 in exploration expenditures.

During the year ended December 31, 2006, the Company decided, based on its exploration results to date, to do no further exploration on the property, and has written off \$314,700 (2005: \$Nil) in costs to operations.

ii) La Fruita and El Mole Concessions

During the year ended December 31, 2005, the Company acquired by staking at a cost of \$43,407, the La Fruita and El Mole concessions.

During the year ended December 31, 2006, the Company decided, based on its exploration results to date, to do no further exploration on the property, and has written off \$136,887 (2005: \$Nil) in costs to operations.

iii) Regional Exploration

Since late 2004, the Company has explored various other properties in Mexico. As at December 31, 2006, \$897,257 (2005: \$188,329; 2004: \$Nil) in costs were written-off to operations as management is not planning any further work on these properties.

E) Argentina

Since 2005, the Company has incurred data acquisition and geological consulting costs in connection with property investigations in Argentina.

During the year ended December 31, 2006, the Company decided, based on its exploration results to date, to do no further exploration on the property, and has written off \$29,524 (2005: \$Nil) in costs to operations.

F) Colombia

During the year ended December 31, 2005, the Company incurred data acquisition and geological consulting costs in connection with property investigations in Colombia.

During the year ended December 31, 2006, the Company decided, based on its exploration results to date, to do no further exploration on the property, and has written off \$15,711 (2005: \$Nil) in costs to operations.

Radius Gold Inc.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

5. Mineral Properties – (cont'd)

G) Canada

During the year ended December 31, 2006, the Company incurred data acquisition and geological consulting costs in connection with property investigations in Canada.

H) Ecuador

On November 7, 2006, the Company was granted the option to acquire a 70% interest in the Cerro Colorado Property, Ecuador. The property consists of two concessions located in Southern Ecuador.

In order to earn the interest the Company is required to:

- a) Make the following cash payments:
 - i) US\$100,000 on signing of the agreement (paid);
 - ii) US\$125,000 upon drilling on the project;
 - iii) US\$150,000 on or before the first anniversary of the drill date;
 - iv) US\$300,000 on or before the second anniversary of the drill date;
 - v) US\$325,000 on or before the third anniversary of the drill date.
- b) Incur exploration expenditures of US\$3,000,000 on or prior to the third anniversary of the commencement of drilling on the project.
- c) Fund and deliver a feasibility study on or before the fifth anniversary of the drill date.

The Company has the right to terminate the agreement at anytime upon 90 days written notice or November 7, 2009, if the drill date has not occurred.

I) Tanzania

During the year ended December 31, 2006, the Company incurred data acquisition and geological consulting costs in connection with property investigations in Tanzania and has decided to do no further exploration on the property, and has written off \$7,837 in costs to operations.

6. Share Capital

Commitments

Escrow Shares

As at December 31, 2006, there are 375,000 common shares held in escrow (2005: 375,000), the release of which is subject to regulatory approval.

Stock Options

The Company has established a formal stock option plan in accordance with the policies of the TSX-V under which it is authorized to grant options up to 10% of its outstanding shares to officers, directors, employees and consultants. The exercise price of each option is not less than the market price of the Company's stock as calculated on the date of grant. The options are for a maximum term of five years.

Stock option transactions and the number of stock options outstanding are summarized as follows:

Radius Gold Inc.

An Exploration Stage Company

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)**6. Share Capital – (cont'd)**Commitments – (cont'd)

Stock Options – (cont'd)

A summary of the status of the stock option plan as of December 31, 2006, 2005 and 2004 and changes during the years ending on those dates is presented below:

	2006	
	Number of <u>Options</u>	Weighted Average Exercise <u>Price</u>
Outstanding, beginning of year	2,558,332	\$ 0.97
Granted	2,735,000	0.70
Exercised	(75,000)	0.68
Expired/cancelled	<u>(1,743,332)</u>	<u>1.09</u>
Outstanding, end of year	<u>3,475,000</u>	<u>\$ 0.70</u>
	2005	
	Number of <u>Options</u>	Weighted Average Exercise <u>Price</u>
Outstanding, beginning of year	3,691,219	\$ 1.05
Granted	95,000	0.68
Exercised	(162,800)	1.04
Expired/cancelled	<u>(1,065,087)</u>	<u>1.20</u>
Outstanding, end of year	<u>2,558,332</u>	<u>\$ 0.97</u>
	2004	
	Number of <u>Options</u>	Weighted Average Exercise <u>Price</u>
Outstanding, beginning of year	2,220,000	\$ 0.91
Amalgamation with PilaGold	486,663	1.41
Granted	1,855,000	1.13
Exercised	(450,444)	0.83
Expired/cancelled	<u>(420,000)</u>	<u>1.31</u>
Outstanding, end of year	<u>3,691,219</u>	<u>\$ 1.05</u>

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)**6. Share Capital – (cont'd)**Commitments – (cont'd)

Stock Options – (cont'd)

At December 31, 2006, there were 3,475,000 stock options outstanding entitling the holders thereof the right to purchase one common share for each purchase option held:

<u>Number</u>	<u>Exercise Price(\$)</u>	<u>Expiry Date</u>
670,000	0.68	Jan 7, 2008
50,000	1.00	Sept 2, 2009
20,000	0.68	Sept 29, 2010
2,735,000	0.70	Feb 21, 2011
<u>3,475,000</u>		

The Company uses the fair value based method of accounting for stock options granted to consultants, directors, officers and employees. A non-cash compensation charge of \$1,230,750 (2005: \$40,850; 2004: \$1,173,784) associated with the granting of options to directors and employees has been recognized in the financial statements for the year ended December 31, 2006, with a corresponding increase to contributed surplus.

The weighted fair value of share purchase options granted during the year ended December 31, 2006 of \$0.45 (2005: \$0.43; 2004: \$0.63) per option is estimated on the grant date using the Black-Scholes option valuation model. The assumptions used in calculating fair value for the years ended December 31 are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Expected dividend yield	0.0%	0.0%	0.0%
Expected volatility based on historical share price	76.29%	75.56%	61-68%
Risk-free interest rate	4.02%	3.92%	2.25-4.11%
Expected term in years	5 years	5 years	1-5 years

7. Related Party Transactions

The Company incurred the following expenditures charged by officers and companies which have common directors with the Company:

	Years ended December 31,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Expenses			
Consulting fees	\$ 21,346	\$ 25,676	\$ 15,215
Management fees	60,000	60,000	45,000
Mineral property costs:			
Consulting fees	<u>160,581</u>	<u>92,400</u>	<u>99,000</u>
	<u>\$ 241,927</u>	<u>\$ 178,076</u>	<u>\$ 159,215</u>

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For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)**7. Related Party Transactions – (cont'd)**

These expenditures were measured by the exchange amount which is the amount agreed upon by the transacting parties.

Advances and other receivables include \$48,528 (2005: \$20,193) due from directors and officers of the Company. These were funds advanced for Company expenses and any balance owed will be paid back in the normal course of business.

Due from related parties of \$147,870 (2005: \$256,649) are amounts due from companies which have a common director with the Company and arose from shared administrative costs. The balance owing is repayable in the normal course of business.

Accounts payable and advances include \$17,570 (2005: \$Nil) payable to a director of the Company and to an officer of the Company.

Due to related parties of \$10,510 (2005: \$35,129) are amounts due to a company which have a common director with the Company and arose from shared administrative costs. The amount is repayable in the normal course of business.

8. Non-cash Transaction

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

During the year ended December 31, 2004, the Company issued 1,300,000 common shares with a value of \$1,937,000 as payment on the El Tambor Gold Project (Note 5).

9. Income Taxes

The significant components of the Company's future income tax are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Future income tax assets:			
Non-capital losses	\$ 2,680,000	\$ 2,700,000	\$ 2,600,000
Resource expenditures	3,450,000	3,520,000	3,530,000
Capital losses	20,000	20,000	-
Timing differences	<u>(4,560,000)</u>	<u>(4,680,000)</u>	<u>(5,670,000)</u>
	1,590,000	1,560,000	460,000
Valuation allowance	<u>(1,590,000)</u>	<u>(1,560,000)</u>	<u>(460,000)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Management considers it more likely-than-not that the amounts will not be utilized and accordingly a full valuation allowance has been applied against the future tax assets.

The Company has accumulated resource deductions of approximately \$10,100,000, capital losses of approximately \$120,000, and non-capital losses of approximately \$7,800,000 which is available to offset taxable income of future years. Non-capital losses begin expiring in 2007.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)**10. Commitments**

The Company has entered into operating lease agreements for its office premises. The Company also sub leases rental space to other companies on a month to month basis which are netted against rental expense. The annual lease commitment under the lease is as follows:

2007	\$	125,927
2008		129,885
2009		130,245
2010		<u>134,203</u>
	\$	<u>520,260</u>

11. Comparative Figures

Certain of the comparative figures for the years ended December 31, 2005 and 2004, have been reclassified to conform with the current year's presentation.

12. Financial Instruments

a) Credit risk:

For advances and other receivables, the Company estimates, on a continuing basis, the probable losses and provides a provision for losses based on the estimated realizable value.

b) Foreign currency risk:

The Company is exposed to fluctuations in foreign currencies through its operations in foreign countries. The Company monitors this exposure, but has no hedge positions. As at December 31, 2006, cash totalling \$336,559 (2005: \$980,603) was held in US dollars, \$8,450 (2005: \$10,854) in Nicaragua Cordoba, \$2,415 (2005: \$6,233) in Guatemala Quetzal and \$20,001 (2005: \$7,789) in Mexican Pesos.

13. Segmented Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operation decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mining sector relating to gold exploration. Due to the geographic and political diversity, the Company's exploration operations are decentralized whereby exploration managers are responsible for business results and regional corporate offices provide support to the exploration programs in addressing local and regional issues. The Company's operations are therefore segmented on a district basis. The Company's assets are located in Canada, Caymans, Ecuador, Guatemala, Nicaragua, Mexico and Dominican Republic.

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For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

13. Segmented Information – (cont'd)

Details of identifiable assets by geographic segments are as follows:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Total Assets		
Canada	\$ 10,787,157	\$ 13,059,538
Caymans	85,195	761,493
Ecuador	117,864	-
Guatemala	10,017,783	9,451,121
Nicaragua	3,705,119	4,055,501
Mexico	108,325	680,287
Panama	-	120,908
Other	-	36,985
Dominican Republic	1,795	1,789
	<u>\$ 24,823,238</u>	<u>\$ 28,167,622</u>
Property & Equipment		
Canada	\$ 34,874	\$ 49,934
Guatemala	55,220	72,529
Nicaragua	218,416	232,617
Mexico	22,453	29,640
	<u>\$ 330,962</u>	<u>\$ 384,720</u>
Mineral Properties Acquisition		
Ecuador	\$ 113,130	\$ -
Guatemala	4,142,864	3,864,669
Nicaragua	-	19,315
Mexico	-	102,289
	<u>\$ 4,255,994</u>	<u>\$ 3,986,273</u>
Deferred Exploration Costs		
Ecuador	\$ 4,734	\$ -
Canada	4,129	-
Guatemala	5,753,973	5,470,075
Mexico	-	492,645
Other	-	36,985
Nicaragua	3,419,418	3,745,887
	<u>\$ 9,182,254</u>	<u>\$ 9,745,592</u>

Radius Gold Inc.

An Exploration Stage Company

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

14. Reconciliation to United States of America Generally Accepted Accounting Principles

Accounting practices under Canadian (“CDN GAAP”) and of United States of America generally accepted accounting principles (“US GAAP”), as they affect the Company, are substantially the same, except for the following:

a) **Marketable Securities**

Under CDN GAAP marketable securities are recorded at lower of cost or market. Under US GAAP the Company classifies its marketable securities as “available-for-sale” and they are carried in the financial statements at their fair value equal to their quoted market price at year end. Marketable securities are classified as long-term if management does not intend to dispose of them within the subsequent year. Realized gains and losses are reported in earnings for the year while unrealized holding gains and losses are excluded from income and reported as a separate component of stockholders equity.

b) **Resource Properties**

Under Canadian GAAP resource property acquisition costs and exploration costs may be deferred and amortized to the extent they meet certain criteria. Under US GAAP, resource property acquisition costs are considered tangible assets and must be capitalized unless the resource properties do not have proven reserves. The Company has expensed resource property cost as incurred and will capitalize resource property acquisition costs when it has been determined that a resource property can be economically developed as a result of a final feasibility study establishing proven and probable reserves. Costs incurred prospectively to develop the property are capitalized as incurred and are amortized using the units of production method over the estimated life of the ore body based on estimated recoverable ounces mined from proven and probable reserves. Therefore, additional expenses are required under US GAAP for the years ended December 31, 2006, 2005 and 2004.

c) **Comprehensive Loss**

US GAAP requires disclosure of comprehensive loss which, for the Company, is net loss under US GAAP plus the change in cumulative translation adjustment under US GAAP. The concept of comprehensive loss does not come into effect under fiscal years beginning on or after October 1, 2006 for Canadian GAAP.

d) **New Accounting Standards**

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes”. The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes”. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax position. The interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows; however, the Company is still analyzing the effects of FIN 48.

Radius Gold Inc.

An Exploration Stage Company

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)**14. Reconciliation to United States of America Generally Accepted Accounting Principles** – (cont'd)

e) New Accounting Standards – (cont'd)

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. The Statement is to be effective for the Company’s financial statements issued in 2008; however, earlier application is encouraged. The Company is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

In September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 108 (“SAB 108”). Due to diversity in practice among registrants, SAB 108 expressed SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB 108 is effective for fiscal years ending after November 15, 2006, and early application is encouraged. The Company does not believe SAB 108 will have a material impact on its financial position or results from operations.

On February 15, 2007, the FASB issued SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities”. This Statement establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company’s financial statements issued in 2008. The Company is currently evaluating the impact that the adoption of SFAS No. 159 might have on its financial position or results of operations.

e) Reconciliation of net loss determined in accordance with CDN GAAP to net loss determined under US GAAP are as follows:

	Years ended December 31,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net loss for the year as reported using CDN GAAP	\$ (4,563,806)	\$ (6,679,398)	\$ (3,908,339)
Adjustments to resource properties	(2,759,185)	(2,830,001)	(10,511,840)
Foreign currency translation	(19,187)	104,276	100,481
Write-down of marketable securities	71,561	44,452	-
Adjustment for realized gain	-	104,557	-
Write-off of exploration costs	<u>3,052,802</u>	<u>5,917,734</u>	<u>1,350,205</u>
Net loss for the year per US GAAP	\$ (4,217,815)	\$ (3,338,380)	\$ (12,969,493)
Unrealized gain (loss) from marketable securities	(71,561)	(44,452)	104,557
Foreign currency translation	<u>19,187</u>	<u>(104,276)</u>	<u>(100,481)</u>
Comprehensive loss for the year per US GAAP	<u>\$ (4,270,189)</u>	<u>\$ (3,487,108)</u>	<u>\$ (12,965,417)</u>
Basic loss per share per US GAAP	<u>\$ (0.08)</u>	<u>\$ (0.07)</u>	<u>\$ (0.29)</u>
Weighted average number of shares outstanding per US GAAP	<u>52,991,262</u>	<u>52,898,829</u>	<u>44,916,963</u>

Radius Gold Inc.

An Exploration Stage Company

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

14. Reconciliation to United States of America Generally Accepted Accounting Principles – (cont'd)

e) – (cont'd)

The effects of the differences in accounting under CDN GAAP and US GAAP on the balance sheets and statements of cash flows are as follows:

<u>Balance Sheets</u>	<u>2006</u>	<u>2005</u>	
Total assets per CDN GAAP	\$ 24,823,238	\$ 28,167,622	
Adjustments for resource properties	<u>(13,438,248)</u>	<u>(13,731,865)</u>	
Total assets per US GAAP	11,384,990	14,435,757	
Total liabilities per CDN and US GAAP	<u>(224,199)</u>	<u>(286,527)</u>	
	<u>\$ 11,160,791</u>	<u>\$ 14,149,230</u>	
Deficit, per CDN GAAP	\$ (21,330,517)	\$ (16,766,711)	
Adjustments to resource properties	(13,438,248)	(13,731,865)	
Foreign currency translation	185,570	204,757	
Write-down of marketable securities	<u>116,013</u>	<u>44,452</u>	
Deficit, per US GAAP	<u>(34,467,182)</u>	<u>(30,249,367)</u>	
Contributed surplus per CDN GAAP	3,443,487	2,244,987	
Foreign currency translation loss	(185,570)	(204,757)	
Unrealized loss from marketable securities	<u>(116,013)</u>	<u>(44,452)</u>	
Comprehensive income per US GAAP	<u>3,141,904</u>	<u>1,995,778</u>	
Share capital per Canadian and US GAAP	<u>42,486,069</u>	<u>42,402,819</u>	
	<u>\$ 11,160,791</u>	<u>\$ 14,149,230</u>	
	Years ended December 31,		
<u>Statements of Cash Flows</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows used in operating activities per CDN GAAP	\$ (773,197)	\$ (362,621)	\$ (2,074,166)
Adjustments for mineral properties	<u>(2,759,185)</u>	<u>(2,830,001)</u>	<u>(3,304,848)</u>
Cash flows used in operating activities per US GAAP	<u>(3,532,382)</u>	<u>(3,192,622)</u>	<u>(5,379,014)</u>
Cash flows provided by (used in) investing activities per CDN GAAP	232,340	(2,846,811)	(9,372,674)
Adjustments for mineral properties	<u>2,759,185</u>	<u>2,830,001</u>	<u>3,304,848</u>
Cash flows used in investing activities per US GAAP	<u>2,991,525</u>	<u>(16,810)</u>	<u>(6,067,826)</u>
Cash flows from financing activity per Canadian and US GAAP	<u>51,000</u>	<u>255,140</u>	<u>1,040,199</u>
Decrease in cash per US GAAP	<u>\$ (489,857)</u>	<u>\$ (2,954,292)</u>	<u>\$ (10,406,641)</u>



RADIUS GOLD INC.

(the "Company")

MANAGEMENT'S DISCUSSION AND ANALYSIS Year End Report – December 31, 2006

General

This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2006. The following information, prepared as of April 20, 2007, should be read in conjunction with the December 31, 2006 financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated.

Business of the Company

The Company is in the business of acquiring, exploring and developing mineral properties, primarily gold targets, with a regional focus on Latin America. In some instances joint venture partners are found to advance the projects following discovery. Presently the Company has a portfolio of projects in Nicaragua, Guatemala, Ecuador and southern Mexico.

Nicaragua

Natividad

The Company's most advanced project in Nicaragua through 2006 was the Natividad project, located in Central Nicaragua, which Radius was advancing through a joint venture with Meridian Gold Inc. Meridian has expended over US\$4.0 million on the property, having completed a total of 43 holes at Natividad in 2005, and an additional 27 holes in the second phase as of September 30, 2006 (a total of 4,430m of drilling). The 2006 drilling tested the Manceras, Las Brisas, Ahumada, Pavon Central and Pavon North veins. In October, Meridian received permission to drill at the Las Vallas zone and approximately 1,000m was drilled in the last months of the year.

Overall the results from these drill campaigns were disappointing and failed to extend the mineralized shoots intersected in last year's drilling. Strong veining with highly favourable textures was intersected but results generally failed to exceed 2 g/t gold.

In January, 2007, Meridian completed its work at Natividad. No further results of interest were received and Meridian informed Radius that it was withdrawing from the Natividad joint venture once the camp and drill pads have been rehabilitated. This work should be completed by May 2007 and the property and all data will be returned to Radius.

San Pedro

Radius is continuing to market the San Pedro project but no further field work has been completed during the period. San Pedro is a large epithermal gold system and management is optimistic that a J/V partner will be found to advance this prospect.

India Norte

Radius's teams recently discovered a new, potentially significant vein system in northwest Nicaragua called the India Norte vein system. India Norte is 100% owned by Radius and lies close to the old La India mining camp approximately 70 km from Managua. The Company has identified a series of quartz veins and stock work zones associated with a cluster of rhyodacite domes approximately 5 km north of the La India vein system. Radius's has defined a north-west trending mineralized structure over 2.5 km long with gold-mineralized stock works up to 30 m in true width locally. Initial trench sampling returned low to moderate grade gold results but over significant widths.

There is reason to believe that the Company's work to date has identified the upper parts of a deeper economic system. In La India mining camp the productive zone of the veins mined ranges from an elevation of 500 m ASL down to as low as 50 m ASL. The trenches sampled by Radius at India Norte are from well above that elevation, ranging from 550m ASL to over 700m ASL, indicating significant potential for economic gold-bearing veins at deeper levels. A drill plan has been prepared and a drill permit application has been filed with the relevant authorities.

Northern Autonomous Region

Stream sediment and reconnaissance prospecting programs has identified several areas of interest in the Region Autonoma Atlantico Norte ("RAAN") where notable amounts of free gold in sediment and gold in quartz float have been identified. Radius has submitted several exploration concession applications covering these areas of interest. Technical work in these areas is on hold pending the granting of the concessions, however, further generative work is ongoing in this very challenging but highly prospective region of Nicaragua.

Guatemala

Tambor

Radius's technical personnel continued to review the feasibility of commencing underground exploration work at the Tambor project and late in 2006 decided to apply for the necessary permits to commence an exploration drift on the high grade gold zones.

The Tambor Properties host an orogenic lode gold belt, discovered by Radius in 2000 and explored by Gold Fields under joint venture until 2004. Gold Fields drill tested the Guapinol, La Laguna, Poza del Coyote and Cliff zones and outlined a 43-101 compliant resource of 216,000 ounces of gold in inferred resources (2.55 million tonnes @ 2.64 g/t Au) and 57,800 ounces in indicated resources (456,000 tonnes @ 3.94 g/t Au) prepared by Chlumsky, Armbrust and Meyer LLC of Lakewood Colorado. The majority of this resource is contained within high grade quartz vein bodies.

The primary objective of the underground work is to better understand the main structural control on the quartz-gold mineralization and hence the potential to develop additional resources. Radius will develop a crosscut through the quartz body which gave the high grade intercept in hole PDD-03-033 (80.5g/t Au over 5.3m). The estimated distance from the adit portal to the target zone of high grade quartz is 205m.

Early in 2007 the permits were obtained and the work commenced. As of this writing the adit has advanced 53m.

Banderas

The Company received the final batch of results from a ten hole drill program conducted at the Banderas property late in 2005 by Radius's joint venture partner, Glamis Gold Inc. No significant intersections were encountered in the program and Glamis subsequently withdrew from the joint venture. The Company is presently reviewing the options for this property.

Mexico

From January through April, 2006, Radius's Mexican exploration focus was on the Amatista project, a low sulfidation gold-silver system in the state of Nayarit, in west-central Mexico which was optioned in 2005. A sampling program was carried out which included a total of 88 stream sediment samples and 1,132 rock chip samples. Many of the rock samples were channel samples from trenches dug along the trace or projection of the veins, and also from the accessible underground workings. Veins vary in width from 0.3 to 2m; however mineralization appears to be discontinuous along strike, with spotty Ag and Au values being returned. Exploration results were disappointing and the option agreement was terminated in April, 2006.

Property visits and evaluations were made to several projects being vended by various third parties in the states of Jalisco, Sinaloa, Michoacan, and Guanajuato. None of the projects were sufficiently interesting to justify Radius's pursuing them further. In the second half of the year, the Company carried out a low-key reconnaissance exploration program in the state of Jalisco. Several areas of silver-gold bearing quartz veins were identified, locally associated with stock work zones and quartz tourmaline breccias. Sampling, however, returned weak metal values and no further work is planned.

In the fourth quarter of 2006 a reconnaissance program was commenced in the states of Chiapas and Oaxaca. From this work areas of anomalous gold and silver values in both stream sediment and rock led to the application for several concessions in early 2007. Additional follow up work is ongoing as is further reconnaissance work. Details on the various areas will be reported once Radius has secured title.

Ecuador

In November 2006, Radius signed an option agreement with Minera Cachabi C. Ltda. ("Mineca"), an Ecuadorian company, whereby Radius may earn a 70% interest in the Cerro Colorado high sulphidation gold project in Azuay province, southern Ecuador by incurring exploration expenditures of US\$3-million by the third anniversary of the commencement of drilling on the project. In addition, Radius must make staged cash payments to Mineca of US\$1-million, with US\$100,000 paid on signing of the agreement, a further \$125,000 payable when Radius begins drilling on the project, and additional cash payments totalling \$775,000 to be made up to and including the third anniversary of commencement of drilling. Radius must also fund and prepare a feasibility study on or before the fifth anniversary of the start up of drilling. Once Radius has earned its 70% interest in the project, Radius and Mineca will negotiate a joint venture agreement to develop the project.

The project lies at an elevation of 2,400 to 3,200m, and is 80km south of the city of Cuenca. It was explored by Newmont during the 1990s, and some 800 rock chip samples were collected. Opposition at the time by some of the local communities influenced Newmont's decision to abandon the project in 1992. Newmont's work identified three priority targets:

1. Cerro Colorado is a 200m diameter hill with abundant pervasive silicification and was Newmont's main target area. The area has been tentatively interpreted as being at the roots of a large silica "Yanacocha-type" system. Values of trace to 2.7g/t Au have been recovered from grab and chip sampling of the zone. The size of the alteration and the extent of the silicification make Cerro Colorado a high priority drill target.
2. The Reservoir anomaly is located at the north end of the greater Cerro Colorado project area. The anomaly consists of poorly outcropping sub vertical ribs of spongy silica with anomalous gold values. The main drill target consists of outcrops of altered limonitized and silicified ignimbrite which assays from trace to 1.1 g/t Au.
3. The Bola Rumi zone is situated 5km south of Cerro Colorado and consists of silica replacements within schistose Paleozoic or younger rocks. Anomalous gold values from trace to 4.5 g/t Au were returned from sampling. Quartz replacements occur for roughly 1km along strike. The Bola Rumi target also contains the highest silver values returned from Cerro Colorado with several values of up to 60g/t returned from the western end of the Bola Rumi area. This is quite distinct from the other anomalies, where Ag values are low (<5g/t).

Radius's initial work at Cerro Colorado has focused on community relations to secure permission from the local community to drill the project. In the light of recent political uncertainty over the Ecuadorian government's future intentions towards international mining investment, management has adopted a low key approach towards progressing Cerro Colorado. Community liaison will continue in conjunction with on-going monitoring of the broader political climate.

Selected Annual Information

The following table provides information for each of the three most recently completed financial years:

	2006 (\$)	2005 (\$)	2004 (\$)
Total Interest / Other Income	377,059	341,125	437,910
Loss before extraordinary items			
Total	4,563,806	6,679,398	3,908,339
Per share	0.09	0.13	0.09
Fully diluted per share *	N/A	N/A	N/A
Net Loss			
Total	4,563,806	6,679,398	3,908,339
Per share	0.09	0.13	0.09
Fully diluted per share *	N/A	N/A	N/A
Total Assets	24,823,238	28,167,622	34,611,897
Total long-term liabilities	-	-	-
Cash dividends	-	-	-

*The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized to the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price

during the year. For the years presented, however, this proved to be anti-dilutive. Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

Results of Operations

For the fiscal year ended December 31, 2006, the Company had a consolidated net loss of \$4,563,806 (\$0.09 per share) compared to a net loss of \$6,679,398 (\$0.13 per share) for the fiscal year ended December 31, 2005. Corporate expenses (not including stock-based compensation, amortization and exploration costs write-offs) in 2006 were about 2/3 of the total 2005 corporate expenses. Categories of corporate expenses which were significantly lower in 2006 were legal and accounting, public relations and travel. Due to investments maturing during 2006, the total interest income earned in 2006 was greater than in 2005.

Quarterly Information

The following table provides information for the eight fiscal quarters ended December 31, 2006:

	Fourth Quarter Ended Dec. 31, 2006 (\$)	Third Quarter Ended Sept. 30, 2006 (\$)	Second Quarter Ended June 30, 2006 (\$)	First Quarter Ended March 31, 2006 (\$)	Fourth Quarter Ended Dec. 31, 2005 (\$)	Third Quarter Ended Sept. 30, 2005 (\$)	Second Quarter Ended June 30, 2005 (\$)	First Quarter Ended March 31, 2005 (\$)
Total Income	238,352	8,335	18,760	111,612	69,162	167,825	50,396	53,742
Net Loss (Gain)	2,714,519	132,291	155,509	1,561,487	6,148,545	(3,692)	244,203	290,342
Net Loss per share	0.05	0.00	0.00	0.03	0.12	0.00	0.00	0.01

During the fourth quarter ended December 31, 2006, the Company had a net loss of \$2,714,519 (\$0.05 per share) which included property write-offs of \$2,744,941 and interest and other income of \$238,352. Total corporate expenses in the fourth quarter were approximately 75% greater as in the third quarter. Increased expense categories included in the fourth quarter are the audit fee accrual, public relations, and travel. During the fourth quarter, the Company's working capital decreased by approximately \$619,000.

Liquidity and Capital Resources

The Company's cash and marketable securities decreased from approximately \$13.35 million at December 31, 2005 to \$9.96 million at December 31, 2006. During the year ended December 31, 2006, the Company spent \$2,764,207 in exploration and equipment costs and \$640,946 on corporate expenses. Working capital at December 31, 2006 was \$10.83 million compared to \$13.77 million at December 31, 2005.

Management expects that the Company will have sufficient working capital to meet its corporate and exploration commitments over at least the next 24 months. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activity. Management believes it will be able to raise equity capital as required in the long term, but recognizes the uncertainty attached thereto. The Company continues to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

Mineral Properties Expenditures

Guatemala - During the fiscal year ended December 31, 2006, \$283,898 was spent on exploration of mineral properties in Guatemala. Of that amount, the major expenditure categories include \$77,043 for geological consulting fees, \$40,698 for salaries, \$30,678 for rent and utilities, and \$24,703 for licences, rights and taxes.

Nicaragua - During the fiscal year ended December 31, 2006, the Company incurred \$1,305,103 in exploration costs in Nicaragua. Of that amount, the major expenditure categories include \$433,503 for geological consulting fees, \$182,028 for geochemistry, and \$117,140 for salaries. Deferred acquisition and exploration costs totalling \$1,650,886 were written-off during the year, for properties on which no further work is warranted.

Mexico - During the fiscal year ended December 31, 2006, the Company spent \$753,909 in exploration costs in Mexico. Of that amount, the major expenditure categories include \$368,283 for geological consulting fees, \$69,991 for geochemistry and \$37,106 for salaries. Deferred acquisition and exploration costs totalling \$1,348,844 were written off during the year, for properties on which no further work is warranted.

Ecuador - During the fiscal year ended December 31, 2006, the Company spent \$113,130 in acquisition costs and \$4,734 for exploration on the Cerro Colorado in Ecuador.

Other - During the fiscal year ended December 31, 2006, the Company spent \$4,129 on property investigations in Canada, and wrote-off a total of \$53,072 in property investigation costs in Argentina, Colombia and Tanzania.

Related Party Transactions

The Company incurred the following expenditures charged by officers and companies which have common directors with the Company:

Expenses	Years ended December 31,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Consulting fees	\$ 21,346	\$ 25,676	\$ 15,215
Management fees	60,000	60,000	45,000
Mineral property costs:			
Consulting fees	<u>160,581</u>	<u>92,400</u>	<u>99,000</u>
	<u>\$ 241,927</u>	<u>\$ 178,076</u>	<u>\$ 159,215</u>

These expenditures were measured by the exchange amount which is the amount agreed upon by the transacting parties.

Advances and other receivables include \$48,528 (2005: \$20,193) due from directors and officers of the Company. These were funds advanced for Company expenses and any balance owed will be paid back in the normal course of business.

Due from related parties of \$147,870 (2005: \$256,649) are amounts due from companies which have a common director with the Company and arose from shared administrative costs. The balance owing is repayable in the normal course of business.

Accounts payable and advances include \$17,570 (2005: \$Nil) payable to a director of the Company and to an officer of the Company.

Due to related parties of \$10,510 (2005: \$35,129) are amounts due to a company which have a common director with the Company and arose from shared administrative costs. The amount is repayable in the normal course of business.

Other Data

Additional information related to the Company is available for viewing at www.sedar.com.

Share Position, Outstanding Warrants and Options

The Company's outstanding share position as at April 20, 2007 is 53,385,988 common shares, and the following share purchase warrants and incentive stock options are currently outstanding:

<u>No. of Shares</u>	<u>WARRANTS</u>	
	<u>Exercise Price</u>	<u>Expiry Date</u>
Nil		

<u>No. of Shares</u>	<u>STOCK OPTIONS</u>	
	<u>Exercise Price</u>	<u>Expiry Date</u>
670,000	\$0.68	January 7, 2008
50,000	\$1.00	September 2, 2009
20,000	\$0.68	September 29, 2010
<u>2,735,000</u>	<u>\$0.70</u>	<u>February 21, 2011</u>
<u>3,475,000</u>		

Financial Instruments

Under the provisions of the Canadian Institute of Chartered Accountants 3855 "Financial Instruments – Recognition and Measurement" the financial assets and liabilities of the Company are designated as other financial assets and liabilities, accordingly they are initially measured at fair value, which is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties under no compulsion to act.

Subsequent to initial measurement at fair value, any gain or loss experienced on derecognition or impairment of the asset or liability is recorded in the statement of income.

The Company's financial instruments comprise cash and cash equivalents, marketable securities, advances and other receivables, due from related parties, accounts payable and accrued liabilities and due to related party. Cash and cash equivalents, marketable securities, advances and other receivables, accounts payable and accrued liabilities are reported at their fair values on the balance sheet. The fair values are the same as the carrying values due to their short-term nature. The fair value of the amount due to and from related parties has not been disclosed due to the fact that the cash flow stream is not determinable.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, exchange or credit risks arising from these financial instruments.

Forward Looking Information

Certain statements contained in this MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which

speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

Risks and Uncertainties

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The Company's mineral properties are also located in emerging nations and consequently may be subject to a higher level of risk compared to developed countries. Operations, the status of mineral property rights, title to the properties and the recoverability of amounts shown for mineral properties in emerging nations can be affected by changing economic, regulatory and political situations. Other risks facing the Company include competition, environmental and insurance risks, fluctuations in metal prices, share price volatility and uncertainty of additional financing.

Internal Disclosure and Financial Reporting Controls

Management of the Company has designed such disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to management. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by the annual filings and has concluded that they are sufficiently effective to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with applicable securities regulations.

Management has also designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

