

# **PEDIMENT EXPLORATION LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE QUARTER ENDED  
DECEMBER 31, 2007**

**Pediment Exploration Ltd.  
Management's Discussion and Analysis  
for the quarter ended December 31, 2007**

**Preliminary Information**

The following Management's Discussion and Analysis ("MD&A") of Pediment Exploration Ltd. (the "Company") should be read in conjunction with the accompanying un-audited financial statements for the three months ended December 31, 2007 and the audited financial statements for the year ended September 30, 2007 which is available at the SEDAR website at [www.sedar.com](http://www.sedar.com).

All information contained in the MD&A is as of February 29, 2008 unless otherwise indicated. All amounts are stated in Canadian dollars unless otherwise indicated.

**Description of Business and Overall Performance**

The Company is a natural resource company engaged in the evaluation, acquisition, exploration and development of resource properties in Mexico. The goals of the Company are to identify and develop mineral resource targets. The Company is in the exploration stage as its properties have not reached commercial production and none of its properties are beyond the advanced exploration stage therefore there is no production, sales or inventory. The Company has financed its current operating and exploration activities principally by the issuance of common shares.

The recoverability of costs capitalized to mineral properties and the Company's future financial success is dependent upon the extent to which it can discover mineralization and the economic viability of developing such properties. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty. Many of the key factors are outside of the Company's control. Additional risk factors that may effect the financial statements and the risk factors related to mineral exploration and development are set out in the Company's Management Information Circular as filed via SEDAR on February 22, 2008, available at [www.sedar.com](http://www.sedar.com).

The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they became payable.

The Company knows of no trends, demands, commitments, events or uncertainties outside of the normal course of business that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future. Material increases or decreases in the Company's liquidity are substantially determined by the success or failure of the Company's exploration programs and overall market conditions for smaller resource companies. The Company is not aware of any seasonality in the business that have a material effect upon its financial condition, results of operations or cash flows other than those normally encountered by public reporting junior resource companies. The Company is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

The reactivation of the Company through the acquisition in July 2004 to acquire a 100% interest in Minera Pitalla, S.A. de C.V. ("Pitalla") have reflected significant improvements in cash resources and working capital, increased operating expenditures, and an increase in its assets as the Company has proceeded with its acquisitions, property exploration and recent financings.

The Company now has an active office in Mexico with six geologists, and full bookkeeping and accounting capabilities.

On November 30, 2006, the Company signed an agreement with Inmet Mining Corp. allowing Inmet to explore for copper gold porphyry deposits on Pediment's Caborca project. The agreement allows Pediment to continue to focus on project acquisition and development of its

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extensive gold and silver holdings while Inmet funds work towards the discovery of porphyry mineralization at Caborca. The Lista Blanca ridge area that Pediment recently completed an initial drill program on is excluded from the agreement. Pediment will be the initial operator of the project.

On January 25, 2007, Inmet Mining Corp. served Pediment Exploration Ltd. with a notice of its intention to proceed with the joint venture. Inmet issued the first payment to Pediment for \$50,000. The first stage of induced-polarization geophysical work began on June 5, 2007, by Gradient Geophysics and lasted until July 30, 2007.

The objective of this work was to refine the targets generated during the reconnaissance IP work previously done by Durango Geophysics. Inmet agreed to proceed with a second stage of geophysical work at Caborca and to move forward to the drilling stage. The second geophysical survey took place during September 2007, which had the objective of extending the existing lines and creating further drill targets. During Quarter 1, Inmet reimbursed the Company for CDN\$226,648 in related exploration expenditures. Subsequent to the end of the quarter, a further CDN\$269,924 in related exploration expenditures was reimbursed to the Company to the date of this report.

Diamond drilling at the Caborca project began in October 2007 to test for hidden porphyry targets. The program targeted Induced-Polarization chargeability anomalies. It was carried out by Layne de Mexico which completed 5 holes totaling 1,700 metres.

The La Juliana project was explored from January 2007 through June 2007 through an exploration agreement with purchase option. The exploration program included compilation of previous exploration data, surface rock-sampling and 1,332 metres of reverse-circulation drilling. The total cost of the exploration program (including the payments for the exploration agreement) was \$333,846. Due to unsatisfactory drill results, the Company decided not to pursue the project any further and all associated costs were written off in Quarter 4 of fiscal year 2007.

On October 22, 2007, the Company negotiated the exclusive option to acquire the past producing La Colorada gold-silver mine property. The Company has an option to acquire 100% of 18 concessions held by private owners plus 1,130 hectares of surface holdings that include production and plant offices in return for an initial payment of US\$1.1 million (\$997,095 – paid), followed by additional payments of US\$1,650,000 million (\$1,638,335) over the subsequent two-year period.

During Quarter 1, the Company has been conducting a thorough evaluation of La Colorada, including an intensive review of the production and exploration databases for the past operator. In addition, the Company has begun a rock-soil sampling program at the property which will create new drilling targets at La Colorada.

After the fiscal year end, the drill program at the San Antonio project continued to progress. The majority of the Company's efforts were focused on drill testing the Los Planes zone by reverse circulation methods; completing over 80 drill holes to date and representing over 17,000 metres of reverse circulation drilling. In December 2007, a diamond drill rig was added to the program, with the objective of drilling twin holes at Los Planes and also drill testing the Fandango zone which has a strong chargeability response. The Fandango zone is located 1.5 kilometres west of the Los Planes zone. To date, the twin holes have been completed and drilling of Fandango is underway. Also in December, 2007, work began towards producing a 43-101 compliant resource estimate for Los Planes.

In January 2008, the Company initiated a drill test of the Daniel gold project. The initial drill phase was completed 28 holes for a total of 4,900 metres drilled. The holes were distributed through the

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entire gold anomalies, including the Coronela, Sierrita and Coyote areas. Assay results remain pending at the time of this report.

On October 31, 2007 the Company created an Advisory Board consisting of three of the most successful explorers/developers in Mexico and South America as founding members. Allen Ambrose, Mark Bailey and Dr. Peter Megaw agreed to serve as advisors to the Company on a broad range of technical and financial matters.

**Results of Operations**

The Company currently has no producing properties and consequently no operating income or cash flow.

Operating expenses were rather significant this quarter, totaling \$2,710,462. There was a significant increase in the amount allocated to Salaries and Consultants, due to the fair value of stock options granted, some of which vested to directors and employees. Legal fees, audit and accounting fees, were also considerable due to the private placement which closed on December 3, 2007.

Other Income (Expenses) decreased to \$94,153 compared to \$100,769 at December 31, 2006.

Investment and other income increased to \$164,077 compared to \$23,030 due to an increase in the amount of cash held due to the proceeds from private placements.

The Company's accounting policy as it relates to its acquisition of Pitalla and its mineral properties is to defer all costs of acquiring natural resource properties and their related exploration and development costs until the property to which they relate is placed into production, sold or abandoned. At that time, capitalized costs are either amortized over the useful life of the ore-body, following the commencement of production or written off if the property is sold or abandoned.

The Company currently does not have an operating mineral property. The Company has no earnings and therefore will finance its future exploration activities by the sale of common shares or units. The key determinants of the Company's operating results are the following:

- (a) the state of capital markets, which affects the ability of the Company to finance its exploration activities;
- (b) the write-down and abandonment of mineral properties as exploration results provide further information relating to the underlying value of such properties; and
- (c) market prices for natural resources.

The Company is not a party to any material legal proceedings and is not in default under any material debt or other contractual obligations other than as disclosed in the financial statements. No significant revenue generating contracts or cash commitments were entered into or undertaken by the Company during the period other than as set out herein or in the financial statements of the Company.

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**Selected Annual Information**

**For the years ended September 30**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Total revenues (Interest & other income)	187,156	117,721	553
Income (Loss) for the year	(2,608,504)	(1,587,282)	(1,135,237)
Earnings (Loss) for the year per share	(0.10)	(0.08)	(0.27)
Total assets	13,927,020	5,843,925	898,440
Total long-term financial liabilities	Nil	Nil	Nil

**Summary of Quarterly Results**

**For the quarters ended**

	<b>Dec. 31, 2007</b>	<b>Sept. 30, 2007</b>	<b>June 30, 2007</b>	<b>March 31, 2007</b>
Total revenues	164,077	123,807	5,548	34,771
Income (Loss) for the year	(2,616,309)	(1,178,222)	(564,562)	(614,344)
Earnings (Loss) for the year per share	(0.07)	(0.04)	(0.02)	(0.03)

**For the quarters ended**

	<b>Dec. 31, 2006</b>	<b>Sept. 30, 2006</b>	<b>June 30, 2006</b>	<b>March 31, 2006</b>
Total revenues	23,030	52,265	39,370	15,778
Income (Loss) for the year	(251,376)	(274,302)	(916,341)	(231,130)
Earnings (Loss) for the year per share	(0.01)	(0.01)	(0.04)	(0.01)

**Liquidity and Capital Resources**

At December 31, 2007, the Company had working capital of \$24,731,494 compared to its September 30, 2007 working capital of approximately \$10,144,238. The Company is able to meet its past and ongoing financial obligations at this time.

- (i) On December 3, 2007 the Company completed a private placement of 5,849,300 units (the "Units") for gross proceeds of \$17,547,900. Each unit consists of one common share in the capital of the Company and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one additional common share in the capital of the company at a price of \$3.75 per share until June 3, 2009. In connection with the private placement, the Company paid to six registered dealers as finder's fees an aggregate of \$425,520 and issued 101,000 Units (at a deemed issue price of \$3.00 per unit) and 262,215 finders' warrants. Each finders' warrant is exercisable to acquire one common share of the Company at a price of \$3.80 per share until June 3, 2009, and each Unit has the same terms as the Units described above. All securities issued under the Private Placement are subject to a four-month hold period and are not tradable in Canada until April 4, 2008.

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The funds were to be used to further the Company's exploration activities and initiatives as well as to put towards future property acquisitions. Some of the funds were also used to carry on general office and administrative operating expenses in both the Vancouver and Mexico offices.

**Transactions with Related Parties**

Related party transactions and balances are disclosed in Note 7 of the quarterly financial statements.

**Subsequent Events**

Subsequent to the end of Quarter 1, the Company issued a total of 585,172 common shares on the exercise of warrants and options for net proceeds of \$1,011,556.

Effective February 6, 2008, the Company effect a cancellation of 426,667 escrow shares of the Company held pursuant to an escrow agreement dated July 30, 2001, which expired on July 30, 2007.

Further information on the Company's exploration projects can be found on the Company website at [www.pedimentexploration.com](http://www.pedimentexploration.com).

**Critical Accounting Estimates**

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or written down, where appropriate. The Company's accounting policy is to capitalize exploration costs consistent with Canadian GAAP and applicable guidelines for exploration stage companies. The policy is consistent with other junior exploration companies which have not established mineral reserves objectively. An alternative policy would be to expense these costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established. Management is of the view that its current policy is appropriate for the Company at this time. Based on annual impairment reviews made by management, or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned; or exploration activity ceases on a property due to unsatisfactory results or insufficient available funding.

Significant estimates are made in respect of the Company's asset retirement obligations. The Company's proposed mining and exploration activities are subject to various laws and regulations for federal, regional and provincial jurisdictions governing the protection of the environment. These laws are continually changing. The Company believes its operations are in compliance with all applicable laws and regulations. The Company expects to make, in the future, expenditures to comply with such laws and regulations but cannot predict the full amount or timing of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the

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acquisition, development, construction and normal operation of mining property, plant and equipment.

Moreover, significant estimates are made in respect of, accounting for stock-based compensation and the valuation of other derivative equity instruments such as warrants issued by the Company using similar techniques. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input 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 stock options granted/vested during the period.

**Disclosure Controls and Procedures and Internal Controls Over Financial Reporting**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's system of disclosure controls and procedures includes, but is not limited to, our Board's Corporate Governance Guidelines and effective operation of the Audit Committee and procedures in place to systematically identify matters warranting consideration of disclosure by the Audit Committee.

As at the end of the quarter covered by this management's discussion and analysis, management has evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as required by applicable Canadian Securities Laws. Such modifications or enhancements to the existing controls and procedures have been designed, as determined necessary to obtain reasonable assurance as to the effectiveness of such controls at this time. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the President and Chief Financial Officer have concluded that, as of the end of the year covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings (as such terms are defined under Multilateral Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*) and other reports filed or submitted under applicable Canadian securities laws, is recorded, processed, summarized and reported within time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

While management believes that control over bank accounts and Company assets is adequate, it is also aware that internal control weaknesses were identified in respect of a lack of segregation of duties, and a high risk of management override of controls and procedures. It is management's opinion that these weaknesses in internal controls over financial reporting are inherently related to the small size of the issuer.

**Risks and Uncertainties**

The Company is in the mineral exploration and development business and as such is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. Some of the possible risks include the following:

- a) The industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates.

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- b) The only source of future funds for further exploration programs, or if such exploration programs are successful for the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration or development. Management was successful in accessing the equity markets during the period, but there is no assurance that such sources will be available on acceptable terms in the future.
- c) Any future equity financings by the Company for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders.
- d) The Company must comply with environmental regulations governing air and water quality and land disturbance and provide for mine reclamation and closure costs.
- e) The operations of the Company will require various licenses and permits from various governmental authorities. There is no assurance that the Company will be successful in obtaining the necessary licenses and permits to continue its exploration and development activities in the future.
- f) There is no certainty that the properties which the Company has deferred as assets on its balance sheet will be realized at the amounts recorded. These amounts should not be taken to reflect realizable value.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described on any forward-looking statements. The Company has not completed a feasibility study on any of its deposits to determine if it hosts a mineral resource that can be economically developed and profitably mined.

**Caution Regarding Forward Looking Statements**

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Investors are cautioned against attributing undue certainty to forward-looking statements.

Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

*"Gary Freeman"*  
Gary Freeman, President

February 29, 2008