



CARDERO RESOURCE CORP.
(An Exploration Stage Company)

Audited Consolidated Financial Statements

October 31, 2007 and 2006



CARDERO RESOURCE CORP.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements and all information in the annual report are the responsibility of the Board of Directors and management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management maintains the necessary systems of internal controls, policies and procedures to provide assurance that assets are safeguarded and that the financial records are reliable and form a proper basis for the preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee, which reports to the Board of Directors, meets with the independent auditors and reviews the financial statements.

The consolidated financial statements have been audited by Smythe Ratcliffe LLP, Chartered Accountants, who were appointed by the shareholders. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of the Company's financial reporting for external purposes in accordance with accounting principles generally accepted in Canada and in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions and dispositions of the assets of the Company; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles; providing reasonable assurance that receipts and expenditures are made in accordance with authorizations of management and the directors of the Company; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company's assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of October 31, 2007. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of October 31, 2007 has been audited by Smythe Ratcliffe LLP, an independent registered public accounting firm, as stated in their report.

"Henk van Alphen"
Hendrik van Alphen,
President & Chief Executive Officer

"Michael Kinley"
Michael Kinley,
Chief Financial Officer

January 17, 2008
Vancouver, Canada

**CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Financial Statements**

October 31, 2007, 2006 and 2005

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF CARDERO RESOURCE CORP. (An Exploration Stage Company)

We have audited the consolidated balance sheets of Cardero Resource Corp. (An Exploration Stage Company) as at October 31, 2007 and 2006 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years ended October 31, 2007, 2006 and 2005. 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. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years ended October 31, 2007, 2006 and 2005 in conformity with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants
Vancouver, Canada
January 17, 2008

COMMENTS BY AUDITORS FOR US READERS

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going-concern, such as described in note 1 to the consolidated financial statements. Our report to the shareholders dated January 17, 2008, is expressed in accordance with Canadian reporting standards, which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

Prior years' figures have been restated as set out in note 13.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants
Vancouver, Canada
January 17, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Cardero Resource Corp.

We have audited Cardero Resource Corp.'s (the "Company") internal control over financial reporting as of October 31, 2007 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2007, based on the criteria established in Internal Control-Integrated Framework issued by the COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of October 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years ended October 31, 2007, 2006 and 2005 and our report dated January 17, 2008 expressed an unqualified opinion on those consolidated financial statements.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
January 28, 2008

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Balance Sheets
October 31

	2007	2006
ASSETS		
Current		
Cash and cash equivalents	\$ 824,484	\$ 4,506,165
Accounts receivable (note 8)	2,369,419	1,315,703
Prepaid expenses	150,073	325,299
Total Current Assets	3,343,976	6,147,167
Equipment (note 4)	71,404	104,788
Investments (note 5)	10,100,000	2,240,000
Resource Properties (note 6)	20,549,336	18,680,316
Total Assets	\$ 34,064,716	\$ 27,172,271
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 8)	\$ 594,056	\$ 478,621
SHAREHOLDERS' EQUITY		
Capital Stock	55,473,921	49,460,316
Contributed Surplus	8,490,791	6,645,896
Accumulated Other Comprehensive Income	5,520,000	-
Deficit	(36,014,052)	(29,412,562)
Total Shareholders' Equity	33,470,660	26,693,650
Total Liabilities and Shareholders' Equity	\$ 34,064,716	\$ 27,172,271

Nature of operations (note 1)

Commitments (note 11)

Subsequent events (note 12)

Approved on behalf of the Board:

"Henk Van Alphen"

..... Director

Henk Van Alphen

"Lawrence W. Talbot"

..... Director

Lawrence W. Talbot

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Operations
Years Ended October 31

	2007	2006	2005
Administrative Expenses			
Amortization	\$ 62,821	\$ 20,347	\$ 19,635
Capital tax	64,842	-	-
Consulting fees (note 8)	827,065	1,931,013	1,291,156
Insurance	164,666	193,228	44,887
Investor relations	819,798	884,406	1,758,140
Office costs	790,980	414,122	138,465
Professional fees (note 8)	624,787	537,395	625,937
Property evaluations	1,332,246	299,113	472,957
Regulatory and transfer agent fees	154,529	202,365	103,463
Salaries	2,624,072	1,999,033	1,188,204
Loss Before Other Items	(7,465,806)	(6,481,022)	(5,642,844)
Other Gain (Loss) Items			
Foreign exchange gain (loss)	(446,476)	(8,353)	(5,694)
Interest income	231,022	351,378	376,289
Realized gain on sale of available-for-sale investments (note 5)	1,818,236	-	-
Unrealized gain on derivative investments (note 5)	260,000	-	-
Write-off of resource properties (note 6)	(3,538,466)	(2,052,145)	(1,190,641)
	(1,675,684)	(1,709,120)	(820,046)
Net Loss for Year	\$ (9,141,490)	\$ (8,190,142)	\$ (6,462,890)
Loss Per Share	\$ (0.20)	\$ (0.19)	\$ (0.16)
Weighted Average Number of Common Shares Outstanding	46,431,351	42,741,186	40,938,200

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Shareholders' Equity

	Share Capital		Deficit	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance, October 31, 2004	38,247,958	\$ 34,666,470	\$ (14,759,530)	\$ 3,520,528	\$ -	\$ 23,427,468
Net Loss for the Year			(6,462,890)			(6,462,890)
Shares issued for cash						
Exercise of options	960,500	2,249,000				2,249,000
Exercise of warrants	2,121,781	4,803,410				4,803,410
Shares issued for non-cash						
Reclassification of contributed surplus on exercise of options		942,994		(942,994)		-
Property acquisition	355,000	1,255,450				1,255,450
Stock-based compensation				2,398,396		2,398,396
Balance, October 31, 2005	41,685,239	43,917,324	(21,222,420)	4,975,930	-	27,670,834
Net Loss for the Year			(8,190,142)			(8,190,142)
Shares issued for cash						
Exercise of options	1,037,200	2,732,775				2,732,775
Shares issued for non-cash						
Reclassification of contributed surplus on exercise of options		1,299,217		(1,299,217)		-
Property acquisition	300,000	1,211,000				1,211,000
Data acquisition	100,000	300,000				300,000
Stock-based compensation				2,969,183		2,969,183
Balance, October 31, 2006	43,122,439	49,460,316	(29,412,562)	6,645,896	-	26,693,650
Net Loss for the Year			(9,141,490)			(9,141,490)
Other Comprehensive Income						
Unrealized gain on available-for-sale investments					390,000	390,000
Transfer to income of realized gain on sale of investments					(1,710,000)	(1,710,000)
Comprehensive Loss for the Year						(10,461,490)
Adjustment to opening balance – change in accounting policy (notes 3(a) and 5(a))			2,540,000		6,840,000	9,380,000
Shares issued for cash						
Private placement	3,700,000	5,550,000				5,550,000
Exercise of options	190,000	329,250				329,250
Share issue costs		(281,830)				(281,830)
Shares issued for non-cash						
Reclassification of contributed surplus on exercise of options		121,665		(121,665)		-
Property acquisition	220,000	415,600				415,600
Agent's compensation	89,000	133,500				133,500
Stock-based compensation				1,845,480		1,845,480
Share issue costs		(254,580)		121,080		(133,500)
Balance, October 31, 2007	47,321,439	\$ 55,473,921	\$ (36,014,052)	\$ 8,490,791	\$ 5,520,000	\$ 33,470,660

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Cash Flows
Years Ended October 31

	2007	2006	2005
Operating Activities			
Net loss for the year	\$ (9,141,490)	\$ (8,190,142)	\$ (6,462,890)
Items not involving cash			
Amortization	62,821	20,347	19,635
Stock-based compensation	1,845,480	2,969,183	2,398,396
Write-off of resource properties	3,538,466	2,052,145	1,190,641
Realized gain on sale of investment	(1,818,236)	-	-
Unrealized gain on sale of investment	(260,000)	-	-
Changes in Non-Cash Working Capital Items			
Accounts receivable	(1,053,716)	(740,267)	(75,075)
Prepaid expenses	175,226	138,951	(292,117)
Accounts payable and accrued liabilities	110,284	(32,987)	(87,280)
Cash Used in Operating Activities	(6,541,165)	(3,782,770)	(3,308,690)
Investing Activities			
Investment in and expenditures on resource properties	(4,986,735)	(7,330,739)	(5,440,745)
Proceeds from sale of investment	2,378,236	-	-
Purchase of investment	(100,000)	(2,240,000)	-
Purchase of equipment	(29,437)	(79,320)	(17,665)
Cash Used in Investing Activities	(2,737,936)	(9,650,059)	(5,458,410)
Financing Activities			
Proceeds from shares issued	5,879,250	2,732,775	7,052,410
Share issue costs	(281,830)	-	-
Cash Provided by Financing Activities	5,597,420	2,732,775	7,052,410
Decrease in Cash and Cash Equivalents	(3,681,681)	(10,700,054)	(1,714,690)
Cash and Cash Equivalents, Beginning of Year	4,506,165	15,206,219	16,920,909
Cash and Cash Equivalents, End of Year	\$ 824,484	\$ 4,506,165	\$ 15,206,219
Supplemental Cash Flow Information			
Account payables related to property expenditures	\$ 275,482	\$ 270,332	\$ 567,955
Shares issued for property option payments	\$ 415,600	\$ 1,211,000	\$ 1,255,450
Shares issued for data acquisition	\$ -	\$ 300,000	\$ -
Shares issued for agent's compensation	\$ 133,500	\$ -	\$ -
Interest and income tax paid	\$ -	\$ -	\$ -
Cash and Cash Equivalents			
Consists of:			
Cash	\$ 824,484	\$ 1,006,165	\$ 1,206,219
Term deposits	\$ -	\$ 3,500,000	\$ 14,000,000

1. NATURE OF OPERATIONS

Cardero Resource Corp. and its subsidiaries are engaged in the exploration of mineral properties, primarily in Mexico, Peru and Argentina. The Company considers itself to be an exploration stage company.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that any of the Company's current or future exploration programs will result in profitable mining operations. The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete their development and exploitation, and future profitable operations or sale of the properties. The investment in and expenditures on resource properties comprise a significant portion of the Company's assets.

These consolidated financial statements were prepared on a "going-concern" basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As of October 31, 2007, the Company had working capital of \$2,749,920 (2006 - \$5,668,546). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses. The Company has an accumulated deficit of \$36,014,052 as at October 31, 2007 (2006 - \$29,412,562).

The Company's ability to discharge its liabilities and fulfill its commitments as they come due is dependent upon its success in obtaining equity financing and, ultimately, on locating economically recoverable ore resources and attaining profitable operations. Failure to continue as a going-concern would require the restatement of assets and liabilities on a liquidation basis, which could differ materially from the going-concern basis.

These financial statements do not reflect adjustments that would be necessary if the going-concern assumptions were not appropriate because management believes that actions taken or planned will mitigate the adverse conditions that raise doubts about the Company's viability.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements include the accounts of Cardero Resource Corp. and its wholly-owned integrated subsidiaries, Cardero Argentina, S.A. ("Cardero Argentina"), Minerales Y Metales California, S.A. de C.V. ("MMC"), Cardero Iron Ore Company Ltd., Cardero Peru S.A.C. ("Cardero Peru"), Cerro Colorado Development Ltd. and Compania Minera Cardero Chile Limitada ("Cardero Chile") (collectively, the "Company"). All significant inter-company transactions and balances have been eliminated.

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

(b) Cash and cash equivalents

Securities with original maturities of three months or less are considered to be cash equivalents, at cost. The securities are highly liquid, can be converted to cash at any time, and are held at a Canadian Chartered bank.

(c) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for equipment, the recoverability of resource property interests, the assumptions used in the determination of the fair value of stock-based compensation and the determination of the valuation allowance for future income tax assets and accruals. Management believes the estimates are reasonable; however, actual results could differ from those estimates and would impact future results of operations and cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Amortization

Amortization of equipment is recorded on a declining-balance basis at the following annual rates:

Computer equipment	-	30%
Office equipment	-	20%
Leasehold improvements	-	straight-line over the lease term

Additions during the year are amortized at one-half the annual rates.

(e) Investments

Investments other than derivatives are classified as available-for-sale, and are carried at quoted market value, where applicable, or at an estimate of fair value. Resulting unrealized gains or losses, net of applicable income taxes, are reflected in other comprehensive income, while realized gains or losses are included in operations. Share purchase warrants included in investments are classified as derivative financial instruments, and accordingly, unrealized gains or losses, net of applicable income taxes, are included in operations.

(f) Resource properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

All capitalized costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the property for an amount greater than the deferred costs, the property is written down for the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

Capitalized costs are depleted over the useful lives of the properties upon commencement of commercial production, or written off if the properties are abandoned or the applicable mineral rights are allowed to lapse.

(g) Foreign currency translation

The functional currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- i. Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- ii. Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Foreign currency translation (Continued)

- iii. Interest income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the average rate of exchange for the year.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

(h) Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

(i) Loss per share

Loss per share amounts have been calculated and presented in accordance with the treasury stock method. Diluted loss per share amounts have not been presented as the effect of outstanding options and warrants is anti-dilutive.

(j) Revenue recognition

Interest income is recorded as earned at the stated rate of interest of the term deposit over the term to maturity.

(k) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation (“ARO”) in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(l) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

3. FINANCIAL INSTRUMENTS

(a) Changes in accounting policies

Effective November 1, 2006, the Company adopted the following new accounting standards issued by the CICA relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

i) Financial Instruments – Recognition and Measurement (Section 3855)

This standard sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to October 1, 2006 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

ii) Comprehensive Income (Section 1530)

Effective November 1, 2006, the Company adopted the CICA Handbook Section 1530, "comprehensive income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for the period, other than changes attributed to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which GAAP requires to be recognized in a period, but excluded from net income for that period.

(b) Fair value

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments. Investments are carried at quoted market value or equivalent.

(c) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

CARDERO RESOURCE CORP.
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended October 31, 2007, 2006 and 2005

3. FINANCIAL INSTRUMENTS (Continued)

(d) Credit risk

The Company is exposed to credit risk with respect to its accounts receivable, which consists largely of tax credits receivable from Mexican, Argentinean, Peruvian and Canadian agencies, interest receivable, and rent receivable. Cash and cash equivalents have been placed with a major Canadian financial institution.

(e) Currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

(f) Derivatives – mineral properties

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties, the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral interests to which they relate are not sufficiently developed to reasonably determine value.

4. EQUIPMENT

	2007			2006		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer equipment	\$ 119,537	\$ 66,110	\$ 53,427	\$ 96,064	\$ 51,677	\$ 44,387
Office equipment	36,886	18,909	17,977	30,922	15,531	15,391
Leasehold improvements	49,511	49,511	-	49,511	4,501	45,010
	\$ 205,934	\$ 134,530	\$71,404	\$ 176,497	\$ 71,709	\$ 104,788

5. INVESTMENTS

	2007	2006
International Tower Hill Mines Ltd.	\$ 10,000,000	\$ 2,240,000
Trevali Resources Corp.	100,000	-
	\$ 10,100,000	\$ 2,240,000

5. INVESTMENTS (Continued)

- (a) During fiscal 2006, the Company acquired 4,000,000 common shares of International Tower Hill Mines Ltd. (TSXV: "ITH"), plus common share purchase warrants to purchase up to an additional 2,000,000 common shares at a price of \$1.00 until August 4, 2008, at a gross cost of \$2,240,000. As a result of this acquisition, the Company held approximately 13.32% of the issued and outstanding common shares of ITH as at August 4, 2006. Assuming the exercise of the 2,000,000 warrants, the Company would then hold approximately 18.74% of the then issued common shares of ITH (assuming no other warrant or option exercises). ITH is considered to be a related party as a result of common officer and director relationships (note 8).

On December 14, 2006, the Company sold 1,000,000 shares of ITH for net proceeds of \$2,378,236 resulting in a gain on sale of \$1,818,236.

At October 31, 2007, the quoted market value of ITH common shares was \$2.40 (2006 - \$2.27) per share, or a total market value for the Company's shares of \$7,200,000 (2006 - \$9,080,000). The intrinsic (in the money) value of the 2,000,000 share purchase warrants is \$1.40 (2006 - \$1.27) per warrant, or \$2,800,000 (2006 - \$2,540,000), for a total fair value at October 31, 2007 of \$10,000,000 (2006 - \$11,620,000). Pursuant to the change in accounting policy (note 3(a)), the carrying values of the investments were increased to their fair value at November 1, 2006 with the corresponding increase reflected in the adjustments to deficit and other comprehensive income, respectively. Fair value adjustments for the year ended October 31, 2007 amounted to unrealized gains of \$390,000 and \$260,000 recorded as comprehensive income and other income, respectively. The Company held 7.56% of the ITH issued and outstanding common shares as of that date.

- (b) On April 24, 2007, the Company acquired 1,000,000 shares of Trevali Resources Corp. ("Trevali"), a former related party (note 8), at a gross cost of \$100,000. As there is no quoted market value for the shares of Trevali as at October 31, 2007, the Company considers its cost to be a reasonable estimate of fair value as of that date. Trevali commenced trading on the CNQ effective December 21, 2007.

CARDERO RESOURCE CORP.
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended October 31, 2007, 2006 and 2005

6. RESOURCE PROPERTIES

The Company's capitalized acquisition and exploration expenditures on its resource properties are as follows:

	Mexico			Argentina	Peru					Total
	Baja	Other	Total		Marcona	Pampa de Pongo	Iron Sands	Other	Total	
Balance, October 31, 2005	\$3,018,235	\$ 245,555	\$ 3,263,790	\$ 2,711,564	\$1,806,576	\$ 2,508,965	\$1,229,383	\$ 668,068	\$ 6,212,992	\$12,188,346
Acquisition costs	310,220	3,607	313,827	575,520	918,000	57,865	241,846	366,224	1,583,935	2,473,282
Deferred exploration costs										
Camp	212,962	86,801	299,763	827,628	-	-	762,706	15,050	777,756	1,905,147
Drilling and analysis	1,343,301	114,473	1,457,774	186,198	-	-	785,327	4,402	789,729	2,433,701
Personnel and geology	392,397	22,137	414,534	929,747	-	-	347,770	39,934	387,704	1,731,985
	1,948,660	223,411	2,172,071	1,943,573	-	-	1,895,803	59,386	1,955,189	6,070,833
Total expenditures for the year	2,258,880	227,018	2,485,898	2,519,093	918,000	57,865	2,137,649	425,610	3,539,124	8,544,115
Total before write-offs	5,277,115	472,573	5,749,688	5,230,657	2,724,576	2,566,830	3,367,032	1,093,678	9,752,116	20,732,461
Write-offs	-	(117,008)	(117,008)	(1,686,843)	-	-	-	(248,294)	(248,294)	(2,052,145)
Balance, October 31, 2006	5,277,115	355,565	5,632,680	3,543,814	2,724,576	2,566,830	3,367,032	845,384	9,503,822	18,680,316
Acquisition costs	131,602	68,085	199,687	1,044,239	-	115,300	108,770	456,302	680,372	1,924,298
Deferred exploration costs										
Camp	61,336	15,646	76,982	1,233,705	-	-	455,719	158,580	614,299	1,924,986
Drilling and analysis	21,567	6,085	27,652	529,306	-	-	60,397	30,328	90,725	647,683
Personnel and geology	85,700	41,271	126,971	489,134	-	1,069	231,617	61,728	294,414	910,519
	168,603	63,002	231,605	2,252,145	-	1,069	747,733	250,636	999,438	3,483,188
Total expenditures for the year	300,205	131,087	431,292	3,296,384	-	116,369	856,503	706,938	1,679,810	5,407,486
Total before write-offs	5,577,320	486,652	6,063,972	6,840,198	2,724,576	2,683,199	4,223,535	1,552,322	11,183,632	24,087,802
Write-offs	-	(361,698)	(361,698)	(331,865)	(1,890,172)	-	-	(954,731)	(2,844,903)	(3,538,466)
Balance, October 31, 2007	\$5,577,320	\$124,954	\$ 5,702,274	\$ 6,508,333	\$ 834,404	\$ 2,683,199	\$ 4,223,535	\$ 597,591	\$ 8,338,729	\$ 20,549,336

6. RESOURCE PROPERTIES (Continued)

(a) Mexico

The properties in Mexico consist of the following:

i. Sirena Project, Baja California State, Mexico

Pursuant to an agreement dated December 12, 2001 between the Company and a private Mexican company, the Company acquired a 100% interest in six mineral concessions located in Baja California State, Mexico, in consideration of the issuance of an aggregate of 400,000 common shares of the Company (issued). Some of these concessions form part of the Baja IOCG Project (see note 6(a)(v)). The Company does not presently plan to carry out any work programs on the balance of the properties during 2008.

ii. Acquisition of MMC

Pursuant to an agreement dated September 9, 2002 between the Company and two Mexican individuals, the Company acquired a 100% interest in MMC, a private Mexican corporation that owned 8,055 hectares of mineral concessions situated in Baja California State, Mexico, in consideration of aggregate payments of USD 75,000 (paid) and the issuance of an aggregate of 225,000 common shares of the Company (issued).

In addition to the above concessions, pursuant to an agreement made November 3, 2003, between MMC and a Mexican individual, MMC acquired a 100% interest in three mineral concessions covering 30 hectares upon payment of USD 45,000 (paid).

During 2006, the Company wrote off \$117,008 relating to the Ludavina concessions, which were held by MMC at the time of its acquisition by the Company.

iii. Coahuila Copper Data Acquisition, Coahuila de Zaragoza State, Mexico

Pursuant to an acquisition agreement dated August 22, 2003 between the Company and two individuals, the Company obtained copies of and non-exclusive rights to use and retain certain property data and other information pertaining to copper prospects in Coahuila de Zaragoza State, Mexico, in consideration of the issuance of an aggregate of 20,000 common shares (issued).

iv. Crockite IOCG Data Acquisition, Baja California State, Mexico

Pursuant to an agreement dated October 27, 2003 between the Company, an individual and a private B.C. company, the Company acquired all right, title and interest to certain geological information, data and materials with respect to the potential for, and occurrences of, iron oxide copper gold ("IOCG") type deposits in Baja California State, Mexico, in consideration of the issuance of an aggregate of 200,000 common shares, as follows:

- 100,000 common shares on January 20, 2004 (issued); and
- 100,000 common shares on or before the day that is ten business days from the earliest of the following to occur (issued April 19, 2006):
 - Anglo American Mexico S.A. de C.V. ("Anglo") having earned an interest in certain mineral concessions situated in Baja California State in accordance with and pursuant to the agreement between Anglo and the Company (the "Anglo Agreement" as described in note 6(a)(v));
 - The Company having been advised by Anglo that Anglo has incurred aggregate Exploration Expenditures (as defined in the Anglo Agreement) of not less than USD 2,000,000; and

6. RESOURCE PROPERTIES (Continued)

- If the Anglo Agreement is terminated prior to Anglo having incurred USD 2,000,000 in exploration expenditures, then, upon Anglo, the Company or any third party that subsequently enters into an agreement with the Company to earn an interest in the Company's IOCG properties in Baja California State collectively having incurred Exploration Expenditures of not less than USD 2,000,000.

v. Baja IOCG Project, Baja California State, Mexico

Pursuant to an agreement dated December 1, 2002 (as amended by agreements dated November 26, 2003 and June 30, 2005) between the Company and Anglo (the "Anglo Agreement"), Anglo agreed to manage and fund exploration expenditures for the identification and acquisition of not less than one mineral concession within an area of interest measuring approximately 50,050 square kilometres in size. Anglo could earn a 70% interest in the mineral concession(s) so acquired, as well as in certain mineral concessions held by the Company, and a 70% interest in a new Mexican company to be formed to hold such concessions, by incurring aggregate exploration expenditures of not less than USD 3,700,000, as follows:

- USD 200,000 on or before December 1, 2003 (incurred);
- USD 800,000 on or before December 1, 2004 (incurred);
- USD 1,200,000 on or before December 1, 2005 (incurred); and
- USD 3,700,000 on or before December 1, 2006.

Upon Anglo incurring an aggregate USD 3,700,000 of exploration expenditures, a joint venture would be formed, with each party required to contribute its *pro rata* share of all future exploration expenditures. A non-participating party can be diluted to a minimum 10% working interest, below which percentage its interest would be automatically converted to a 5% net profit interest.

Pursuant to an amending agreement dated June 30, 2005 between the Company and Anglo, the Company assumed operation of the project. Under the terms of the amending agreement, the Company was required to incur exploration expenditures of not less than USD 500,000 within a 12-month period and, upon doing so, earned an additional 10% interest, thereby increasing its retained interest in the project to 40% upon the exercise by Anglo of its option. Upon having incurred the required USD 500,000 in exploration expenditures, the Company could either elect to terminate its expenditure period by delivering a resumption notice to Anglo, or to elect to remain as operator and continue to incur exploration expenditures. If the Company elected to continue incurring exploration expenditures following the USD 500,000 having been incurred, it would earn an additional one-tenth of one percent (0.1%) interest for each additional USD 10,000 of exploration expenditures incurred. If the Company elected to continue incurring exploration expenditures, at such time as it has incurred an aggregate of USD 1,400,000 (and has thereby increased its retained interest to 49% upon the exercise by Anglo of its option), it was required to deliver an election request notice to Anglo. Upon receipt by Anglo of a resumption notice or an election request notice, Anglo was required to (unless it otherwise so elects) immediately resume incurring aggregate exploration expenditures of USD 3,700,000 in order to earn its interest in the project (which will range from 60% to 51%, depending upon the amount of exploration expenditures incurred by the Company prior to the delivery of a resumption notice) with the original exploration expenditure dates extended to take into account the time the Company acted as operator. If the Company delivered a resumption notice, or if the Company delivered an election request notice and Anglo elected to continue incurring exploration expenditures, and thereafter Anglo fails to maintain its option in good standing, the Company could terminate the agreement. If the Company delivered an election request notice and Anglo did not elect to resume incurring exploration expenditures, the agreement would be automatically terminated. In either case, in the event of termination, the Company would retain its 100% interest in the project, with Anglo having no residual interest therein.

6. RESOURCE PROPERTIES (Continued)

Effective May 30, 2006, Anglo elected to terminate the Anglo Agreement and thereby forfeited any interest in, or rights to earn any interest in, the mineral concessions that were the subject of that agreement. Accordingly, the Company is now the owner of a 100% interest in the concessions comprising the Baja IOCG Project. The Company is presently seeking a joint venture partner for the property, but may elect to carry out a further work program on its own if it is unsuccessful in doing so.

vi. Franco Project, San Luis Potosi State, Mexico

Pursuant to an agreement dated August 29, 2003, as accepted on September 3, 2003, and amended by agreements dated October 1, 2004 and September 13, 2005, between the Company and a private Mexican company, the Company can acquire a 100% interest (subject to a 2% net smelter return ("NSR") retained by the vendor) in the Franco Project, San Luis Potosi State, Mexico, upon completion of the following:

Payments aggregating USD 1,145,000, as follows:

- USD 15,000 on or before September 18, 2003 (paid);
- USD 20,000 on or before March 24, 2004 (paid);
- USD 30,000 on or before January 13, 2005 (paid);
- USD 30,000 on or before October 3, 2005 (postponed due to *force majeure*);
- USD 100,000 on or before October 3, 2006 (postponed due to *force majeure*);
- USD 150,000 on or before October 3, 2007; and
- USD 800,000 on or before October 3, 2008.

Exploration expenditures on the property aggregating USD 1,050,000, as follows:

- USD 50,000 on or before October 3, 2005 (postponed due to *force majeure*);
- USD 200,000 on or before October 3, 2006 (postponed due to *force majeure*);
- USD 300,000 on or before October 3, 2007; and
- USD 500,000 on or before October 3, 2008.

If the Company terminates the agreement before incurring USD 250,000 of exploration expenditures, then the Company is required to pay to the vendor the difference between USD 250,000 and the amount of exploration expenditures actually incurred. The Company can buy one-half (being 1%) of the NSR retained by the vendor at any time for USD 2,000,000.

On November 5, 2003, the Company optioned the property to a public B.C. company (the "Optionee") whereby the Optionee could acquire a 50% interest by paying the Company the sum of USD 50,000, making the underlying USD 20,000 and USD 60,000 payments and incurring cumulative exploration expenditures of USD 250,000. On November 2, 2004, the Optionee returned the property to the Company and all funds advanced by the Optionee to the Company (which was the operator) to incur exploration expenditures were returned to the Optionee.

On November 18, 2005, as a result of the inability of the Company to obtain safe and unrestricted access to the Franco property in order to carry out exploration work, the Company declared an event of *force majeure*, effective as and from September 19, 2005, thereby suspending all ongoing obligations to make payments to the vendor or to incur any exploration expenditures. The Company is attempting to resolve the issues giving rise to the *force majeure* but has, as of January 2008, been unable to do so. The Company plans to drill this property as soon as access is safe and unrestricted.

As of October 31, 2007, the Company wrote off its remaining investment in the property in the amount of \$361,698.

6. RESOURCE PROPERTIES (Continued)

vii. La Zorra Project, Sonora State, Mexico

The La Zorra Project (formerly, the “Gachupines Project”) consists of two exploration concessions and two exploitation concessions located in Sonora State, Mexico.

Pursuant to an agreement dated October 23, 2003, and accepted on October 30, 2003, between the Company and a private Mexican company, the Company had the right to earn a 100% interest, subject to a 2% NSR retained by the vendor, in two exploration concessions comprised in the La Zorra Project, on completion of the following:

Payment of an aggregate of USD 320,000, as follows:

- USD 5,000 on October 30, 2003 (paid);
- USD 15,000 on or before April 30, 2004 (paid);
- USD 30,000 on or before October 30, 2004 (paid);
- USD 60,000 on or before October 30, 2005;
- USD 90,000 on or before October 30, 2006; and
- USD 120,000 on or before October 30, 2007.

Exploration expenditures on the property aggregating USD 85,000 before May 30, 2004 (completed).

Issuing an aggregate of 255,000 common shares of the Company, as follows:

- 5,000 common shares within 10 business days of TSX Venture Exchange (“TSXV” acceptance (issued));
- 50,000 common shares on or before April 30, 2004 (issued);
- 50,000 common shares on or before October 30, 2004 (issued);
- 50,000 common shares on or before October 30, 2005;
- 50,000 common shares on or before October 30, 2006; and
- 50,000 common shares on or before October 30, 2007.

The Company had the right to buy one-half (being 1%) of the NSR retained by the vendor at any time for USD 1,000,000.

Pursuant to a lease with option to purchase executed May 19, 2004 between the Company and four Mexican individuals, the Company had the right to acquire a 100% interest, subject to a 1% NSR retained by the vendors, in one of the exploitation concessions comprised in the La Zorra Project upon payment of USD 10,000 on execution (paid) and further payments aggregating USD 890,000 over five years to May 19, 2009. The Company had the right to buy the NSR retained by the vendors at any time for USD 1,000,000.

Pursuant to a lease with option to purchase executed October 6, 2004 between the Company and two Mexican individuals, the Company had the right to acquire a 100% interest, subject to a 1% NSR retained by the vendor, in one of the exploitation concessions comprised in the La Zorra Project upon payment of USD 10,000 on execution (paid) and further payments aggregating USD 265,000 over four years to October 6, 2008. The Company had the right to buy the NSR retained by the vendors at any time for USD 300,000.

In the fiscal year ended October 31, 2005, the Company returned all of the concessions comprised in the La Zorra project to the respective vendors thereof and \$1,038,942 in associated acquisition and exploration costs were written off.

6. RESOURCE PROPERTIES (Continued)

viii. Lolita Property, Chihuahua State, Mexico

The Lolita property consists of one exploitation concession (100 hectares) located in the Municipality of Lopez, Chihuahua State.

Pursuant to an agreement dated October 23, 2007 between the Company and three Mexican individuals, the Company has been granted a five year lease of the concession, with the right to purchase a 100% interest by making aggregate payments of USD 657,000 over five years to October 23, 2012, as follows:

- USD 24,000 on execution (paid);
- USD 18,000 on or before January 23, 2008;
- USD 15,000 on or before October 23, 2008;
- USD 60,000 on or before October 23, 2009;
- USD 90,000 on or before October 23, 2010;
- USD 100,000 on or before October 23, 2011; and
- USD 350,000 on or before October 23, 2012.

The Company is presently seeking a joint venture partner for the property and does not plan to carry out any work in 2008.

(b) Argentina

i. Olaroz Silver Project, Jujuy Province, Argentina, consisting of the following concessions:

- Providencia Norte Concession, Jujuy Province, Argentina

Pursuant to an agreement dated August 8, 2002 between the Company and a private Argentinean company, the Company had the right to earn a 100% interest (subject to a 1.5% NSR payable to the vendor) in the Providencia Norte Concession, Jujuy Province, Argentina.

During the fiscal year ended October 31, 2004, the Providencia Norte Concession was abandoned and \$685,500 in associated acquisition and exploration costs were written off.

- La Providencia Concession, Olaroz District, Jujuy Province, Argentina

Pursuant to an agreement dated August 8, 2002 between the Company and an Argentinean individual, the Company had the right to earn a 100% interest in the La Providencia Concession upon payment of an aggregate of USD 365,000.

During the fiscal year ended October 31, 2004, the La Providencia Concession was abandoned and \$3,598,881 in associated acquisition and exploration costs were written off.

- Olaroz Chico and Tola Concessions, Jujuy Province, Argentina

Pursuant to an agreement dated May 8, 2002 (as amended on August 8, 2002) between the Company and two Argentinean individuals, the Company had the right to earn a 100% interest (subject to a 2% NSR payable to the vendors) in two concessions upon making an aggregate of USD 475,000 in payments.

During the fiscal year ended October 31, 2004, the Olaroz Chico and Tola Concessions were abandoned and \$97,370 in associated acquisition and exploration costs were written off. During the year ended October 31, 2006, the balance of the property costs of \$155,015 were written off.

6. RESOURCE PROPERTIES (Continued)

- La Libertad Concession, Jujuy Province, Argentina

Pursuant to an agreement dated April 17, 2003 between the Company and an Argentinean individual, the Company had the right to acquire a 100% interest in one mineral concession located in Jujuy Province in consideration of payments aggregating USD 100,000.

During the fiscal year ended October 31, 2005, the Company returned the property to the vendor and \$5,600 in associated acquisition and exploration costs were written off.

- ii. Chingolo Silver Project, Jujuy Province, Argentina, consisting of the following concessions:

- Cavok Property, Jujuy Province, Argentina

Pursuant to an agreement dated May 22, 2002 between the Company and a private Argentinean company, the Company has the right to acquire a 100% interest in three mineral concessions in Jujuy Province, Argentina, by making a payment of USD 10,000 on or before October 18, 2002 (paid) and issuing an aggregate of 250,000 common shares, as follows:

- 50,000 common shares on or before October 18, 2002 (issued);
- 100,000 common shares on or before October 18, 2003 (issued); and
- 100,000 common shares on or before October 18, 2006 (issued).

Two of these concessions form part of the Olaroz Silver Project (Note 6(b)(i)) and, during the fiscal year ended October 31, 2004, these two concessions were written down by \$4,381,701 to a nominal value of \$1. The third concession forms part of the Chingolo Silver Project.

- Cozzi Property, Jujuy Province, Argentina

Pursuant to an agreement dated December 9, 2002 between the Company and an Argentinean individual, the Company purchased a 100% interest in three mineral concessions located in Jujuy Province, Argentina, in consideration of 100,000 common shares (issued) to such individual.

The Company considers the Chingolo Silver Project to be an active property although the Company is presently seeking a joint venture partner and no work by the Company is planned for 2008. As of October 31, 2007, the Company wrote off its remaining investment in the property in the amount of \$5,600.

- iii. Cerro Atajo Project, Catamarca Province, Argentina

In order to acquire an interest in the Cerro Atajo Project, consisting of 17 mineral concessions in Catamarca Province, Argentina, the Company entered into two agreements involving Sociedad Minera Catamarquena de Economia Mixta ("Somicadem"), a governmental corporation owned as to 51% by the Province of Catamarca and 49% by two private Argentinean companies (the "Shareholders"). Somicadem is the holder of the Cerro Atajo property. The first of these agreements was with respect to the acquisition by the Company of the interest of the Shareholders in Somicadem and the second was with respect to the acquisition by the Company from Somicadem of the rights to explore and exploit the property itself.

6. RESOURCE PROPERTIES (Continued)

Pursuant to the first agreement, dated August 24, 2004 (as amended by an agreement dated December 10, 2004), among the Company and the Shareholders, the Company had the option to acquire the 49% of the issued capital stock of Somicadem from the Shareholders, together with all of the interest of the Shareholders in their existing exploration, exploitation and Mining Lease Agreements dated September 10, and 13, 1991 (collectively, the "Existing Lease") with Somicadem relating to the Cerro Atajo property. In order to exercise the option, the Company was required to pay the Shareholders an aggregate of USD 11,650,000, and issue 1,750,000 common shares to the Shareholders, as follows:

Payments

- USD 300,000 upon the Company having completed its due diligence (as provided for below) following the Company having entered into a satisfactory amendment to the Existing Lease (which occurred, and the payment was made, on January 12, 2005);
- USD 350,000 on or before January 12, 2006 (paid);
- USD 1,000,000 on or before January 12, 2007;
- USD 2,000,000 on or before January 12, 2008;
- USD 3,000,000 on or before January 12, 2009; and
- USD 5,000,000 on or before January 12, 2010.

Share Issuances

- 100,000 common shares on or before January 12, 2006 (issued);
- 150,000 common shares on or before January 12, 2007;
- 500,000 common shares on or before January 12, 2008; and
- 1,000,000 common shares on or before January 12, 2009.

At the election of the Company, it could settle the obligation to issue some or all of the foregoing common shares by making payments to the Shareholders equal to USD 5 per share (up to USD 8,750,000 in total).

Pursuant to the second agreement, which was a modification agreement dated January 12, 2005 among the Shareholders, Somicadem and the Company to amend the Existing Lease, the Company had the right to carry out prospecting, exploration, development and exploitation activities at Cerro Atajo, and the option to enter into a 40-year mining lease. In order to maintain the exploration rights and option to enter into a mining lease in good standing, the Company was required to complete the following:

Payments to the Province of Catamarca aggregating USD 550,000, as follows:

- USD 50,000 on execution of the modification agreement (paid);
- USD 100,000 on or before January 12, 2007;
- USD 100,000 on or before January 12, 2008;
- USD 100,000 on or before January 12, 2009;
- USD 100,000 on or before January 12, 2010; and
- USD 100,000 on or before January 12, 2011.

Exploration expenditures of not less than USD 1,525,000 on or before January 12, 2011 (to be incurred in carrying out a prescribed program of work).

If the Company exercised the mining lease option (which must be exercised on or before March 12, 2011), it would be required to make aggregate payments of USD 27,000,000 to the Province of Catamarca, as follows:

6. RESOURCE PROPERTIES (Continued)

- USD 10,000,000 following a production decision and prior to the commencement of production; and
- USD 17,000,000 during the first two years of production.

In addition, the Company would be required to pay to the Province of Catamarca a royalty consisting of 15% of the net profits realized by the Company from the exploitation of the property.

During the year ended October 31, 2006, the Cerro Atajo Project was abandoned and \$1,137,656 in associated acquisition and exploration costs was written off.

iv. Cerro Juncal Property, Salta Province, Argentina

Pursuant to an agreement dated November 12, 2004 between the Company and a private Argentinean company, the Company had the right to acquire a 100% interest, subject to a 0.5% NSR to the vendor, in two mineral concessions (approximately 2,600 hectares) in Salta Province, Argentina, in consideration of payment to the vendor of USD 2,000,000 on or before the date that is three years after the Company commences exploration on the property. Prior to the exercise of the purchase option, the Company was required to pay the vendor an aggregate of USD 360,000 in order to keep the purchase option in good standing, as follows:

- USD 25,000 on signing (paid);
- USD 60,000 on or before November 12, 2005 (paid);
- USD 50,000 on or before May 12, 2006 (paid);
- USD 75,000 on or before November 12, 2006; and
- USD 150,000 on or before May 12, 2007.

If the Company exercised the option to purchase the property prior to May 12, 2007, the requirement to make any remaining option payments outlined above ceased. Commencing with the fifth year after execution of the agreement if, in such year or any subsequent year prior to the exercise of the purchase option, the vendor has not received at least USD 100,000 pursuant to the NSR in such year, the Company is required to pay to the vendor the difference between USD 100,000 and the amount received by the vendor pursuant to the NSR. The Company had the option to purchase the 0.5% NSR at any time for the sum of USD 1,000,000.

As a result of the status of ongoing negotiations concerning the property, the Company did not make the November 12, 2006 payment. As a consequence, the property was returned to the vendor, and accordingly, \$394,172 was written off as at October 31, 2006.

v. Huachi Property, Argentina

Pursuant to an agreement dated June 13, 2005 between the Company and a private Argentinean company, the Company can acquire a 100% interest in 30 mining concessions referred to as the Huachi Property in the Province of San Juan, Argentina. In order to maintain the option in good standing and to be permitted to carry out exploration activities prior to such exercise, the Company is required to make payments and incur exploration expenditures as follows:

Payments of USD 5,500,000, as follows:

- USD 70,000 on June 13, 2005 (paid);
- USD 70,000 on or before April 13, 2006 (paid);
- USD 200,000 on or before June 13, 2007 (paid);
- USD 600,000 on or before April 13, 2008;

6. RESOURCE PROPERTIES (Continued)

- USD 1,000,000 on or before June 13, 2009; and
- USD 3,560,000 on or before June 13, 2010.

Exploration expenditures of USD 2,000,000, as follows:

- USD 750,000 on or before December 13, 2007 (incurred); and
- USD 1,250,000 on or before June 13, 2010.

Pursuant to an agreement dated November 30, 2006 between the Company and an Argentinean individual, the Company can acquire a 50% interest in one mining concession (mina) adjacent to the 30 Huachi concessions noted above. In order to maintain the option in good standing, to be permitted to

carry out exploration activities prior to such exercise, and to exercise the option, the Company is required to make aggregate payments of USD 965,000 to the vendor, as follows:

- USD 5,000 on signing (paid);
- USD 10,000 on November 30, 2007 (subsequently paid);
- USD 50,000 on November 30, 2008;
- USD 150,000 on November 30, 2009;
- USD 250,000 on November 30, 2010; and
- USD 500,000 on November 30, 2011.

The Company is currently seeking a joint venture partner for the Huachi property, and does not presently plan to carry out any further work.

- vi. Sediment Hosted Vein (SHV) Project, northwestern Argentina. The SHV project is an exploration program based on a specific geological model, and involves an initial reconnaissance program, followed by the acquisition of properties believed to be prospective for this type of deposit. During the year ended October 31, 2006, the Company acquired interests in, or the right to acquire an interest in, 11 separate properties that, together, make up the Company's SHV Project. Additional properties may be acquired, as reconnaissance and property evaluation is ongoing. Details of the existing properties (all of which are considered active properties, with work programs either ongoing or planned for 2008) are as follows:

- a. Incahuasi Property, Catamarca Province, Argentina. The Incahuasi Property presently consists of two separate project areas – Incahuasi and San Antonio. The Incahuasi project consists of five minas (exploitation concession), four cateos (exploration concession) and one tailings concession (approximately 2,832 hectares) located in Catamarca Province, Argentina, and acquired by the Company as follows:

Pursuant to an agreement with an Argentinean individual dated April 29, 2006, the Company has the option to acquire a 100% interest in four minas (two of which form part of the Incahuasi project area and two of which form part of the San Antonio project area) and one tailings concession by making aggregate payments of USD 1,410,000 over five years, as follows:

- USD 20,000 on or before May 29, 2006 (paid);
- USD 30,000 on or before November 29, 2006 (paid);
- USD 60,000 on or before May 29, 2007 (paid);
- USD 100,000 on or before May 29, 2008;
- USD 200,000 on or before May 29, 2009;
- USD 400,000 on or before May 29, 2010; and
- USD 600,000 on or before May 29, 2011.

6. RESOURCE PROPERTIES (Continued)

The property is subject to a 2% NSR to the vendor, which the Company can purchase at any time for USD 500,000.

Pursuant to an agreement dated April 29, 2006 between the Company and the vendor of the foregoing properties, the Company and the vendor have also applied for three abandoned minas originally held by a third party in which each of the Company and the vendor will have an initial 50% interest (subject to the grant thereof by the applicable mining tribunal). The Company will acquire the 50% interest of the vendor in such minas upon the exercise of the option with respect to the vendor's properties as set out above. The Company has the right to acquire the vendor's 50% interest by making aggregate payments of USD 1,410,000 over 5 years, as follows:

- USD 20,000 on or before September 19, 2006 (paid);
- USD 30,000 on or before March 29, 2007 (paid);
- USD 60,000 on or before September 19, 2007 (paid);
- USD 100,000 on or before September 19, 2008;
- USD 200,000 on or before September 19, 2009;
- USD 400,000 on or before September 19, 2010; and
- USD 600,000 on or before September 19, 2011.

The property is subject to a 2% NSR to the vendor, which the Company can purchase at any time for USD 500,000.

The San Antonio project area consists of two minas (being acquired subject to the first agreement noted above) plus two additional cateos surrounding such minas.

The Incahuasi project is an active project, and the Company plans a work program, including drilling, in 2008.

- b. Salar de Oro Property, Jujuy Province, Argentina. The Salar de Oro Property consists of three project areas – Sala de Oro, Salar de Oro North and Salar de Oro East. The Salar de Oro Project area consists of three continuous cateos and eleven minas (approximately 38,501 hectares) located in Jujuy Province, Argentina, and acquired by the Company as follows:

Pursuant to an agreement dated July 11, 2006 (as amended April 16, 2007 and September 5, 2007) between the Company and a private Argentinean company, the Company has the option to acquire a 100% interest (excluding surficial placer rights) in the 11 minas by making aggregate payments of USD 2,470,000 over four years to May 3, 2010, as follows:

- USD 35,000 on April 4, 2006 (paid);
- USD 67,500 on September 3, 2007 (paid)
- USD 67,500 on November 4, 2007 (paid);
- USD 300,000 on or before May 3, 2008;
- USD 300,000 on or before May 3, 2009; and
- USD 1,700,000 on or before May 3, 2010.

In addition to the foregoing, the Company has staked and applied for three cateos surrounding the foregoing property.

The Salar de Oro North project area consists of six minas and one cateo applied for by the Company (approximately 21,521 hectares). The Salar de Oro East project area consists of one cateo applied for by the Company (approximately 496 hectares).

6. RESOURCE PROPERTIES (Continued)

- c. Il Torno Property, Jujuy Province, Argentina. The Il Torno Property consists of four minas (approximately 5,046 hectares) located in Jujuy Province, Argentina, and acquired by the Company as follows:

Pursuant to an agreement dated October 3, 2006 between the Company and an Argentinean individual, the Company has the option to acquire a 100% interest (excluding surficial placer rights to a portion of the property) in the four minas for USD 3,000,000. In order to maintain the option in good standing and to be able to explore the property prior to the exercise of the option (which must be exercised, if at all, on or before December 3, 2010), the Company is required to make the following payments:

- USD 30,000 on signing (paid);
- USD 30,000 on or before April 3, 2007;
- USD 50,000 on or before October 3, 2007;
- USD 50,000 on or before April 3, 2008;
- USD 100,000 on or before October 3, 2008;
- USD 100,000 on or before April 3, 2009;
- USD 100,000 on or before October 3, 2009;
- USD 100,000 on or before April 3, 2010;
- USD 150,000 on or before October 3, 2010; and
- USD 200,000 on or before December 3, 2010.

The property is subject to a 2% NSR to the vendor, which the Company can purchase at any time for USD 2,000,000. The Company is required (subject to receipt of approval of the required environmental impact statement) to commence prospecting work on or before January 3, 2007, and to formulate and implement a work program on the property on or before October 3, 2007. As of October 31, 2007, the Company wrote off its remaining investment in the property in the amount of \$161,008.

- d. Rinconada North Property, Jujuy Province, Argentina. The Rinconada North Property presently consists of three cateos (approximately 7,071 hectares) located in Jujuy Province, Argentina, and acquired by the Company as follows:

Pursuant to an agreement with a private Argentinean company dated May 2, 2006, the Company has the option to acquire a 100% interest in one cateo (excluding surficial placer rights for a period of five years) by making aggregate payments of USD 350,000 over five years, as follows:

- USD 7,000 on or before June 2, 2006 (paid);
- USD 14,000 on or before November 2, 2006 (paid);
- USD 14,000 on or before June 2, 2007 (paid);
- USD 28,000 on or before June 2, 2008;
- USD 56,000 on or before June 2, 2009;
- USD 91,000 on or before June 2, 2010; and
- USD 140,000 on or before June 2, 2011.

Pursuant to an agreement dated May 2, 2006 between the Company and four Argentinean individuals (as amended by an agreement dated May 17, 2006), the Company has the option to acquire a 100% interest in two minas and one cateo (excluding surficial placer rights for a period of five years) by making aggregate payments of USD 500,000 over five years, as follows:

- USD 10,000 on or before June 2, 2006 (paid);
- USD 20,000 on or before November 2, 2006 (paid);
- USD 20,000 on or before May 2, 2007;
- USD 40,000 on or before May 2, 2008;
- USD 80,000 on or before May 2, 2009;

6. RESOURCE PROPERTIES (Continued)

- USD 130,000 on or before May 2, 2010; and
- USD 200,000 on or before May 2, 2011.

Effective April 20, 2007, the Company terminated the second agreement noted above and returned the property to the vendors. In addition to the one mina subject to the first option agreement noted above, the Company has staked and applied for two additional cateos. As of October 31, 2007, the Company wrote off its remaining investment in the property in the amount of \$165,257.

- e. Rinconada Property, Jujuy Province, Argentina. The Rinconada Property presently consists of three minas and five cateos (approximately 23,759 hectares) located in Jujuy Province, Argentina, and acquired by the Company as follows:

Pursuant to an agreement with a private Argentinean company dated September 19, 2006, the Company has the option to acquire a 100% interest in one mina by making aggregate payments of USD 380,000 over five years, as follows:

- USD 18,000 on or before September 19, 2006 (paid);
- USD 12,000 on or before February 19, 2007 (paid);
- USD 20,000 on or before September 19, 2007 (paid);
- USD 40,000 on or before September 19, 2008;
- USD 70,000 on or before September 19, 2009;
- USD 90,000 on or before September 19, 2010; and
- USD 130,000 on or before September 19, 2011.

Pursuant to an agreement dated May 2, 2006 between the Company and an Argentinean individual, the Company has the option to acquire a 100% interest in two minas for USD 940,000. In order to maintain the option in good standing and to be able to explore the property prior to the exercise of the option (which must be exercised, if at all, on or before September 2, 2010), the Company is required to make the following payments:

- USD 15,000 on or before June 2, 2006 (paid);
- USD 15,000 on or before July 2, 2006 (paid);
- USD 15,000 on or before August 2, 2006 (paid);
- USD 15,000 on or before November 2, 2006 (paid);
- USD 60,000 on or before August 2, 2007 (paid);
- USD 60,000 on or before April 2, 2008;
- USD 60,000 on or before November 2, 2008;
- USD 80,000 on or before November 2, 2009;
- USD 80,000 on or before February 2, 2010; and
- USD 600,000 on or before September 2, 2010.

In addition to the foregoing, the Company has staked and applied for five cateos adjoining the foregoing property (four of which were previously referred to as the "El Carmen" project).

- f. Oros Mayo Property, Jujuy Province, Argentina. The Oros Mayo Property presently consists of one cateo (approximately 4,010 hectares) located in Jujuy Province, Argentina, and acquired by the Company through the staking and application therefor.
- g. 5C1 South Property, Jujuy Province, Argentina. The 5C1 South Property presently consists of one cateo (approximately 8,778 hectares) located in Jujuy Province, Argentina, and acquired by the Company through the staking and application therefor.

6. RESOURCE PROPERTIES (Continued)

- h. Rosario Sur, Jujuy Province, Argentina. The Rosario Sur Property presently consists of two cateos (approximately 2,603 hectares) located in Jujuy Province, Argentina, and acquired by the Company through the staking and application therefor.
- i. Rosario Norte Property, Jujuy Province, Argentina. The Rosario Norte Property presently consists of two cateos (approximately 8,757 hectares) located in Jujuy Province, Argentina, and acquired by the Company through the staking and application therefor.
- j. Zenteno Property, Salta Province, Argentina. The Zenteno Property presently consists of one mina located in Salta Province (approximately 986 hectares) acquired by the Company from an Argentinean individual for aggregate payments of USD 22,750.
- k. Mina Azules Property, Jujuy Province, Argentina. The Mina Azules property presently consists of two minas (360 hectares) located in Jujuy Province. Pursuant to an agreement dated August 10, 2007 between the Company and an Argentinean individual, the Company may acquire a 100% interest in the minas for aggregate payments of USD 1,410,000 over 38 months, as follows:
 - USD 20,000 on execution (paid);
 - USD 50,000 on or before August 10, 2008;
 - USD 110,000 on or before August 10, 2009;
 - USD 230,000 on or before February 10, 2010; and
 - USD 1,000,000 on or before October 10, 2010.
- l. La Poma Property, Salta Province, Argentina. The La Poma property presently consists of six minas (approximately 3,803 hectares) located in Salta Province. Pursuant to an agreement dated October 1, 2007 between the Company and two Argentinean individuals, the Company may acquire a 100% interest in the minas for aggregate payments of USD 1,170,000 over five years, as follows:
 - USD 20,000 on or before October 11, 2007; (paid)
 - USD 100,000 on or before October 1, 2008;
 - USD 150,000 on or before October 1, 2009;
 - USD 200,000 on or before October 1, 2010;
 - USD 350,000 on or before October 1, 2011; and
 - USD 350,000 on or before October 1, 2012.
- m. Faja Eruptiva Norte, Jujuy Province, Argentina. The Faja Eruptiva Norte Property presently consists of two cateos (approximately 10,400 hectares) located in Jujuy Province, Argentina and acquired by the Company through staking and application therefor.
- n. Faja Eruptiva Sur, Jujuy Province, Argentina. The Faja Eruptiva Sur Property presently consists of two cateos (approximately 9,696 hectares) located in Jujuy Province, Argentina and acquired by the Company through staking and application therefor.
- vii. Other Argentinean Properties
 - a. - Organullo Property, Salta Province, Argentina

Pursuant to an agreement dated October 1, 2004 between the Company and an Argentinean individual, the Company purchased a 100% interest in eight minas concessions in Salta Province, Argentina, in consideration of the issuance of 70,000 common shares. These common shares were issued during the fiscal year ended October 31, 2005.

The Company considers this an active project; however, no work programs are currently planned.

6. RESOURCE PROPERTIES (Continued)

- b. - Los Manantiales Property (formerly, "Mina Angela"), Chubut Province, Argentina

Pursuant to an agreement dated April 25, 2004 between the Company and a private Argentinean company, the Company can acquire a 100% interest in 44 mineral concessions in Chubut Province, Argentina, subject to a 1% NSR to the vendor, in consideration of aggregate cash payments to the vendor of USD 400,000, as follows:

- USD 50,000 on or before April 25, 2005 (paid);
- USD 50,000 on or before April 25, 2006 (renegotiated, with \$10,000 paid on April 25, 2006 and the balance of US\$40,000 paid on October, 2006);
- USD 150,000 on or before April 25, 2007 (paid); and
- USD 150,000 on or before April 25, 2008.

The Company is required to carry out a program of work on the property as agreed between the vendor and the Company, but the extent and cost thereof have not yet been agreed. The Company has the option to purchase the 1% NSR royalty from the vendor for the sum of USD 500,000 at any time.

Pursuant to a binding letter of intent dated March 12, 2007, the Company has granted to a public company the option to acquire up to a 70% interest in the property. Pursuant to the letter of intent, the optionee had a period of 60 days to carry out due diligence. The Company received a payment of USD 40,000 on the signing of the letter of intent, which was refundable to the optionee if it declined to proceed. The optionee elected to proceed. The optionee may earn an initial 60% interest in the property by incurring an aggregate of USD 3,500,000 in expenditures over four years (including making all payments required pursuant to the underlying agreement). Upon the optionee having earned an initial 60% interest, the Company may elect to either participate at its 40% interest level, or request the optionee to fund the preparation of a bankable feasibility study within four years of such request and thereby earn an additional 10% interest in the joint venture. Upon such request being made by the Company, the optionee may either elect to fund the bankable feasibility study or not. If it does so, it will earn the additional 10% interest upon completion of the bankable feasibility study. Following the formation of the joint venture and the completion of its earn-in requirements by the optionee, each participant is responsible for funding its share of joint venture expenditures. If it does not do so, its interest will be diluted. Upon the interest of a participant being diluted to less than 10%, such interest will be converted to a 2% net smelter return royalty.

In June, 2007, the optionee elected to make all remaining payments required under the underlying agreement, and thereby permit the Company to exercise the option and acquire the property (subject to the 1% NSR royalty). The property has been transferred to the Company, and is in the process of being transferred by the Company to a special purpose Argentinean joint venture company owned jointly by the Company and the optionee.

- c. - Condor Yacu and Relincho Concessions, Catamarca Province, Argentina

Pursuant to an agreement dated June 27, 2001 (as amended on January 21, 2002 and January 10, 2003) between the Company and an Argentinean individual, the Company had the right to acquire a 100% interest in certain mining concessions located in Catamarca Province by making aggregate payments of USD 1,050,000.

The Condor Yacu and Relincho Concessions were returned to the original vendors during the fiscal year ended October 31, 2004 and \$139,666 in associated acquisition and exploration costs were written off.

6. RESOURCE PROPERTIES (Continued)

- d. - Pirquitas Property, Jujuy Province, Argentina. The Pirquitas Property consists of one cateo (approximately 4,382 hectares) near the town of Minas Pirquitas. The property was acquired by the Company through staking and application therefor.

(c) Peru

- i. Marcona Project, Lucanas, Nazca and Caraveli Provinces, Peru (Carbonera and Daniella Properties)

Pursuant to option agreements dated October 1, 2003 and October 23, 2003 between the Company and a private Peruvian company, the Company acquired mineral concessions covering approximately 30,000 hectares in Lucanas, Nazca and Caraveli Provinces, Peru. Approximately 10,500 hectares of these concessions are subject to an underlying agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto"). The private company holds the exclusive right and option to acquire a 100% interest from Rio Tinto, subject to a 0.5% NSR to Rio Tinto, by incurring USD 450,000 in exploration expenditures over three years ending August 22, 2006 and by paying Rio Tinto USD 500,000 (of which USD 50,000 has been paid) on or before January 27, 2008. The Company can earn a 100% interest in all 30,000 hectares by assuming and performing all commitments to Rio Tinto pursuant to the underlying agreement, paying the vendor an aggregate of USD 120,000 (paid) and issuing an aggregate of 650,000 common shares to the vendor, as follows:

- 150,000 common shares on TSXV acceptance (issued);
- 100,000 common shares on or before May 28, 2004 (issued);
- 200,000 common shares on or before November 28, 2004 (issued); and
- 200,000 common shares on or before November 28, 2005 (issued).

The Company considers this an active project; however, no work programs are currently planned. As of October 31, 2007, the Company wrote down its investment in the property by \$1,890,173.

- ii. Pampa de Pongo Property, Caraveli Province, Peru

Pursuant to an option agreement dated February 2, 2004 between the Company and a private Peruvian company, the Company can acquire a 100% interest in mineral concessions covering approximately 8,000 hectares in Caraveli Province, Peru. The private Peruvian company holds the exclusive right and option to acquire a 100% interest in these concessions from Rio Tinto in consideration of the payment to Rio Tinto of aggregate payments of USD 500,000 over four years as follows:

- USD 50,000 on or before January 27, 2005 (paid);
- USD 50,000 on or before January 27, 2006 (paid);
- USD 100,000 on or before January 27, 2007 (paid); and
- USD 300,000 on or before January 27, 2008.

The Company can earn a 100% interest in the property by assuming all of the obligations of the private company pursuant to the underlying agreement with Rio Tinto, and making the following payments and share issuances:

Payments aggregating USD 130,900 as follows:

- USD 65,900 on or before March 12, 2004 (for back taxes on the property) (paid); and
- USD 65,000 on or before March 12, 2004 (paid).

6. RESOURCE PROPERTIES (Continued)

Issuance of an aggregate of 70,000 common shares, as follows:

- 35,000 shares on or before March 12, 2004 (issued); and
- 35,000 shares on or before September 12, 2004 (issued).

Subsequent to October 31, 2007, the Company gave notice to Rio Tinto that it was exercising the option, and is in the process of making the final USD 300,000 payment to do so. The Company considers this an active project, and plans a drilling program in 2008.

iii. Katanga Property, Chumbirilcas Province, Peru

Pursuant to an option agreement dated October 1, 2004 between the Company and a private Peruvian company, the Company can acquire a 100% interest in approximately 9,560 hectares of mineral concessions in Chumbirilcas Province, Peru.

The private Peruvian company holds the exclusive right and option to acquire a 100% interest in these concessions from a group of vendors comprised of three private Peruvian companies and two Peruvian individuals ("Underlying Vendors"). The private Peruvian company has the right to acquire a 100% interest in the subject concessions in consideration of aggregate payments of USD 1,900,000 over five years. The Company can acquire a 100% interest in the concessions by assuming the obligations of the private Peruvian company to the Underlying Vendors and making aggregate payments to the private Peruvian company of USD 501,000, as follows:

- USD 261,000 on or before the execution of the agreement (paid); and
- USD 240,000, as to USD 10,000 on or before November 1, 2004 and as to the balance on or before the first day of each succeeding month (paid).

The Company has returned a significant portion of the underlying claims to the vendor and, accordingly, has recognized a write-down of \$248,294 during the year ended October 31, 2006. As a consequence, the Underlying Vendor has agreed to renegotiate the USD 1,900,000 purchase price, and the Company has not been required to make further payments (including the USD 100,000 payment originally due June 30, 2006) while such renegotiations are ongoing. The balance of the property continues to be evaluated for further exploration potential. As of October 31, 2007, the Company wrote down its remaining investment in the property in the amount of \$385,013.

iv. Iron Sands Project, Nazca Province, Peru

The Company's Iron Sands Project consists of approximately 32,000 hectares of unconsolidated and semi-consolidated mineral bearing sands, the rights to which are encompassed by the mineral claims comprising the Carbonera and Daniella properties (Note 6(c)(i)), and an additional 39 mineral claims acquired by staking at a cost of USD 77,000, in the Department of Arequipa, Peru.

6. RESOURCE PROPERTIES (Continued)

In addition to the foregoing, the Company has assumed, from a private Peruvian company, all rights and obligations under an agreement dated December 16, 2005 between a private Peruvian company and Minera Ataspacas S.A., an arm's length private Peruvian company, whereby the private Peruvian company has the option to acquire, from Minera Ataspacas, an initial 70% interest in five mineral sand concessions (3,500 hectares total) situated immediately adjacent to the Company's mineral tenures noted above. In order to exercise the option, the Company is required to pay a total of USD 2,500,000 over five years to December 15, 2010 (with an initial payment of USD 20,000 on or before December 16, 2005 (paid)) and incur exploration expenditures of not less than USD 250,000 over the same period. Upon the Company having acquired the 70% interest, a joint venture company will be formed with Minera Ataspacas, and each party will thereafter be required to contribute its share of ongoing expenditures or be diluted. If either party is diluted to less than 10%, such interest will be converted to a 2% NSR royalty. If Minera Ataspacas is reduced to the 2% NSR, the Company may purchase half the NSR (1%) for USD 2,000,000 within 24 months of the exercise of the option, and the remaining half (1%) for USD 8,000,000 within 36 months of the exercise of the option.

The Company has entered into an agreement dated October 20, 2005 with the Peruvian subsidiary of a public B.C. company (the "Optionee"), whereby the Company has granted the Optionee the right to earn a 70% interest in the "hard rock" mineral rights (thereby excluding the unconsolidated and semi-consolidated mineral sands on such claims) accruing to the mineral claims comprising the Iron Sands Project. In order to exercise the option, the Optionee is required to incur an aggregate of USD 3,000,000 in expenditures over four years to November 18, 2009 and perform all of the obligations of the Company under the underlying agreements with respect to the Carbonera and Daniella properties (Note 6(c)(i)), including making all payments and incurring all exploration expenditures required thereunder. Upon the Optionee having earned its 70% interest, the Optionee and the Company will incorporate a new Peruvian company to hold such rights, in which the Optionee and the Company will hold a 70% and a 30% interest therein, respectively. Each party will thereafter be required to contribute its *pro rata* share of future expenditures, and a party failing to contribute will have its interest in the joint venture company diluted. At such point as a party's interest in the joint venture company is reduced to 10%, such interest will be acquired by the joint venture company in exchange for the grant to the diluted party of a 1% NSR.

The Company is currently actively exploring this property with work programs planned for 2008.

v. Lircay Project, Huancavelica Province, Peru

Pursuant to an option agreement between the Company and a private Peruvian company made as of May 15, 2005, the Company had the option to acquire a 100% interest in 15 mineral claims located in the Department of Huancave, Peru, covering approximately 9,000 hectares by making a payment of USD 60,000 upon signing (paid), issuing the following shares and incurring the following exploration expenditures:

An aggregate of 300,000 common shares, as follows:

- 100,000 shares on or before November 15, 2005 (issued);
- 100,000 shares on or before November 15, 2006; and
- 100,000 shares on or before November 15, 2008.

Exploration expenditures of USD 1,000,000, as follows:

- USD 50,000 on or before May 15, 2006;
- an additional USD 150,000 on or before May 15, 2007;
- an additional USD 300,000 on or before May 15, 2008; and
- an additional USD 500,000 on or before May 15, 2009.

6. RESOURCE PROPERTIES (Continued)

In addition, three of the claims (1,200 hectares) were subject to an agreement with an underlying vendor, and the Company was required to assume the obligations of the private Peruvian company thereunder. The Lircay property was returned to the vendor during the fiscal year ended October 31, 2005 and \$140,634 in associated acquisition and exploration costs were written off.

vi. Corongo Project, Huanuco Province, Peru

Pursuant to an option agreement between the Company and a private Peruvian company made as of May 15, 2005, the Company has the option to acquire a 100% interest in 10 mineral claims located in the Department of Ancash, Peru covering approximately 6,400 hectares by making a payment of USD 40,000 upon signing (paid) and issuing an aggregate of 300,000 common shares, as follows:

- 100,000 shares on or before 10 days after the date of regulatory acceptance (issued);
- 100,000 shares on or before November 15, 2006 (issued); and
- 100,000 shares on or before May 15, 2008.

As of October 31, 2007, the Company wrote down its investment in the property by \$569,717.

vii. Bocana Property, Peru

Pursuant to an option agreement dated August 1, 2006, between the Company, a Peruvian individual and a private Panamanian corporation, the Company has the right to acquire a 75% interest in two mining concessions (approximately 1,795 hectares). In order to maintain the option in good standing and to be permitted to carry out exploration activities prior to such exercise, the Company is required to make payments and incur exploration expenditures as follows:

Payments of USD 500,000, as follows:

- USD 50,000 on signing (paid);
- USD 100,000 on or before August 1, 2007(paid);
- USD 150,000 on or before August 1, 2008; and
- USD 200,000 on or before August 1, 2009.

In addition to the foregoing, the agreement requires aggregate payments of USD 120,000 (USD 5,000 per month) to a third party (a private Florida corporation) for a period of 24 months following the execution of the agreement (all of which have been paid for the fiscal year ending October 31, 2007 and for the subsequent period up to January 2008).

Cumulative exploration expenditures of USD 1,850,000, as follows:

- USD 350,000 on or before August 1, 2007(postponed);
- USD 850,000 on or before August 1, 2008; and
- USD 1,850,000 on or before August 1, 2009.

Upon the Company having exercised the option, the property will be transferred to a new private Peruvian company, in which the Company will have a 75% interest and the vendor will have a 25% interest. The Company is responsible for funding 100% of the expenditures incurred by the new company (the interest of the vendor therein being "carried"). The Company will have the option to acquire the 25% interest of the vendor in the new company for the sum of USD 2,500,000 at any time after the Company exercises the option to acquire the initial 75% interest.

The Company considers this an active project however no work programs are currently planned.

6. RESOURCE PROPERTIES (Continued)

- viii. Amable Maria Property, Peru. The Amable Maria Property consists of 37 mining concessions (approximately 29,620 hectares) located in the Provinces of Chanchamayo and Jauja, Department of Junin, Peru, and acquired by the Company through staking and application therefor. The Company does not presently plan any work programs on the property, and is seeking a joint venture partner.

(d) Title and environmental

Although the Company has taken steps to verify the title to mineral properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples. Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

(e) Asset retirement obligations

The Company is not aware of any AROs as of October 31, 2007 and 2006.

7. CAPITAL STOCK

(a) Authorized

An unlimited number of common shares without par value

(b) Private placements

On January 12, 2007, the Company closed a non-brokered private placement of 1,500,000 units and on January 23, 2007 the Company closed a brokered private placement of 2,200,000 units. In each placement the units were sold at \$1.50 per unit, and a unit consisted of one common share and one-half of a warrant, with one whole warrant being exercisable to purchase an additional common share at a price of \$2.00 for a period of 18 months. The net proceeds from the private placements totalled \$5,268,170. The Company issued 89,000 units valued at \$1.50 per unit to the agent. The Company also granted 176,000 compensation options under the brokered private placement entitling the agent to purchase 176,000 common shares at a price of \$1.75 for a period of 18 months. The Company paid finders or agents' fees of \$116,333 and \$134,620 for the non-brokered and brokered financings respectively, together with legal costs of \$30,877.

Non-cash costs totalled \$254,580 comprised of \$133,500 in agent compensation shares and \$121,080 in stock-based compensation related to the warrants and compensation options

CARDERO RESOURCE CORP.
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Notes to Consolidated Financial Statements
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7. CAPITAL STOCK (Continued)

(c) Share purchase warrants

The following common share purchase warrants entitle the holders thereof the right to purchase one common share for each warrant. Warrants outstanding are as follows:

	2007		2006	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants exercisable, beginning of year	-	\$ -	2,600,000	\$ 3.50
Expired	-	\$ -	(2,600,000)	\$ (3.50)
Issued	1,894,500	\$ 2.00	-	-
Warrants exercisable, end of year	1,894,500	\$ 2.00	-	\$ -

(d) Stock options

The Company has a stock option plan whereby the Company may grant options to directors, officers, employees and consultants to purchase common shares, provided that the number of shares subject to such options may not exceed 10% of the common shares outstanding at the time of any grant (not including agent or broker options). The exercise price of each option is equal to or higher than the market price of the Company's common shares at the date of the grant. The option term and vesting period is determined by the board of directors within regulatory guidelines. All options are granted at fair value.

A summary of the status of the stock option plan as of October 31, 2007 and 2006, and changes during the periods ended on those dates is presented below:

	2007		2006	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding, opening	4,150,800	\$ 2.51	3,642,000	\$ 2.83
Expired and cancelled	(1,680,800)	\$ (3.08)	(1,854,000)	\$ (2.83)
Exercised	(190,000)	\$ (1.73)	(1,037,200)	\$ (2.63)
Granted	2,626,000	\$ 1.90	3,400,000	\$ 2.38
Options outstanding, ending	4,906,000	\$ 2.02	4,150,800	\$ 2.51

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7. CAPITAL STOCK (Continued)

Stock options outstanding are as follows:

Expiry Date	2007			2006		
	Exercise Price	Number of Shares	Exercisable at Year End	Exercise Price	Number of Shares	Exercisable at Year End
November 16, 2006	\$ -	-	-	\$ 3.25	350,000	350,000
June 9, 2007	\$ -	-	-	\$ 3.25	305,800	305,800
July 29, 2007	\$ -	-	-	\$ 3.00	200,000	200,000
September 1, 2007	\$ -	-	-	\$ 3.00	175,000	175,000
May 2, 2008	\$ 2.80	950,000	950,000	\$ 2.80	1,400,000	1,325,000
July 23, 2008	\$ 1.75	176,000	176,000	\$ -	-	-
August 4, 2008	\$ 1.95	1,275,000	1,275,000	\$ 1.95	1,300,000	1,300,000
October 12, 2008	\$ 1.70	300,000	300,000	\$ 1.70	420,000	420,000
November 30, 2008	\$ 2.00	600,000	600,000	\$ -	-	-
December 20, 2008	\$ 1.70	255,000	255,000	\$ -	-	-
April 11, 2009	\$ 3.28	100,000	100,000	\$ -	-	-
September 7, 2009	\$ 1.47	900,000	900,000	\$ -	-	-
October 3, 2009	\$ 1.91	350,000	350,000	\$ -	-	-
		4,906,000	4,906,000		4,150,800	4,075,800

The Company uses the fair value method for determining stock-based compensation for all options granted during the fiscal periods. The fair value was determined using the Black-Scholes option pricing model based on the following assumptions.

	2007	2006	2005
Expected life (years)	1.97	2	2
Interest rate	4.06%	4.33%	3.30%
Volatility (average)	65.03%	60.96%	84.00%
Dividend yield	0.00%	0.00%	0.00%

Stock-based compensation charges of \$1,845,480 (2006 - \$2,969,183; 2005 - \$2,398,396) were allocated to administrative expenses and \$121,080 (2006 - \$Nil; 2005 - \$Nil) was allocated to share issue costs.

8. RELATED PARTY TRANSACTIONS

During the years ended October 31, 2007, 2006 and 2005, the Company incurred expenses paid to officers or directors of the Company or companies with common directors:

	2007	2006	2005
Professional fees	\$ 97,637	\$ 169,458	\$ 366,636
Consulting fees	\$ 126,677	\$ 75,000	\$ -

At October 31, 2007 there was \$7,769 (2006 - \$12,012; 2005 - \$24,816) included in accounts payable and accrued liabilities, and \$220,646 (2006 - \$23,045; 2005 - \$13,981) included in accounts receivable owing to/from related parties. Professional fees include amounts paid to a law firm of which a director is a shareholder.

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8. RELATED PARTY TRANSACTIONS (Continued)

The Company recovered \$147,720 during the year ended October 31, 2007 (2006 - \$55,686; 2005 - \$121,373) in rent and administration costs from Wealth Minerals Ltd., International Tower Hill Mines Ltd., Indico Technologies Ltd., Athlone Energy Ltd. and Lawrence W. Talbot Law Corporation (“LWTLC”), companies with common officers or directors.

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

Effective October 1, 2005, the Company retained Mr. Carlos Ballon of Lima, Peru, to provide management services on behalf of the Company in Peru through his private Peruvian company, Minera Koripampa del Peru S.A., for a fee of USD 10,000 per month (reduced to USD 7,500 per month starting from March, 2007), which has been expensed to consulting fees. Mr. Ballon became President of Cardero Peru in April 2006. Accordingly, Mr. Ballon is now a related party with respect to the Company. Prior to Mr. Ballon becoming a related party, the Company entered into a number of mineral property acquisition/option agreements from either Minera Koripampa del Peru S.A. or Sudamericana de Metales Peru S.A., another private Peruvian company controlled by Mr. Ballon. Such property transactions include those with respect to the Carbonera and Daniella Properties (note 6(c)(i)), the Pampa de Pongo Property (note 6(c)(ii)), the Katanga Property (note 6(c)(iii)), the Lircay Project (note 6(c)(v)) and the Corongo Project (note 6(c)(vi)).

The presidents of Minerale y Metales California, S.A. de C.V. and Cardero Argentina S.A. provide management services for USD 3,750 each per month, which is expensed to consulting fees or capitalized to property costs, depending upon the nature of the services.

The Company has entered into a retainer agreement dated May 1, 2007 with LWTLC, pursuant to which LWTLC agrees to provide legal services to the Company. Pursuant to the retainer agreement, the Company has agreed to pay LWTLC a minimum annual retainer of \$82,500 (plus applicable taxes and disbursements). The retainer agreement may be terminated by LWTLC on reasonable notice, and by the Company on one year’s notice (or payment of one year’s retainer in lieu of notice).

9. GEOGRAPHIC SEGMENTED DATA

	2007				
	Canada	Peru	Argentina	Mexico	Total
Resource properties	\$ -	\$ 8,338,729	\$ 6,508,333	\$ 5,702,274	\$ 20,549,336
Cash	806,460	5,263	2,865	9,896	824,484
Investments	10,100,000	-	-	-	10,100,000
Other	612,578	282,735	1,654,921	40,662	2,590,896
	\$ 11,519,038	\$ 8,626,727	\$ 8,166,119	\$ 5,752,832	\$ 34,064,716

	2006				
	Canada	Peru	Argentina	Mexico	Total
Resource properties	\$ -	\$ 9,503,822	\$ 3,543,814	\$ 5,632,680	\$ 18,680,316
Cash	4,506,165	-	-	-	4,506,165
Investments	2,240,000	-	-	-	2,240,000
Other	1,745,790	-	-	-	1,745,790
	\$ 8,491,955	\$ 9,503,822	\$ 3,543,814	\$ 5,632,680	\$ 27,172,271

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10. INCOME TAX LOSSES

	2007	2006	2005
Income tax expense (benefits)	\$ (3,117,248)	\$ (2,792,838)	\$ (2,269,336)
Permanent differences	235,945	1,012,491	725,683
Write-down of properties	1,188,392	699,781	418,074
Other temporary differences	(48,500)	(34,659)	(35,413)
Unrecognized tax losses	1,741,411	1,115,225	1,160,992
	\$ -	\$ -	\$ -

The components of future income tax assets are as follows:

	2007	2006
Future income tax assets		
Non-capital loss carry-forwards	\$ 16,337,238	\$ 10,891,049
Difference between undepreciated capital cost over net book value of property and equipment	76,770	7,931
Cumulative eligible capital deduction	54,712	54,712
Tax value of resource properties in excess of book values	6,175,091	1,723,956
	22,643,811	12,677,648
Tax rate	34%	34%
	7,698,896	4,310,400
Valuation allowance	(7,698,896)	(4,310,400)
	\$ -	\$ -

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

The Company has available approximate non-capital losses that may be carried forward to apply against future years' income for income tax purposes in all jurisdictions. The losses expire as follows:

Available to	Canada	Foreign	Total
2008	\$ 145,300	\$ -	\$ 145,300
2009	362,200	-	362,200
2010	817,500	22,422	839,922
2011	1,446,600	1,182,790	2,629,390
2012	-	1,465,294	1,465,294
2015	2,950,500	-	2,950,500
2016	-	1,580,780	1,580,780
2017	-	356,852	356,852
2026	2,850,500	-	2,850,500
2027	3,086,700	69,800	3,156,500
	\$ 11,659,300	\$ 4,677,938	\$ 16,337,238

11. COMMITMENTS

- a) On May 20, 2004, Western Telluric Resources Inc. (“WTR”) and Minera Olympic, S. de R.L. de C.V. (“Minera”) (collectively, the “Plaintiffs”) commenced an action (the “Action”) in the British Columbia Supreme Court (Vancouver Registry, No. S042795) against the Company and James Dawson, Murray McClaren and their respective companies, Dawson Geological Consultants Ltd. and 529197 B.C. Ltd. (carrying on business as Crockite Resources). The relief claimed against the Company is the setting aside of an agreement dated December 12, 2001 between the Company and Minera regarding the acquisition of mineral concessions. The Company has filed a Statement of Defence in which it denies any liability as well as a counterclaim (the “Counterclaim”) against the Plaintiffs. The pleadings are closed and documents have been exchanged. Discoveries have been partially completed.

Pursuant to an agreement dated October 17, 2007 (“Settlement Agreement”) among the Plaintiffs, the Company and all other parties to the various actions, all actions (including the Action and the Counterclaim) have been settled. As its part of the settlement, the Company has agreed to issue an aggregate of 500,000 shares to WTR and to grant to WTR a 1.5% net smelter return royalty over its existing and future acquired Baja California properties, of which the Company can acquire one-half (0.75%) for the price of \$2,000,000. Fulfillment by the Company of its obligations under the Settlement Agreement was subject to the acceptance for filing thereof by the TSX (received on November 20, 2007) and AMEX (received on November 13, 2007). Closing of the transactions pursuant to the Settlement Agreement is anticipated to occur as soon as possible following the satisfaction by the other parties to the agreement of their respective conditions precedent.

- b) The Company is committed to monthly lease payments for its premises of \$11,907 for its current lease expiring August 31, 2010.

12. SUBSEQUENT EVENTS

Subsequent to October 31, 2007, the Company:

- a) Issued 500,000 shares and granted a 1.5% NSR royalty over its existing and future Baja, Mexico properties to Western Telluric Resources Inc. on November 29, 2007 pursuant to the settlement agreement referred to in note 11. The Company can acquire one-half of the royalty for \$2,000,000;
- b) Issued 187,500 shares on December 4, 2007 upon the exercise of stock options at \$2.00 per share for proceeds of \$375,000;
- c) Issued 300,000 shares on December 5, 2007 upon the exercise of stock options at \$1.70 per share for proceeds of \$510,000;
- d) Has reached an agreement with an Australian private company, whereby the optionee may earn a 55% interest in the Pirquitas Property, Argentina by incurring exploration expenditures of USD 1,000,000 over four years, of which USD 50,000 must be incurred in the first year. Following the optionee having earned its interest, the parties will enter into a joint venture, and thereafter each party is required to contribute its proportional share of further expenditures or be diluted on a straight-line basis. The agreement is subject to the execution of formal documentation (currently being drafted);
- e) Granted 500,000 stock options on January 16, 2008 at a price of \$1.50 per share for a period of two years; and

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12. SUBSEQUENT EVENTS (Continued)

f) Acquired the following mineral property interests in Chile:

Pedernales Property, Chile. The Pedernales Property consists of two exploitation concessions. Pursuant to an agreement dated December 27, 2007, the Company has the right to acquire a 100% interest, subject to a 3% NSR royalty, for aggregate payments of USD 7,300,000 over five years, as follows:

- USD 20,000 on execution (subsequently paid);
- USD 20,000 on or before January 4, 2008 (subsequently paid);
- USD 60,000 on or before January 27, 2008;
- USD 200,000 on or before July 31, 2008;
- USD 400,000 on or before July 31, 2009;
- USD 600,000 on or before July 31, 2010;
- USD 1,000,000 on or before July 31, 2011; and
- USD 5,000,000 on or before July 31, 2012.

The Company can exercise the option at any time upon payment of USD 5,000,000, following which no additional payments are required. The Company has the right to buy one-half (1.5%) of the 3% NSR royalty for a payment of USD 5,000,000. After the exercise of the option, the Company is required to pay advance minimum royalties of USD 1,000,000 per year for the first three years, which amounts are recoupable from the production royalties. The owner has the right to mine "non-metallic" ores.

13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

(a) Differences in accounting principles

i. Restatement

Pursuant to the change in accounting principles relating to financial instruments described in note 3(a), the Company has restated total assets, total equity and net loss per US GAAP to account for the fair value of derivative financial instruments totalling \$2,540,000 not previously recognized in 2006. An adjustment for the cost of mineral properties capitalized has also been reflected in 2006 and 2005.

	2006		2005	
	Restated	Previously reported	Restated	Previously reported
Investments	\$ 9,380,000	\$ 6,840,000	\$ -	\$ -
Resource properties	\$ 7,381,487	\$ -	\$ 6,059,078	\$ -
Total assets	\$ 25,253,442	\$ 15,331,955	\$ 22,350,795	\$ 16,291,720
Shareholders' equity	\$ 24,774,821	\$ 14,853,334	\$ 21,541,563	\$ 15,482,488
Net loss for the year	\$ (10,819,701)	\$ (14,682,113)	\$ (9,367,207)	\$ (12,060,844)

13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (Continued)

ii. Exploration expenditures

Under Canadian GAAP, acquisition costs and exploration expenditures are capitalized. Under US GAAP, exploration costs incurred in locating areas of potential mineralization are expensed as incurred. Commercial feasibility is established in compliance with the Securities and Exchange Commission ("SEC") Industry Guide 7, which consists of identifying that part of mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination. After an area of interest has been assessed as commercially feasible, expenditures specific to the area of interest for further development are capitalized. In deciding when an area of interest is likely to be commercially feasible, management may consider, among other factors, the results of pre-feasibility studies, detailed analysis of drilling results, the supply and cost of required labour and equipment, and whether necessary mining and environmental permits can be obtained.

Under US GAAP, mining projects, and oil and gas interests are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. If estimated future cash flows expected to result from the use of the mining project or property, and oil and gas interests, and their eventual disposition are less than the carrying amount of the mining project, property, or oil and gas interest, an impairment is recognized based upon the estimated fair value of the mining project, property, or oil and gas interest. Fair value generally is based on the present value of estimated future net cash flows for each mining project, property, or oil and gas interest, calculated using estimated mineable reserves, mineral resources, and oil and gas reserves based on engineering reports, projected rates of production over the estimated mine or well life, recovery rates, capital requirements, remediation costs and future prices considering the Company's hedging and marketing plans.

iii. Financial instruments

Under Canadian GAAP prior to October 31, 2006, investments were carried at the lower of aggregate cost or quoted market value. Subsequent to that date, investments in marketable securities classified as available for sale and derivative financial instruments classified as held for trading are all recognized at fair value for both Canadian and US GAAP. Unrealized gains and losses are included in other comprehensive income or operations for available for sale and held for trading investments respectively.

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13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (Continued)

iv. Reconciliation of total assets, liabilities and shareholders' equity:

	2007	2006 (restated)
Total assets per Canadian GAAP	\$ 34,064,716	\$ 27,172,271
Expenditures on resource properties expensed under US GAAP	(13,924,493)	(18,680,316)
Fair value adjustment to investment	-	6,840,000
Total assets per US GAAP as previously reported	20,140,223	15,331,955
Fair value adjustment to derivative financial instruments	-	2,540,000
Adjustment to acquisition of mineral properties capitalized	-	7,381,487
Total assets per US GAAP (restated)	\$ 20,140,223	\$ 25,253,442
Total liabilities per Canadian and US GAAP	\$ 594,056	\$ 478,621
Total shareholders' equity per Canadian GAAP	33,470,660	26,693,650
Expenditures on resource properties expensed under US GAAP	(13,924,493)	(18,680,316)
Accumulated other comprehensive income	-	6,840,000
Total shareholders' equity per US GAAP as previously reported	19,546,167	14,853,334
Fair value adjustment to derivative financial instruments	-	2,540,000
Adjustment to acquisition of mineral properties capitalized	-	7,381,487
Total equity per US GAAP (restated)	19,546,167	24,774,821
Total liabilities and shareholders' equity per US GAAP (restated)	\$ 20,140,223	\$ 25,253,442

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13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (Continued)

- v. Reconciliation of net loss and comprehensive loss reported in Canadian GAAP and US GAAP:

Statement of operations for the year ended October 31:

	2007	2006 (restated)	2005 (restated)
Reconciliation of net income (loss) from Canadian GAAP to US GAAP			
Net loss per Canadian GAAP	\$ (9,141,490)	\$ (8,190,142)	\$ (6,462,890)
Acquisition of mineral properties	-	(2,473,282)	(3,215,771)
Exploration and development costs, net	(3,483,188)	(6,070,834)	(3,572,824)
Reverse amounts written-off	857,524	2,052,145	1,190,641
Total difference	(2,625,664)	(6,491,971)	(5,597,954)
Net loss per US GAAP as previously reported	(11,767,154)	(14,682,113)	(12,060,844)
Unrealized gain on derivative investments	-	2,540,000	-
Acquisition of mineral properties capitalized	-	1,322,412	2,693,637
Total net loss per US GAAP (restated)	\$ (11,767,154)	\$ (10,819,701)	\$ (9,367,207)
Weighted average number of common shares outstanding			
	46,431,351	42,741,186	40,938,200
Loss per share in accordance with Canadian GAAP			
	\$ (0.20)	\$ (0.19)	\$ (0.16)
Total differences	(0.05)	(0.06)	(0.07)
Loss per share in accordance with US GAAP	\$ (0.25)	\$ (0.25)	\$ (0.23)

Statement of comprehensive loss for the year ended October 31:

	2007	2006 (restated)	2005 (restated)
Comprehensive loss in accordance with Canadian GAAP	\$ (10,461,490)	\$ (8,190,142)	\$ (6,462,890)
Unrealized gain on investment	-	6,840,000	-
Total difference in net loss between Canadian GAAP and US GAAP	(2,625,664)	(6,491,971)	(5,597,954)
Total comprehensive loss per US GAAP as previously reported	(13,087,154)	(7,842,113)	(12,060,844)
Unrealized gain on derivative investments	-	2,540,000	-
Acquisition of mineral properties capitalized	-	1,322,412	2,693,637
Total comprehensive loss in accordance with US GAAP (restated)	\$ (13,087,154)	\$ (3,979,701)	\$ (9,367,207)

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13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (Continued)

vi. Reconciliation of cash flows in accordance with Canadian GAAP and US GAAP:

	2007	2006 (restated)	2005 (restated)
Net cash used in operating activities of continuing operations in accordance with Canadian GAAP	\$ (6,541,165)	\$ (3,782,770)	\$ (3,308,690)
Adjustments to net loss involving use of cash			
Write-off of capitalized resource property costs	(3,478,037)	(7,330,739)	(5,440,745)
Net cash used in operating activities of continuing operations in accordance with US GAAP as previously reported	(10,019,202)	(11,113,509)	(8,749,435)
Acquisition of mineral properties capitalized	-	962,282	1,960,321
Net cash used in operating activities of continuing operations in accordance with US GAAP (restated)	(10,019,202)	(10,151,227)	(6,789,114)
Net cash used in investing activities of continuing operations in accordance with Canadian GAAP	(2,737,936)	(9,650,059)	(5,458,410)
Reclassification of capitalized resource property expenditures	3,478,037	7,330,739	5,440,745
Net cash provided by (used in) investing activities of continuing operations in accordance with US GAAP as previously reported	740,101	(2,319,320)	(17,665)
Acquisition of mineral properties capitalized	-	(962,282)	(1,960,321)
Net cash provided by (used in) investing activities of continuing operations in accordance with US GAAP (restated)	740,101	(3,281,602)	(1,977,986)
Net cash flows provided by financing activities of continuing operations in accordance with Canadian and US GAAP	5,597,420	2,732,775	7,052,410
Net decrease in cash and cash equivalents in accordance with Canadian and US GAAP	(3,681,681)	(10,700,054)	(1,714,690)
Cash and cash equivalents, beginning of year in accordance with Canadian and US GAAP	4,506,165	15,206,219	16,920,909
Cash and cash equivalents, end of year in accordance with Canadian and US GAAP	\$ 824,484	\$ 4,506,165	\$ 15,206,219

(b) Recent US accounting pronouncements

- i. On July 13, 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, Interpretation 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The Company is currently evaluating whether the adoption of Interpretation 48 will have a material effect on its consolidated financial position, results of operations or cash flows.

13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (Continued)

- ii. In September 2006, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin 108 (“SAB 108”). The interpretations in this bulletin express the staff’s views regarding the process of quantifying financial statement misstatements and are being issued to address diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build up of improper amounts on the balance sheet. SAB 108 is not expected to have a material impact on the Company’s consolidated financial statements.
- iii. In September 2006, the FASB issued SFAS No. 157, “*Fair Value Measurements*” (“SFAS No. 157”). The SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; however, for some entities the application of this statement will change current practice. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, although early adoption is permitted. SFAS 157 is not expected to have a material impact on the Company’s consolidated financial statements.
- iv. In February 2007, the FASB issued SFAS No.159, “The Fair Value Option for Financial Assets and Financial Liabilities”. SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value. This statement expands the use of fair value measurement and applies to companies that elect the fair value option. The fair value option established by this statement permits all entities to choose to measure eligible items at fair value at specified election dates. This statement is effective as of the beginning of fiscal years that begin after November 15, 2007. SFAS 159 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

CARDERO RESOURCE CORP.
Form 51-102F1
Management's Discussion and Analysis
For the year ended October 31, 2007

INTRODUCTION

This Management Discussion and Analysis ("MD&A") provides a detailed analysis of the business of Cardero Resource Corp. ("Cardero" or the "Company") and compares its financial results for the year ended October 31, 2007 to the previous year. This MD&A should be read in conjunction with the Company's audited financial statements for the years ended October 31, 2007 and 2006 ("Financial Statements"). The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars (unless otherwise indicated). The Company reports its financial position, results of operations and cash-flows in accordance with Canadian generally accepted accounting principles.

This MD&A contains certain statements which may constitute "forward-looking statements". Forward-looking statements include but are not limited to, statements regarding the cost, timing and content of future anticipated exploration programs, the anticipated results thereof, the discovery and delineation of mineral deposits/resources/reserves, business and financing plans, business trends and future operating revenues. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward-looking statements as a result of various factors, including, but not limited to, the Company's inability to identify one or more economic deposits on its properties, to obtain all necessary permits, licenses and approvals required to carry out work on its properties, to produce minerals from its properties successfully or profitably, to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

Additional information relating to the Company, including the most recent Annual Information Form dated January 23, 2007, can be located on the Company's web site www.cardero.com or on the SEDAR website at www.sedar.com.

DATE

This Management Discussion and Analysis reflects information available as at January 23, 2008.

THE BUSINESS OF THE COMPANY

Background

Cardero Resource Corp. is a junior resource mineral exploration company. Its assets consist of mineral properties, common shares and warrants of other junior natural resource exploration companies and cash. The Company funds its operations primarily through the sale of its equity securities. The mineral exploration business is very high risk. Major risks applicable to the Company include:

1. The chance of finding an economic ore body is extremely small, and the vast majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.
2. The market for junior resource equities, where the Company raises funds, is extremely volatile. The Company requires additional funds in order to be able to carry out all of its proposed exploration and business activities, and there is no guarantee that it will be able to raise additional funds as and when it requires them.

3. The establishment of undisputed title to mineral properties is often a time consuming process, and even though the Company has diligently investigated title to all its mineral properties there is no guarantee of title.
4. Currency fluctuations may affect the Company as its transactions are often conducted in US dollars, Mexican, Argentinean and Chilean pesos, and Peruvian nuevo soles.
5. The Company's properties are located in Mexico, Argentina, Chile and Peru and will be affected by the political stability and laws of those countries.
6. There is no guarantee that the Company can obtain the necessary governmental permits, consents, approvals and licenses for its proposed operations as and when required.
7. Environmental concerns and the fluctuation of metal prices, both of which are beyond the Company's control, may significantly alter the economics of the exploitation of any mineral deposits that it may discover or acquire.

(See "Risk Factors")

Exploration Activities

Cardero is actively assessing, acquiring interests in and exploring a number of mineral exploration properties, primarily those it considers to be prospective for gold, copper and iron. At the present time, it is focusing its activities in Mexico, Argentina, Chile and Peru, where it has established subsidiaries and the infrastructure to enable it to actively work in such countries. The Company, through its subsidiaries, holds, or has the right to acquire interests in, a number of properties in these countries. However, at the present time it does not consider all of these to be material as, in many cases, the properties are in the early stages of evaluation, or have not had sufficient work done on them by the Company to determine if they are material. Cardero presently considers its material properties to be the Baja IOCG Project (Mexico), the Iron Sands Project (Peru), the Pampa de Pongo Iron Project (Peru) and the Incahuasi SHV Project (Argentina). However, just as ongoing exploration activities on any presently non-material properties could produce results that would lead the Company to conclude that any such property had become material, results on any of the Company's material properties could lead the Company to conclude that formerly material properties are no longer material.

Property	Total Costs as of October 31, 2006	Total Costs as of October 31, 2007	Estimated Fiscal 2008 Expenditures⁽¹⁾
Baja IOCG, Mexico	\$ 5,277,115	\$ 5,577,320	\$ 500,000
Iron Sands, Peru	3,367,032	4,223,535	3,000,000
Pampa de Pongo, Peru	2,566,830	2,683,199	5,000,000
Incahuasi, Argentina	597,204	1,328,010	800,000

Note: This amount represents the estimated exploration expenditures for the 2008 fiscal year ending October 31, 2008 only, and does not include any property payments. Estimated expenditures are contingent upon the Company obtaining additional financing sufficient to fund such expenditures and the ongoing successful results justifying further expenditures, neither of which can be assured. In addition, the Company is currently seeking joint venture partners for the Baja IOCG project, and the expenditures noted above will only be incurred if such a partner cannot be located.

During the quarter ended October 31, 2007 and to January 23, 2008, the Company carried out the following exploration activities on all of its properties (material and non-material), and/or acquired the following additional properties:

Mexico

Baja IOCG

Anglo American Mexico S.A. de C.V. (“Anglo”) is in the process of transferring to the Company’s wholly owned Mexican subsidiary, Minerales Y Metales California, S.A. de C.V., all of the concessions acquired by Anglo on behalf of the joint venture (representing 13 exploration concessions covering approximately 50,112 hectares). Following this transfer, the Company proposes, based upon an analysis of the results to date, to reduce the size of the overall property (which encompasses - including the concessions being transferred by Anglo - 20 exploration and 5 exploitation concessions covering approximately 64,954 hectares) to concentrate the land holdings over the most promising areas of the overall Baja IOCG Project. Due to the existence of the lawsuit by Western Telluric Resources Inc. and Minera Olympic, S.A. de C.V. (see “Material Proceedings”), the Company did not carry out any work on the Baja IOCG Project during, or since, the quarter, nor has it been able to find a joint venture partner. However, the settlement of this lawsuit during the quarter has enabled the Company to recommence its search for potential joint venture partners. Confidentiality agreements have been signed with prospective partners, and property visits are anticipated to occur in February 2008. If the Company is unable to secure a joint venture partner, the Company will, subject to financing, consider carrying out further work on its own on the Baja IOCG Project in the fiscal year ending October 31, 2008.

Corrales Project

During the quarter, the Company entered into a 5 year lease and option to purchase agreement dated October 23, 2007 with three Mexican individuals pursuant to which the Company has been granted a 5 year lease, with the option to purchase, one exploitation concession (100 hectares), referred to as the “Lolita” property located in the Municipality of Lopez, Chihuahua State. In order to maintain the lease in good standing, and to exercise the option, the Company is required to make aggregate payments of USD 657,000 over five years to October 23, 2012, as follows:

- USD 24,000 on execution (paid);
- USD 18,000 on or before January 23, 2008;
- USD 15,000 on or before October 23, 2008;
- USD 60,000 on or before October 23, 2009;
- USD 90,000 on or before October 23, 2010;
- USD 100,000 on or before October 23, 2011; and
- USD 350,000 on or before October 23, 2012.

The Company has also applied for an additional exploration concessions in this area, which is referred to as the “Corrales Project”. The Company is presently seeking a joint venture partner for the property and does not plan to carry out any work in 2008.

Argentina

Sediment Hosted Vein (SHV) Project

The SHV project is an exploration program, based on a specific geological model, targeting the prospective 61,000 square kilometre Santa Victoria basin in north-western Argentina. The SHV Project involves an ongoing reconnaissance program in the basin, accompanied by the acquisition of properties believed to be prospective for this type of deposit. To date, the Company has acquired interests in, or the right to acquire an interest in, 18 separate properties (1,028.6) square kilometres in total), of which one has been dropped following further investigation. The remainder make up the properties currently

comprising the Company's SHV Project. Additional properties may be acquired, and existing properties may be abandoned or returned to their respective vendors, as reconnaissance and property evaluation is ongoing. In addition to the ongoing reconnaissance program, work in the quarter was focussed on the Incahuasi property

Incahuasi Gold Project

Incahuasi is located in the Province of Catamarca, Argentina. The property consists of five minas and four cateos (665 hectares) centered on the former Incahuasi gold mine, the most significant historical high-grade Sediment Hosted Vein (SHV) type gold producer in the region.

During the quarter, the Company carried out a geophysical Induced Polarisation survey at Incahuasi, which was completed in November 2007. During initial interpretation of the survey, it was noted that little detail could be seen in the IP data. This is thought to be due to water/salt saturation related to the nearby salar, which provides an extremely conductive background environment. Therefore, the amplitude of electrical responses and importantly contrasts is too low to allow effective interpretation of the targeted shear zones. As a result of this technical issue, only 9 of the planned 20 IP lines were completed and the survey was abandoned.

The Company has commenced a Phase II drilling program, planned to consist of 5 holes for 1,100 metres. Contingent on results and available funding, the Company would proceed with Phase III of the drilling, consisting of 6 holes for 1,375 metres.

Newmont Exploration Alliance

In September, 2007, the Company agreed on a non-binding term sheet with respect to the commercial terms for the formation of a regional exploration alliance ("Alliance") with Newmont Ventures Limited ("Newmont") to jointly conduct exploration for a variety of gold deposit types in north-west Argentina. The Alliance will operate within the northern portion of the Company's Sediment Hosted Vein ("SHV") project area, where the Company already holds a number of gold bearing properties as part of its SHV Gold targeting initiative. The Alliance will cover an area of approximately 36,000 square kilometres. Newmont will not, by virtue of its participation in the Alliance, earn any interest in any of the Company's existing properties in the Alliance area. However, it will have the right to earn an interest in certain of the Company's properties through separate option agreements (see below). Any properties acquired by the Alliance will be held, initially, 50:50 by the Company and Newmont, subject to dilution.

During the past three years, The Company's Argentinean exploration teams have performed extensive in-house district scale target generation and subsequent follow-up regional exploration surveys specifically targeting bulk tonnage potential gold properties and concepts. The Company will utilize this comprehensive regional experience to prioritize targets and to manage and operate the exploration program on behalf of the Alliance. In addition, under the terms of the Alliance, the Company will have access to proprietary Newmont exploration technologies such as Bulk Leach Extractable Gold (BLEG) sampling, interpretation of remote sensing imagery and interpretation of geophysical data. Newmont commenced interpretation of Aster satellite imagery in the late summer of 2007. Following completion of such review, fieldwork commenced, focussed on regional BLEG sampling with approximately 2,000 samples planned to screen 11,000 square kilometres of prospective terrain previously identified by the Company. Detailed geophysical surveys on pre-existing targets began in October, 2007 with subsequent targets identified by BLEG sampling being screened later in the 2007/08 field season. No results have yet been received from the ongoing sampling and reconnaissance programs. Terms of the Alliance include expenditures of up to USD 4.5 million over three exploration phases (USD 1.5 million in the first year,

funded 50:50 by the Company and Newmont). Full details of such expenditures will be announced upon final approval and execution of the definitive agreement (presently in preparation).

Existing Company properties located within the Alliance area have been designated as either Option Properties or Excluded Properties. The Company has excluded four properties from the Alliance and will continue to advance these projects independently during the forthcoming field season. All other Company properties within the Alliance area have been designated as Option Properties. Newmont will not earn any interest in these properties through the Alliance, but has the right to elect to enter into an option to acquire an interest in some or all of these properties at any time during the term of the Alliance. In order to earn an initial 50% interest, Newmont will be required to expend the greater of USD 500,000 or an amount equal to the cumulative expenditures by the Company on the property since September 1, 2007.

Since the implementation of the Alliance, geological staff has undertaken an extensive BLEG survey, with four dedicated teams in the field since mid-September 2007. To date, 723 samples have been collected, effectively screening 3,253 square kilometres. BLEG results are expected in March 2008.

La Poma Silver-Lead Epithermal Project

Pursuant to an agreement dated October 1, 2007 with two Argentinean individuals, the Company has the right to acquire a 100% interest in the La Poma Silver property in Salta province, north-western Argentina. In order to maintain the agreement in good standing and exercise the option, the Company is required to make aggregate payments of USD 1,170,000, as follows:

- USD 20,000 within ten days of execution (paid);
- USD 100,000 on or before October 1, 2008;
- USD 150,000 on or before October 1, 2009;
- USD 200,000 on or before October 1, 2010;
- USD 350,000 on or before October 1 2011; and
- USD 350,000 on or before October 1, 2012.

The La Poma property lies within the Alliance area (see above) but is an Excluded Property and will be advanced by the Company on its own. The property consists of 6 minas (exploitation concessions), covering approximately 3,803 hectares, including the former La Poma Silver-Lead Mine. The property is located 24 kilometres from the town of San Antonio De Los Cobres and less than three hours drive from Salta.

Historically the La Poma Mine was exploited during the early 20th century up until 1964. The mine was worked over a 2,000 metre strike length by both open pit and underground methods, with up to 1,100 metres of underground development. Although the depth from surface is not reported, the Company's geologists estimate that underground workings reached a depth of approximately 100 metres from surface. Material was processed in a nearby plant with a capacity of up to 100 tonnes per day. In 1995, the Japanese International Cooperation Agency (JICA) reported silver grades up to 716.2 g/t and gold grades up to 2.25 g/t.

To date, Cardero has completed due diligence sampling, reconnaissance mapping, an Induced Polarisation survey, and detailed mapping is in progress to generate drill targets. A total of 12 lines (13,000 metres) of IP were completed in order to determine whether the known productive structures continue to depth in addition to along strike under younger cover. Interpretation of the data has identified 6 new high priority targets, none of which are exposed at surface and none of which have been drill tested. The geophysical anomalies remain open along strike and extend the system a minimum of 500 meters westward under

younger cover rocks. The results also suggest that mineralisation continues to a depth of at least 240 metres from surface.

In total, the Company has now collected 54 surface rock samples, with silver values ranging from 0.4 g/t to 1370 g/t, lead ranging from below detection to 15.45%, and copper ranging from below detection to 2.47%. Mean values from all 54 rock samples to date is 250 g/t silver, 5.73% lead, and 0.32% copper.

Surface rock sampling at La Poma to date confirms that high grade mineralization is associated with the high chargeability IP anomalies mapped. Not all high-grade mineralization is chargeable; therefore mineralization and potential discoveries are not limited to the six IP targets recently identified.

Subject to securing sufficient funding, the Company plans a Phase I drilling program at La Poma, scheduled to commence in the first quarter of 2008.

Mina Pirquitas Silver Project

The Company's Mina Pirquitas Project is located close to the village of Mina Pirquitas and approximately 108 kilometres by road from the town of Abra Pampa, in Juyuy Province, northwest Argentina. The project consists of one exploration concession (4,382 hectares) staked by the Company in 2004. Work by the Company identified two targets in the area based on regional structural targeting using satellite imagery, regional geophysical images and published geological maps. The targets are based on north-trending antiformal fold hinges intersected by a northwest-trending fault zone. To date, the Company has not conducted any exploration on the property. The Company's property partially surrounds the Pirquitas Project of Silver Standard Resources Inc.

There has been significant historical production in the area, with 12 mines operating at various times on the adjacent properties between 1935 and 1990. One of the largest mines was Mina San Miguel, which was an underground operation exploiting a zone of sheeted veins and extending to five levels, approximately 200 metres from surface. Total historical production from the area is estimated at 775,000 kilograms (25M oz) of silver and 9,000 tonnes of tin from placer deposits. An additional approximately 18,000 tonnes of tin were mined from underground (underground silver production figures are not available).

A private company based in Australia ("optionee") has agreed to terms whereby the optionee may earn an interest in the Mina Pirquitas project. The agreement provides that the optionee may earn a 55% interest by incurring exploration expenditures of USD 1,000,000 over 4 years, of which USD 50,000 must be incurred in the first year. Following the optionee having earned its interest, the parties will enter into a joint venture, and thereafter each party is required to contribute its proportional share of further expenditures or be diluted on a straight-line basis. The agreement is subject to the execution of formal documentation (currently being drafted).

The optionee has advised the Company that, as operator, it intends to commence a phase I exploration program in early 2008, consisting of detailed mapping, trenching and surface sampling.

Huachi Project

The Huachi copper-gold property is located in San Juan Province in north-western Argentina. The property has good access and exploration can be carried out on a year-round basis. Mapping by the Company indicates that copper-gold mineralization is part of a large and well developed porphyry style hydrothermal system.

Commencing at the end of the third quarter and during the present quarter, the Company carried out an Induced Polarization survey at Huachi. The IP survey identified two large geophysical targets along strike from the known mineralization. Neither of the two geophysical anomalies has been drill tested.

The Company will not be undertaking any further exploration at Huachi and is currently seeking a joint venture partner to advance the Huachi project. Terms of the proposed JV will include significant drilling commitments to ensure that the targets are adequately tested in the upcoming field season.

Los Manantiales Project (formerly "Mina Angela")

In March 2007, Cardero entered into a letter of intent with Hochschild Mining Holdings Limited ("HMHL"), a subsidiary of Hochschild Mining plc., pursuant to which it has granted HMHL the option to earn up to a 70% interest in the Los Manantiales Gold property, located in Chubut Province, Argentina.

HMHL is the operator of the project while it is completing its earn-in, and is responsible for formulating and implementing all work programs at the property. As project operator, HMHL has advised the Company that it will commence an exploration program at the property in early 2008, contingent on receipt of work permits.

Mina Azules Property

Pursuant to an option agreement dated August 10, 2007 between the Company and two Argentinean individuals, the Company has the right to acquire a 100% interest in the Mina Azules property, consisting of two minas (exploitation concessions) located in the Santa Catalina Department of Jujuy Province. In order to maintain the agreement in good standing and exercise the option, the Company is required to make aggregate payments of USD 1,410,000, as follows:

- USD 20,000 on execution (paid);
- USD 50,000 on or before August 10, 2008;
- USD 110,000 on or before August 10, 2009;
- USD 230,000 on or before February 10, 2010; and
- USD 1,000,000 on or before October 10, 2010.

The Company is presently negotiating for additional ground in the area and has not yet carried out any exploration other than very preliminary reconnaissance evaluation work. No work is planned until negotiations have been concluded.

Peru

Pampa De Pongo

No work was completed on the Pampa de Pongo Project during the quarter.

The Company has given notice to Rio Tinto that it intends to exercise the option and acquire the property. The required USD 300,000 payment in order to exercise the option will be made on or before January 27, 2008, being the due date.

The Company has initiated a 30,000 metre definition drill program at Pampa de Pongo, which is designed to upgrade the NI 43-101 Inferred Resource to a combination of Indicated and Measured Resource status. SRK Consulting Engineers and Scientists ("SRK") will design and oversee programs for the collection of geotechnical and geological data from drill core during the planned drill program, which is expected to

commence in February, and continue through to July, 2008 (subject to the Company raising the necessary financing). SRK has also been retained to complete a mine scoping study, scheduled to commence in February, 2008. The scoping study will focus on determining the likely mining methods and will include an initial caveability and fragmentation assessment of the central orebody. Overburden characteristics, hydrogeology and major structural features will all be reviewed. The scoping study will also determine the range of potential mining costs, which should permit the development of a financial model for the deposit. In the main Central Zone, the top of the high-grade semi-massive magnetite resource is typically 350 metres below surface, with intersections up to 302 metres @ 51.6% iron and 0.10% copper. The Company believes that this portion of the resource may be suitable for an underground cave mining operation. The overlying stockwork zone includes shallow intersections of up to 347 metres @ 22.5% iron. The scoping study will investigate the possibility of extracting this material from surface by open-pit methods. This mineralisation has not been included in the current inferred resource and, if the extraction of this material appears viable, the scoping study will include an updated Pampa de Pongo Inferred Resource including this material.

Iron Sands Project

The Iron Sands Project consists of three separate groups of claims, each covering a different dune field, and known (from north to south) as the Carbonera, Pampa El Torro and Tanaca Dune fields. The Iron Sands Project is located near the city of Nazca in the desert coastal region of southern Peru approximately 45 kilometres northeast of the port of San Juan and close to the large Marcona iron mine (approximate resource of 1.4Bt @ 54% iron), and to Cardero's Pampa de Pongo iron deposit. The Iron Sands project comprises 23 mining concessions which total 17,400 hectares. A further 32 concessions, totalling 27,100 hectares, which previously formed part of the project, were abandoned during the quarter.

In 2008, the objective for the Iron Sands Project is to prepare approximately 40 Mt of magnetic concentrates ("MC") to determine concentrate recovery and grade using commercially available dry magnetic separation equipment. The Company has purchased dry magnetic separation equipment that will be utilised in a pilot plant operation located at the dune site in Peru. Operation of this pilot plant will produce a concentrate sample for a subsequent melting test, as well as defining dry magnetic separator equipment scale-up criteria and guarantees for the commercial concentration plant.

The melting test will process the concentrate produced from the concentrate pilot plant operation to produce a large sample of both pig iron as well as slag. The objectives of the large scale melting test are to define the agglomeration technology, identify melter operation parameters and produce large samples of pig iron and slag for subsequent use. Production of a large sample of pig iron will develop confidence in the chemistry of the product that would be produced by the commercial melter. The slag sample will be used in identifying the optimum technology route for recovery of both vanadium and titanium. Information gathered from the slag recovery test program will define the criteria necessary for the slag recovery plant.

A project scoping study as well as concentrator-melter-slag recovery commercial pre-engineering effort are planned to proceed in parallel with the melting test. The objective of the scoping study and pre-engineering effort will be to produce a bankable feasibility study that includes process flow sheets, equipment lists and budgetary cost estimates for the Iron Sands Project.

In tandem with these tests, a mineral resource estimate will be completed by SRK Consulting Engineers in South Africa. Hydrogeological studies will be completed to determine if sufficient water is available to support on-site processing needs. Base line studies and discussions with local communities will be initiated as soon as possible.

The Company anticipates that the foregoing work program will cost approximately USD 2.5 to 3.5 million, and could be completed, subject to equipment and contractor availability, within a 16 month period. Subject to securing the necessary financing to do so, the Company intends to proceed with the foregoing work program.

Amable Maria Project

No work was carried out on the Amable Maria project during the quarter. The Company is currently looking for a joint venture partner to advance this uranium project.

Chile

During the quarter, the Company determined to investigate a number of potential acquisitions in Chile. To this end, in September, 2007, the Company incorporated a Chilean subsidiary, Compania Minera Cardero Chile Limitada.

Pedernales Project

Subsequent to the quarter, on December 27, 2007, the Company entered into an option agreement with a private Chilean company to earn a 100% interest, subject to a 3% net smelter returns royalty, in two mining claims (600 hectares) located in the area of Diego de Almagro, Chanaral province, Third Region of Atacama. In order to maintain the agreement in good standing and exercise the option, the Company is required to make aggregate payments of USD 7,300,000, as follows:

- USD 20,000 on execution (paid);
- USD 20,000 on or before January 4, 2008 (paid)
- USD 60,000 on or before January 27, 2008;
- USD 200,000 on or before July 31, 2008;
- USD 400,000 on or before July 31, 2009;
- USD 600,000 on or before July 31, 2010;
- USD 1,000,000 on or before July 31, 2011; and
- USD 5,000,000 on or before July 31, 2012.

The Company can exercise the option at any time upon payment of USD 5,000,000, following which no additional payments are required. The Company has the right to buy one-half (1.5%) of the 3% NSR royalty for a payment of USD 5,000,000. After the exercise of the option, the Company is required to pay advance minimum royalties of USD 1,000,000 per year for the first three years, which amounts are recoupable from the production royalties. The owner has the right to mine “non-metallic” ores. The Company is presently formulating a strategy for the exploration of this property, and no decisions have been made in this regard.

Qualified Person(s) and Quality Control/Quality Assurance

EurGeol Keith Henderson, Cardero’s Vice President-Exploration and a qualified person as defined by National Instrument 43-101, has supervised the preparation of the scientific and technical information that forms the basis for the mineral property disclosure in this MD&A.

The work programs on the Company’s properties are designed and are supervised by Keith Henderson, Vice President, Exploration, of Cardero, either alone or in conjunction with independent consultants. Mr. Henderson and such consultants, as applicable, are responsible for all aspects of the work, including the quality control/quality assurance program. On-site personnel at the various project rigorously collect and

track samples which are then sealed and shipped to ALS Chemex for assay. ALS Chemex's quality system complies with the requirements for the International Standards ISO 9001:2000 and ISO 17025:1999. Analytical accuracy and precision are monitored by the analysis of reagent blanks, reference material and replicate samples. Quality control is further assured by the use of international and in-house standards. Blind certified reference material is inserted at regular intervals into the sample sequence by Cardero personnel in order to independently assess analytical accuracy. Finally, representative blind duplicate samples are forwarded to ALS Chemex and an ISO compliant third party laboratory for additional quality control.

Risk Factors

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties, initially in Mexico, Argentina, Chile and Peru. Due to the nature of the Company's proposed business and the present stage of exploration of its mineral properties (which are primarily early to advanced stage exploration properties with no known resources or reserves), the following risk factors, among others, will apply:

Mining Industry is Intensely Competitive: The Company's business is the acquisition, exploration and development of mineral properties. The mining industry is intensely competitive and the Company will compete with other companies that have far greater resources.

Resource Exploration and Development is Generally a Speculative Business: Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. The vast majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.

Fluctuation of Metal Prices: Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any commodities will be such that any of the properties in which the Company has, or has the right to acquire, an interest may be mined at a profit.

Permits and Licenses: The operations of the Company will require consents, approvals, licenses and/or permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary consents, approvals, licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

No Assurance of Profitability: The Company has no history of earnings and, due to the nature of its business, there can be no assurance that the Company will ever be profitable. The Company has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Company is from the sale of its common shares or, possibly, from the sale or optioning of a portion of its interest in its mineral properties. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through further equity offerings or through the sale or possible syndication of its properties, there can be no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

Uninsured or Uninsurable Risks: The Company may become subject to liability for pollution or hazards against which it cannot insure or against which it may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

Government Regulation: Any exploration, development or mining operations carried on by the Company will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In addition, the profitability of any mining prospect is affected by the market for precious and/or base metals which is influenced by many factors including changing production costs, the supply and demand for metals, the rate of inflation, the inventory of metal producing corporations, the political environment and changes in international investment patterns.

Environmental Matters: Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted and which may well be beyond the capacity of the Company to fund. The Company's right to exploit any mining properties is and will continue to be subject to various reporting requirements and to obtaining certain government approvals and there can be no assurance that such approvals, including environment approvals, will be obtained without inordinate delay or at all.

Insufficient Financial Resources: The Company does not presently have sufficient financial resources to undertake by itself all of its planned exploration and development programs. The development of the Company's properties will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public financing or other means. There can be no assurance that the Company will be successful in obtaining the required financing. Failure to raise the required funds could result in the Company losing, or being required to dispose of, its interest in its properties. In particular, failure by the Company to raise the funding necessary to maintain in good standing the various option agreements it has entered into could result in the loss of the rights of the Company to such properties.

Foreign Countries and Regulatory Requirements: All of the mineral properties held by the Company are located in Mexico, Argentina, Chile or Peru, where mineral exploration and mining activities may be affected in varying degrees by political instability, expropriation of property and changes in government regulations such as tax laws, business laws, environmental laws and mining laws, affecting the Company's business in that country. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its business, or if significant enough, may

make it impossible to continue to operate in the country. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, foreign exchange restrictions, export controls, income taxes, expropriation of property, environmental legislation and mine safety.

Dependence Upon Others and Key Personnel: The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability to design and carry out appropriate exploration programs on its mineral properties; (ii) the ability to produce minerals from any mineral deposits that may be located; (iii) the ability to attract and retain additional key personnel in exploration, marketing, mine development and finance; and (iv) the ability and the operating resources to develop and maintain the properties held by the Company. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Company and its consultants and employees. There can be no assurance of success with any or all of these factors on which the Company's operations will depend, or that the Company will be successful in finding and retaining the necessary employees, personnel and/or consultants in order to be able to successfully carry out such activities. This is especially true as the competition for qualified geological, technical and mining personnel and consultants is particularly intense in the current marketplace.

Currency Fluctuations: The Company presently maintains its accounts in Canadian dollars. Due to the nature of its operations in such countries, the Company also maintains accounts in U.S. dollars, Mexican and Argentine pesos and Peruvian nuevo soles. The Company's operations in Mexico, Argentina, Chile and Peru and its proposed payment commitments and exploration expenditures under many of the agreements pursuant to which it holds, or has a right to acquire, an interest in its mineral properties are denominated in U.S. dollars, making it subject to foreign currency fluctuations. Such fluctuations are out of its control and may materially adversely affect the Company's financial position and results.

Price Fluctuations and Share Price Volatility: In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual and extreme fluctuations in price will not occur.

Surface Rights and Access: Although the Company acquires the rights to some or all of the minerals in the ground subject to the tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights can be costly and time consuming. In areas where there are no existing surface rights holders, this does not usually cause a problem, as there are no impediments to surface access. However, in areas where there are local populations or land owners, it is necessary, as a practical matter, to negotiate surface access. There can be no guarantee that, despite having the right at law to access the surface and carry on mining activities, the Company will be able to negotiate a satisfactory agreement with any such existing landowners/occupiers for such access, and therefore it may be unable to carry out mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdiction

Title: Although the Company has taken steps to verify the title to the mineral properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be

subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

Investments

The Company continues to hold the following investments in the securities of other public companies:

(a) 3,000,000 common shares of International Tower Hill Mines Ltd. ("ITH") (trading on the TSXV and American Stock Exchanges) and common share purchase warrants to purchase an additional 2,000,000 common shares at a price of \$1.00 until August 4, 2008. Following the completion by ITH of a significant private placement in April 2007, the Company holds approximately 7.56% of ITH as of October 31, 2007. The Company does not have any present intention of disposing any of its current holdings in ITH; and.

(b) 1,000,000 common shares of Trevali Resources Corp, ("TRC") (trading on the CNQ). The Company does not have any present intention of disposing any of its current holdings in TRC.

SUMMARY OF QUARTERLY RESULTS

The table below sets out the quarterly results expressed in Canadian dollars, for the fiscal years 2006 and 2007:

Fiscal 2007

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	\$ 82,190	\$ 88,649	\$ 59,079	\$ 1,104
Gain on sale of investment	1,818,236	-	-	-
Net income (loss)	6,903	(2,001,964)	(1,479,139)	(5,667,290)
Net income per share	0.00	(0.05)	(0.03)	(0.12)
Comprehensive income (loss)	(303,097)	(1,001,964)	(329,139)	(8,827,290)

Fiscal 2006

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	\$ 93,787	103,878	102,400	51,313
Net loss	(951,779)	(1,113,123)	(3,530,664)	(2,594,576)
Net loss per share	(0.02)	(0.03)	(0.08)	(0.06)

- Notes: 1) There were no discontinued operations or extraordinary items in the periods under review.
2) The basic and diluted losses per share were the same in each of the periods.

The variation seen over such quarters is primarily dependent upon the success of the Company's ongoing property evaluation and acquisition program and the timing and results of the Company's exploration activities on its current properties, none of which are possible to predict with any accuracy.

SELECTED ANNUAL INFORMATION

The Company's results of operations for the years ended October 31 are summarized below:

	2007	2006	2005
Interest income	\$ 231,022	\$ 351,378	\$ 376,289
Net loss	9,141,490	8,190,142	6,462,890
Net loss per share	0.20	0.19	0.16
Total assets	34,064,716	27,172,271	28,480,066
Working capital	2,749,920	5,668,546	15,436,673

- Notes: 1) There were no discontinued operations or extraordinary items in the years under review.
2) The basic and diluted income (loss) per share numbers was the same in each of the years under review.
3) The Company had no long-term financial liabilities for the years under review.
4) The Company has no history of declaring dividends.

The significance of these numbers is discussed under "Results of Operations" and "Liquidity and Capital Resources".

RESULTS OF OPERATIONS

During the year ended October 31, 2007, the Company had a net loss of \$9,141,490 or \$0.20 per share, as compared to a net loss of \$8,190,142 or \$0.19 per share for 2006. The following discussion explains the variations in the key components of these numbers but, as with most junior mineral exploration companies, the results of operations are not the main factor in establishing the financial health of the Company. Of far greater significance are the mineral properties in which the Company has, or may earn, an interest, its working capital and how many shares it has outstanding. Quarterly results can vary significantly depending on whether the Company has abandoned any properties or granted any stock options.

	Three months ended October 31		Year ended October 31	
	2007	2006	2007	2006
Net loss	\$ 5,667,290	\$ 2,594,576	\$ 9,141,490	\$ 8,190,142
Interest income	1,104	51,313	231,022	351,378
General and administrative costs	2,179,376	2,263,543	7,465,806	6,481,022
Stock-based compensation component	777,743	1,277,450	1,845,480	2,969,183
Write-down of resource properties	3,485,508	372,298	3,538,466	2,052,145

Three months ended October 31, 2007 compared to three months ended October 31, 2006

In the quarter ended October 31, 2007 the Company had a net loss of \$5,667,290 or \$0.12 per share, as compared to a net loss of \$2,594,576 or \$0.06 per share for the quarter ended October 31, 2006. The following discussion explains the variations in the key components of these numbers.

Company's general and administrative costs were \$2,179,376 compared to \$2,263,543 in 2006. The major expense categories involved in this decrease are the consulting fees (2007 - \$354,004, 2006 - \$625,423) and investor relations fees (2007 - \$200,842, 2006 - \$375,586) due to lower stock-based compensation charges. This total decrease is partially offset by the increased expenses of salaries (2007 - \$891,643, 2006- \$760,475) and property evaluation (2007 - \$274,922, 2006 - \$142,612). Subsidiary administrative costs amounted to \$492,377 (2006 - \$158,789) and result from increased exploration activity and improved cost allocation procedures which affected several cost categories. Property

evaluation expense is reflective of the increased exploration and project generation activity during the period in comparison with the equivalent period in 2006.

The Company's interest income of \$1,104 (2006 - \$51,313) reflects lower average cash balances. The property write-down, totalling \$3,485,508, is a significant increase as compared to \$372,298 in the equivalent period in 2006, but is dependant upon the Company's assessment of the future exploration potential of its mineral properties as at any financial statement date. Foreign exchange loss of \$263,511 compared \$10,047 in the equivalent period in 2006 arose principally as a result of a weakening Argentine and Peruvian currencies compared to the Canadian dollar.

Year ended October 31, 2007 compared to year ended October 31, 2006

In the year ended October 31, 2007 the Company had a net loss of \$9,141,490 or \$0.20 per share, as compared to a net loss of \$8,190,142 or \$0.19 per share for the year ended October 31, 2006. The following discussion explains the variations in the key components of these numbers.

The net results for the year 2007 actually reflect higher operating costs over the equivalent period in 2006 offset by a gain on the sale of a portion of the Company's investment in ITH which occurred in the three months ended January 31, 2007.

The Company's general and administrative costs were higher in 2007, totalling \$7,465,806 compared to \$6,481,022 in 2006. A significant portion of this increase is due to property evaluations, which totalled \$1,332,246 in 2007 versus \$299,113 in 2006, as the Company continues its emphasis on project generation activities.

Two other factors resulting in increased general and administrative costs were higher salaries of \$2,624,072 (2006 - \$1,999,033) and increased subsidiary administrative costs of \$1,626,891 (2006 - \$158,789). These increases resulted from increased exploration activity generally as well as improved cost allocation procedures at the subsidiary level, which affected several cost categories including office costs.

The comparability of consulting fees and salaries year over year was also impacted by the stock-based compensation component (see below).

Other income resulted from a) the sale of 1,000,000 shares of International Tower Hill Mines Ltd. for a net gain of \$1,818,236 which occurred in the quarter ended January 31, 2007, and b) an unrealized gain on a derivative investment in ITH warrants of \$260,000 during the year 2007. There was no comparative transaction in the previous year, as this accounting treatment resulted from the adoption of new accounting policies relating to financial instruments as discussed in note 3 to the consolidated financial statements.

Other expense is comprised of a write down of resource properties of totalling \$3,538,466 compared to \$2,052,145 in 2006, based upon a detailed review of the future exploration potential of all properties as of October 31, 2007. Properties in Peru, principally Marcona, amounted to \$2,844,903 of this year's write-down. The reduced interest income of \$231,022 (2006 - \$351,378) reflects lower average cash balances partially offset by higher interest rates. The foreign exchange loss of \$446,476 (2006 - \$8,353) arose principally as a result of a weakening in the Argentine and Peruvian currencies against the Canadian dollar.

Stock-based compensation has been included in the following expense categories:

	2007	2006
Salary	\$ 1,294,488	\$ 1,233,876
Professional	-	9,809
Consulting	403,554	1,448,609
Investor relations	147,438	276,889
	<u>\$ 1,845,480</u>	<u>\$ 2,969,183</u>

Other administrative expenses have risen due to the general increase in the level of activity of the Company, including increased expense at its Latin American subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

The Company has no revenue generating operations from which it can internally generate funds. It relies on either the sale of its own shares as needed, or the sale or option of its mineral properties. This situation is unlikely to change until such time as the Company can develop a bankable feasibility study on one of its projects.

When optioning properties the Company will sometimes issue its own stock to the vendor of the property as partial or full consideration for the property in order to conserve its cash.

The Company did not undertake any funding activities during the quarter ended October 31, 2007, as the private placements and the sale of ITH shares in the first quarter provided enough funds at the present time. As a consequence of the foregoing funding activities, as at January 23 2008, the Company had working capital of approximately \$2.7 million, which it anticipates will not be sufficient to cover its anticipated expenses for the next 18 months. Accordingly, the Company will be required to secure significant funding in the near term if it is to proceed with its planned exploration activities (even if no additional properties are acquired) and maintain its current state of business activity. If the Company is unable to obtain such additional funding it will be required to significantly reduce its exploration programs and other business activities, and will likely be unable to continue to make ongoing property payments on all of its presently held properties. In such a case, the Company would be required to sell, option or abandon some of its mineral properties or dispose of some or all of its investment in ITH or TRC.

OFF BALANCE-SHEET ARRANGMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the years ended October 31, 2007, 2006 and 2005, the Company incurred expenses paid to officers or directors of the Company or companies with common directors:

	2007	2006	2005
Professional fees	\$ 97,637	\$ 169,458	\$ 366,636
Consulting fees	\$ 126,677	\$ 75,000	\$ -

At October 31, 2007 there was \$7,769 (2006 - \$12,012; 2005 - \$24,816) included in accounts payable and accrued liabilities, and \$220,646 (2006 - \$23,045; 2005 - \$13,981) included in accounts receivable owing to/from related parties. Professional fees include amounts paid to a law firm of which a director is a shareholder.

The Company recovered \$147,720 during the 12 months ended October 31, 2007 (2006 - \$55,686; 2005 - \$121,373) in rent and administration costs from Wealth Minerals Ltd., International Tower Hill Mines Ltd., Indico Technologies Ltd. Athlone Energy Ltd. and Lawrence W. Talbot Law Corporation (“LWTLC”), companies with common officers or directors.

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

Effective October 1, 2005, the Company retained Mr. Carlos Ballon of Lima, Peru, to provide management services on behalf of the Company in Peru through his private Peruvian company, Minera Koripampa del Peru S.A., for a fee of USD 10,000 per month (reduced to USD 7,500 per month starting from March, 2007), which has been expensed to consulting fees. Mr. Ballon became President of Cardero Peru in April 2006. Accordingly, Mr. Ballon is now a related party with respect to the Company. Prior to Mr. Ballon becoming a related party, the Company entered into a number of mineral property acquisition/option agreements from either Minera Koripampa del Peru S.A. or Sudamericana de Metales Peru S.A., another private Peruvian company controlled by Mr. Ballon.

The presidents of Minerales y Metales California, S.A. de C.V. and Cardero Argentina S.A., the Company’s Mexican and Argentinean subsidiaries, provide management services for USD 3,750 each per month, which is expensed to consulting fees or capitalized to property costs, depending upon the nature of the services.

The Company has entered into a retainer agreement dated May 1, 2007 with LWTLC, pursuant to which LWTLC agrees to provide legal services to the Company. Pursuant to the retainer agreement, the Company has agreed to pay LWTLC a minimum annual retainer of \$82,500 (plus applicable taxes and disbursements). The retainer agreement may be terminated by LWTLC on reasonable notice, and by the Company on one year’s notice (or payment of one year’s retainer in lieu of notice).

PROPOSED TRANSACTIONS

Although the Company is currently investigating a number of additional property acquisitions, and is entertaining proposals for the option/joint venture of one or more of its properties, as at the date of this MD&A there are no proposed transactions that the board of directors, or senior management who believe that confirmation of the decision by the board is probable, have decided to proceed with.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates in the preparation of the Company’s financial statements include the rates of amortization for equipment, the potential recovery of resource property interests, the assumptions used in the determination of the fair value of stock-based compensation and the determination of the valuation allowance for future income tax assets. Management believes the estimates used are reasonable; however, actual results could differ materially from those estimates and, if so, would impact future results of operations and cash flows.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

There have been no changes in accounting policies since November 1, 2006, being the start of the Company's most recently completed fiscal year, except for the adoption of the recommendations relating to financial instruments, as follows:

Effective November 1, 2006, the Company implemented the accounting recommendations relating to Financial Instruments as contained in sections 3855 and 3861 of the CICA Handbook. As explained in Note 3(a) to the consolidated financial statements for the year ended October 31, 2007, the Company's investments in ITH and TRC, are classified as "available-for-sale" and, accordingly, are carried at quoted market value. Resulting unrealized gains or losses, net of applicable income taxes, are reflected in other comprehensive income, while realized gains or losses are included in operations. The intrinsic value of the related ITH share purchase warrants included in investments is classified as derivative financial instruments, and accordingly, unrealized gains or losses, net of applicable income taxes, are included in operations. Pursuant to this change in accounting policy, the carrying values of the investments were increased to their fair value at November 1, 2006 with the corresponding increase reflected in the adjustments to deficit and other comprehensive income, respectively. Fair value adjustments for the year ended October 31, 2007 amounted to unrealized gains of \$390,000 and \$260,000 recorded as comprehensive income and other income, respectively. The Company held 7.56% of the ITH, and 3.47% of the TRC, issued and outstanding common shares as of that date.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, receivables, investments and payables.

The Company's cash at October 31, 2007 was \$824,484 of which \$17,998 was held in Mexican, Argentinean and Peruvian currencies.

The Company's receivables and payables at October 31, 2007 were normal course business items that are settled on a regular basis. The Company's investments in ITH and TRC are carried at quoted market value or an estimate thereof, and are classified as "available-for-sale" for accounting purposes. The intrinsic value represented by the share purchase warrants of ITH is carried at quoted market value or an estimate thereof, and this investment is classified as derivative financial instruments, changes to the fair value of which are included in net income. The Company has no plans to dispose of any of its investments in either ITH or TRC.

MATERIAL PROCEEDINGS

On May 20, 2004, Western Telluric Resources Inc. ("WTR") and Minera Olympic, S. de R.L. de C.V. ("Minera") (collectively, the "Plaintiffs") commenced an action (the "Action") in the British Columbia Supreme Court (Vancouver Registry, No. S042795) against the Company and James Dawson, Murray McClaren and their respective companies, Dawson Geological Consultants Ltd. and 529197 B.C. Ltd. (carrying on business as Crockite Resources). The relief claimed against the Company is the setting aside of an agreement dated December 12, 2001 between the Company and Minera regarding the acquisition of mineral concessions. The Company has filed a Statement of Defence in which it denies any liability as well as a counterclaim (the "Counterclaim") against the Plaintiffs. The pleadings are closed and documents have been exchanged. Discoveries have been partially completed.

Pursuant to an agreement dated October 17, 2007 ("Settlement Agreement") among the Plaintiffs, the Company and all other parties to the various actions, all actions (including the Action and the Counterclaim) have been settled. As its part of the settlement, the Company has agreed to issue an aggregate of 500,000 shares to WTR and to grant to WTR a 1.5% net smelter returns royalty over its

existing and future acquired Baja California properties, of which the Company can acquire one-half (0.75%) for the price of \$2,000,000. Fulfillment by the Company of its obligations under the Settlement Agreement was subject to the acceptance for filing thereof by the TSX (received on November 20, 2007) and AMEX (received on November 13, 2007). Closing of the transactions pursuant to the Settlement Agreement is anticipated to occur as soon as possible following the satisfaction by the other parties to the agreement of their respective conditions precedent.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits with the Canadian securities regulators and the U.S. Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the respective regulators' rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at October 31, 2007 as required by Canadian and U.S. securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer, have concluded that, as of October 31, 2007, the Company's disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in the Company's internal control over financial reporting during the year ended October 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of the Company's financial reporting for external purposes in accordance with accounting principles generally accepted in Canada and in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect the Company's transactions and dispositions of the assets of the Company; providing reasonable assurance that transactions are recorded as necessary for preparation of the Company's financial statements in accordance with generally accepted accounting principles; providing reasonable assurance that receipts and expenditures are made in accordance with authorizations of management and the directors of the Company; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company's assets that could have a material effect on its financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company's financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of October 31, 2007. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of October 31, 2007 has been audited by Smythe Ratcliffe LLP, an independent registered public accounting firm, as stated in their report.

RESTATEMENT

Pursuant to the change in accounting principles relating to financial instruments described in "Changes in Accounting Policies, Including Initial Adoption", the Company has restated total assets, total equity and net loss per US GAAP (See note 13(a) to the Financial Statements) to account for the fair value of derivative financial instruments totalling \$2,540,000 not previously recognized in 2006. An adjustment for the cost of mineral properties capitalized has also been reflected in 2006 and 2005.

DISCLOSURE OF OUTSTANDING SHARE DATA (as at January 23, 2008)

1. Authorized and Issued capital stock:

Authorized	Issued	Value
An unlimited number of common shares without par value	48,308,939	\$57,689,976

2. Options Outstanding:

Number	Exercise Price	Expiry Date
950,000	\$2.80	May 2, 2008
176,000	\$1.75	July 23, 2008
1,275,000	\$1.95	August 4, 2008
412,500	\$2.00	November 30, 2008
255,000	\$1.70	December 20, 2008
100,000	\$3.28	April 11, 2009
900,000	\$1.47	September 7, 2009
350,000	\$1.91	October 3, 2009
500,000	\$1.50	January 16, 2010
4,918,500		

3. Warrants/Agent's Options Outstanding:

Number	Exercise Price	Expiry Date
750,000	\$2.00	July 12, 2008
1,100,000	\$2.00	July 23, 2008
44,500	\$2.00	July 23, 2008
1,894,500		

ADDITIONAL SOURCES OF INFORMATION

Additional disclosures pertaining to the Company, including its most recent Annual Information Form, financial statements, management information circular, material change reports, press releases and other information, are available on the SEDAR website at www.sedar.com or on the Company's website at www.cardero.com.