



**CARDERO RESOURCE CORP.**  
(An Exploration Stage Company)

**Consolidated Financial Statements**  
(Unaudited – Prepared by Management)

**January 31, 2007**



# CARDERO RESOURCE CORP.

1901 - 1177 W. Hastings St., Vancouver, BC, Canada V6E 2K3

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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

For further information, please contact:

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**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Consolidated Balance Sheets**  
**(Unaudited – Prepared by Management)**

|   | January 31,<br>2007 | October 31,<br>2006 |
|---|---------------------|---------------------|
| <b>ASSETS</b>                                 |                     |                     |
| <b>Current</b>                                |                     |                     |
| Cash and cash equivalents                     | \$ 9,656,753        | \$ 4,506,165        |
| Accounts receivable                           | 1,462,052           | 1,315,703           |
| Prepaid expenses                              | 291,394             | 325,299             |
| Total Current Assets                          | 11,410,199          | 6,147,167           |
| <b>Equipment</b> (note 4)                     | 96,674              | 104,788             |
| <b>Investment</b> (note 5)                    | 10,750,000          | 2,240,000           |
| <b>Resource Properties</b> (note 6)           | 20,664,580          | 18,680,316          |
| Total Assets                                  | \$ 42,921,453       | \$ 27,172,271       |
| <b>LIABILITIES</b>                            |                     |                     |
| <b>Current</b>                                |                     |                     |
| Accounts payable and accrued liabilities      | \$ 648,065          | \$ 478,621          |
| <b>Stockholders' Equity</b>                   |                     |                     |
| <b>Capital Stock</b> (note 7)                 | 55,263,588          | 49,460,316          |
| <b>Contributed Surplus</b> (note 7)           | 7,345,459           | 6,645,896           |
| <b>Accumulated Other Comprehensive Income</b> | 9,070,000           | -                   |
| <b>Deficit</b>                                | (29,405,659)        | (29,412,562)        |
| Total Stockholders' Equity                    | 42,273,388          | 26,693,650          |
| Total Liabilities and Stockholders' Equity    | \$ 42,921,453       | \$ 27,172,271       |

**Contingent Liability (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 and Deficit**  
**Three month period ended January 31**  
**(Unaudited – Prepared by Management)**

|   | <b>2007</b>         | <b>2006</b>         |
|---|---------------------|---------------------|
| <b>Administrative Expenses</b>                                |                     |                     |
| Investor relations  | \$ 241,037          | \$ 160,575          |
| Professional fees (note 8)                                    | 220,414             | 90,401              |
| Salaries  | 680,319             | 186,879             |
| Property evaluations  | 256,293             | 33,199              |
| Insurance   | 42,559              | 56,921              |
| Office costs  | 212,071             | 51,004              |
| Regulatory and transfer agent fees                            | 29,031              | 14,104              |
| Consulting fees (note 8)                                      | 269,942             | 445,514             |
| Amortization  | 8,379               | 3,215               |
| <b>Loss Before Other Items</b>                                | <b>(1,960,045)</b>  | <b>(1,041,812)</b>  |
| <b>Other Items</b>  |                     |                     |
| Interest income   | 82,190              | 93,787              |
| Gain on sale of investment (note 5)                           | 1,818,236           | -                   |
| Foreign exchange gain (loss)                                  | 66,522              | (3,754)             |
|   | 1,966,948           | 90,033              |
| <b>Net Income (Loss) for Period</b>                           | <b>6,903</b>        | <b>(951,779)</b>    |
| <b>Other comprehensive income (loss)</b>                      |                     |                     |
| Unrealized gain on investment                                 | 1,400,000           | -                   |
| Reclassification on realization of gain on sale of investment | (1,710,000)         | -                   |
|   | (310,000)           | -                   |
| <b>Comprehensive Income (Loss) for the Period</b>             | <b>\$ (303,097)</b> | <b>\$ (951,779)</b> |
| <b>Loss Per Share (note 2(h))</b>                             | <b>\$ 0.00</b>      | <b>\$ (0.02)</b>    |
| <b>Weighted Average Number of Shares Outstanding</b>          | <b>43,983,548</b>   | <b>42,053,978</b>   |

**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Three month period ended January 31**  
**(Unaudited – Prepared by Management)**

|  | <b>2007</b>  | <b>2006</b>  |
|--|--------------|--------------|
| <b>Consolidated Statement of Deficit</b> |              |              |
| <b>Deficit, Beginning of Period</b>      | (29,412,562) | (21,222,420) |
| Net income(loss) for the period          | 6,903        | (951,779)    |
| <b>Deficit, End of Period</b>            | (29,405,659) | (22,174,199) |

**Consolidated Statement of Accumulated Other Comprehensive  
Income**

|   |                     |             |
|---|---------------------|-------------|
| <b>Balance, Beginning of Period</b>   | -                   | -           |
| Adjustment to opening balance – change in accounting policy<br>(Note 3(a) ) | 9,380,000           | -           |
| Unrealized gain on investment   | 1,400,000           | -           |
| Reclassification on realization of gain on sale of investment               | (1,710,000)         | -           |
| <b>Balance, End of Period</b>   | <b>\$ 9,070,000</b> | <b>\$ -</b> |

**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Consolidated Statements of Cash Flows**  
**Three month period ended January 31**  
**(Unaudited – Prepared by Management)**

|   | <b>2007</b>         | <b>2006</b>          |
|---|---------------------|----------------------|
| <b>Operating Activities</b>                             |                     |                      |
| Net income(loss) for period                             | \$ 6,903            | \$ (951,779)         |
| Items not involving cash                                |                     |                      |
| Amortization  | 8,379               | 3,215                |
| Stock-based compensation                                | 655,081             | 386,556              |
| Gain on sale of investment                              | (1,818,236)         | -                    |
| Changes in Non-Cash Working Capital Items               |                     |                      |
| Accounts receivable                                     | (146,349)           | (190,820)            |
| Prepaid expenses  | 33,905              | 160,182              |
| Accounts payable and accrued liabilities                | 169,444             | (283,097)            |
| <b>Cash Used in Operating Activities</b>                | <b>(1,090,873)</b>  | <b>(875,743)</b>     |
| <b>Investing Activities</b>                             |                     |                      |
| Investment in and expenditures on resource properties   | (1,604,265)         | (2,011,655)          |
| Proceeds from sale of investment                        | 2,378,236           | -                    |
| Purchase of equipment                                   | (264)               | (1,160)              |
| <b>Cash Provided by (Used in) Investing Activities</b>  | <b>773,707</b>      | <b>(2,012,815)</b>   |
| <b>Financing Activities</b>                             |                     |                      |
| Proceeds from shares issued                             | 5,754,000           | 2,348,950            |
| Share issue costs                                       | (286,246)           | -                    |
| <b>Cash Provided by Financing Activities</b>            | <b>5,467,754</b>    | <b>2,348,950</b>     |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b> | <b>5,150,588</b>    | <b>(539,608)</b>     |
| <b>Cash and Cash Equivalents, Beginning of Period</b>   | <b>4,506,165</b>    | <b>15,206,219</b>    |
| <b>Cash and Cash Equivalents, End of Period</b>         | <b>\$ 9,656,753</b> | <b>\$ 14,666,611</b> |
| <b>Supplemental Cash Flow Information</b>               |                     |                      |
| Shares issued for property option payments              | \$ 380,000          | \$ 918,000           |
| Shares issued for data acquisition                      | \$ -                | \$ -                 |
| Shares issued for brokers' commission                   | \$ 133,500          | \$ -                 |
| Income tax paid   | \$ -                | \$ -                 |
| Interest paid   | \$ -                | \$ -                 |
| <b>Cash and cash equivalents</b>                        |                     |                      |
| Consists of:  |                     |                      |
| Cash  | \$ 5,656,753        | \$ 1,666,611         |
| Term deposits   | \$ 4,000,000        | \$ 13,000,000        |

**CARDERO RESOURCE CORP.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Three months ended January 31, 2007 and 2006**  
**(Unaudited – Prepared by Management)**

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**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 mineral 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 January 31, 2007, the Company had working capital of \$10,762,134 (Oct 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 \$29,405,659 as at January 31, 2007 (Oct 2006 - \$29,412,562).

The Company's ability to discharge its liabilities and fulfill its commitments as they come due are 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. and Cardero Peru S.A.C. ("Cardero Peru") (collectively, the "Company"). All 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 and can be converted to cash at any time, and are held by 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 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 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, expiring August 31, 2007 |

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

**(e) Investment**

The investment is classified as available for sale, and is 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.

**(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.

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 and all its subsidiaries 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
- 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 period.

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

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

**(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 under shareholders' equity. 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 on an accrual basis at the stated rate of interest of the term deposit over the term to maturity.

**(k) Asset retirement obligations**

Section 3110 of the Canadian Institute of Chartered Accountants (CICA) Handbook requires companies to recognize 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 Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

**3. FINANCIAL INSTRUMENTS (Continued)**

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)

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of the net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements.

Accordingly, the Company now reports a consolidated statement of comprehensive income (loss) and includes the account "accumulated other comprehensive income" in the shareholders' equity section of the consolidated balance sheet.

**(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. The investment is carried at quoted market value.

**(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.

**(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.

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**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Three months ended January 31, 2007 and 2006**  
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**3. FINANCIAL INSTRUMENTS (Continued)**

**(e) Translation risk**

The Company translates the results of its foreign operations into Canadian currency using the method described in Note 2(g). Its subsidiaries hold limited amounts of funds in their respective local currencies, and the related translation risk is not considered to be material to the Company's overall operations.

**4. EQUIPMENT**

|                        | January 31, 2007  |                             |                  | October 31, 2006<br>(audited) |                             |                   |
|------------------------|-------------------|-----------------------------|------------------|-------------------------------|-----------------------------|-------------------|
|                        | Cost              | Accumulated<br>Amortization | Net              | Cost                          | Accumulated<br>Amortization | Net               |
| Computer equipment     | \$ 94,645         | \$ 54,776                   | \$ 39,869        | \$ 96,064                     | \$ 51,677                   | \$ 44,387         |
| Office equipment       | 32,606            | 16,310                      | 16,296           | 30,922                        | 15,531                      | 15,391            |
| Leasehold improvements | 49,511            | 9,002                       | 40,509           | 49,511                        | 4,501                       | 45,010            |
|                        | <u>\$ 176,762</u> | <u>\$ 80,088</u>            | <u>\$ 96,674</u> | <u>\$ 176,497</u>             | <u>\$ 71,709</u>            | <u>\$ 104,788</u> |

**5. INVESTMENT**

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 January 31, 2007, the quoted market value of ITH was \$2.55 per share, or a total market value for the Company's shares of \$7,650,000. The intrinsic (in the money) value of the 2,000,000 share purchase warrants is \$1.55 per share, or \$3,100,000, for a total fair value at January 31, 2007 of \$10,750,000.

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**Notes to Consolidated Financial Statements**  
**Three months ended January 31, 2007 and 2006**  
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**6. RESOURCE PROPERTIES**

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

|                                   | Mexico       |              |             |              | Argentina    | Peru         |                |              |              |               | Total         |
|-----------------------------------|--------------|--------------|-------------|--------------|--------------|--------------|----------------|--------------|--------------|---------------|---------------|
|                                   | Baja Anglo   | Baja Cardero | Other       | Total        | Total        | Marcona      | Pampa de Pongo | Iron Sands   | Other        | Total         |               |
| Balance, October 31, 2004         | \$ 1,195,001 | \$ 1,098,697 | \$ 797,611  | \$ 3,091,309 | \$ 538,567   | \$ 977,461   | \$ 1,523,943   | \$ -         | \$ 459,112   | \$ 2,960,516  | \$ 6,590,392  |
| Acquisition costs                 | 95,212       | -            | 259,255     | 354,467      | 1,100,019    | 820,207      | 273,491        | 388,776      | 278,811      | 1,761,285     | 3,215,771     |
| Deferred exploration costs        |              |              |             |              |              |              |                |              |              |               |               |
| Camp                              | 132,194      | -            | 86,426      | 218,620      | 629,597      | 8,908        | 291,939        | 671,406      | 45,306       | 1,017,559     | 1,865,776     |
| Drilling and analysis             | 401,936      | 698          | 114,012     | 516,646      | 78,000       | -            | 353,015        | 99,469       | 1,759        | 454,243       | 1,048,889     |
| Personnel and geology             | 77,614       | 16,883       | 32,658      | 127,155      | 370,981      | -            | 66,577         | 69,732       | 23,714       | 160,023       | 658,159       |
|                                   | 611,744      | 17,581       | 233,096     | 862,421      | 1,078,578    | 8,908        | 711,531        | 840,607      | 70,779       | 1,631,825     | 3,572,824     |
| Total expenditures for the year   | 706,956      | 17,581       | 492,351     | 1,216,888    | 2,178,597    | 829,115      | 985,022        | 1,229,383    | 349,590      | 3,393,110     | 6,788,595     |
| Total before write-offs           | 1,901,957    | 1,116,278    | 1,289,962   | 4,308,197    | 2,717,164    | 1,806,576    | 2,508,965      | 1,229,383    | 808,702      | 6,353,626     | 13,378,987    |
| Write-offs                        | -            | -            | (1,044,407) | (1,044,407)  | (5,600)      | -            | -              | -            | (140,634)    | (140,634)     | (1,190,641)   |
| Balance, October 31, 2005         | 1,901,957    | 1,116,278    | 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                 | 285,186      | 25,034       | 3,607       | 313,827      | 575,520      | 918,000      | 57,865         | 241,846      | 366,224      | 1,583,935     | 2,473,282     |
| Deferred exploration costs        |              |              |             |              |              |              |                |              |              |               |               |
| Camp                              | 61,294       | 151,668      | 86,801      | 299,763      | 827,628      | -            | -              | 762,706      | 15,050       | 777,756       | 1,905,147     |
| Drilling and analysis             | 905,845      | 437,456      | 114,473     | 1,457,774    | 186,198      | -            | -              | 785,327      | 4,402        | 789,729       | 2,433,701     |
| Personnel and geology             | 253,774      | 138,623      | 22,137      | 414,534      | 929,747      | -            | -              | 347,770      | 39,934       | 387,704       | 1,731,985     |
|                                   | 1,220,913    | 727,747      | 223,411     | 2,172,071    | 1,943,573    | -            | -              | 1,895,803    | 59,386       | 1,955,189     | 6,070,833     |
| Total expenditures for the year   | 1,506,099    | 752,781      | 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           | 3,408,056    | 1,869,059    | 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         | \$ 3,408,056 | \$ 1,869,059 | \$ 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                 | 72,006       | -            | 2,759       | 74,765       | 424,344      |              | 115,300        | 115,226      | 210,127      | 440,653       | 939,762       |
| Deferred exploration costs        |              |              |             |              |              |              |                |              |              |               |               |
| Camp                              | 3,318        | 12,333       | 558         | 16,209       | 381,573      | -            | -              | 100,824      | 32,758       | 133,582       | 531,364       |
| Drilling and analysis             | 8,076        | -            | -           | 8,076        | 229,782      | -            | -              | 3,386        | -            | 3,386         | 241,244       |
| Personnel and geology             | -            | 35,466       | -           | 35,466       | 171,943      | -            | 1,069          | 55,490       | 7,926        | 64,485        | 271,894       |
|                                   | 11,394       | 47,799       | 558         | 59,751       | 783,298      | -            | 1,069          | 159,700      | 40,684       | 201,453       | 1,044,502     |
| Total expenditures for the period | 83,400       | 47,799       | 3,317       | 134,516      | 1,207,642    | -            | 116,369        | 274,926      | 250,811      | 642,106       | 1,984,264     |
| Total before write-offs           | 3,491,456    | 1,916,858    | 358,882     | 5,767,196    | 4,751,456    | 2,724,576    | 2,683,199      | 3,641,958    | 1,096,195    | 10,145,928    | 20,664,580    |
| Write-offs                        | -            | -            | -           | -            | -            | -            | -              | -            | -            | -             | -             |
| Balance, January 31, 2007         | \$ 3,491,456 | \$ 1,916,858 | \$ 358,882  | \$ 5,767,196 | \$ 4,751,456 | \$ 2,724,576 | \$ 2,683,199   | \$ 3,641,958 | \$ 1,096,195 | \$ 10,145,928 | \$ 20,664,580 |

**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). The Company considers this an active project although no work programs are presently planned for 2007.

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);
- 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.

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 not less than 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 above and incurring cumulative exploration expenditures of USD 250,000 above. 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 31, 2007, been unable to do so. The Company plans to drill this property as soon as access is safe and unrestricted.

**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)**

**(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.

- 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:

**6. RESOURCE PROPERTIES (Continued)**

- 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 no work programs are planned for 2007.

- 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 Economía 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.

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 (re-negotiated for six months to June 12, 2006);
- 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 (re-negotiated for six months to June 12, 2006);
- 150,000 common shares on or before January 12, 2007;

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**6. RESOURCE PROPERTIES (Continued)**

- 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, 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:

- 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);

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**6. RESOURCE PROPERTIES (Continued)**

- 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, the book value of \$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;
- USD 600,000 on or before April 13, 2008;
- 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; 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
- USD 50,000 on November 30, 2008
- USD 150,000 on November 30, 2009
- USD 250,000 on November 30, 2010
- USD 500,000 on November 30, 2011

The Company is currently exploring the Huachi property with drill programs planned for 2007.

**6. RESOURCE PROPERTIES (Continued)**

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 2007) are as follows:

a. Incahuasi Property, Catamarca Province, Argentina. The Incahuasi Property presently consists of seven minas (exploitation concession), two cateos (exploration concession) and one tailings concession (approximately 2,292 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 property and two of which do not) 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;
- 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.

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 also staked and applied for two additional cateos surrounding the foregoing minas and tailings concession, and has applied for one new mina and one additional abandoned mina adjacent to the property.

b. Salar de Oro Property, Jujuy Province, Argentina. The Salar de Oro Property consists of five continuous cateos and six minas (approximately 25,409 hectares) located in Jujuy Province, Argentina, and acquired by the Company as follows:

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

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**6. RESOURCE PROPERTIES (Continued)**

- USD 35,000 on or before April 4, 2006 (paid);
- USD 135,000 on or before May 3, 2007;
- 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 two cateos surrounding the foregoing property.

- 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.

- d. 5A3/5A4 Property, Jujuy Province, Argentina. The 5A3/5A4 Property presently consists of two minas and two cateos (approximately 1,602 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;
- 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.

**6. RESOURCE PROPERTIES (Continued)**

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

- e. Rinconada Property, Jujuy Province, Argentina. The Rinconada Property presently consists of three minas and one cateo (approximately 11,495 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 (subsequently paid);
- USD 20,000 on or before September 19, 2007;
- 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;
- 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 one cateo adjoining the foregoing property.

- f. El Carmen Property, Jujuy Province, Argentina. The El Carmen Property presently consists of four cateos (approximately 8,088 hectares) located in Jujuy Province, Argentina, and acquired by the Company through the staking and application therefor.

**6. RESOURCE PROPERTIES (Continued)**

- g. 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.
- h. 5C2/5C3 Property, Jujuy Province, Argentina. The 5C2/5C3 Property presently consists of one cateo (approximately 4,391 hectares) located in Jujuy Province, Argentina, and acquired by the Company through the staking and application therefor.
- i. 5C1 South Property, Jujuy Province, Argentina. The 5C1 South Property presently consists of two cateos (approximately 8,778 hectares) located in Jujuy Province, Argentina, and acquired by the Company through the staking and application therefor.
- j. El Toro East/5C5, Jujuy Province, Argentina. The El Toro East/5C5 Property presently consists of two cateos (approximately 2,612 hectares) located in Jujuy Province, Argentina, and acquired by the Company through the staking and application therefor.
- k. El Toro Property, Jujuy Province, Argentina. The El Toro Property presently consists of one cateo (approximately 8,820 hectares) located in Jujuy Province, Argentina, and acquired by the Company through the staking and application therefor.

vii. Other Argentinean Properties

- 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 mineral 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.

- Mina Angela Property, 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 being paid in October, 2006);
- USD 150,000 on or before April 25, 2007; 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.

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

**6. RESOURCE PROPERTIES (Continued)**

- 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.

**(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.

- 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. 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).

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

**6. RESOURCE PROPERTIES (Continued)**

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

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

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.

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.

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.

**6. RESOURCE PROPERTIES (Continued)**

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 2007.

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.

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:

**6. RESOURCE PROPERTIES (Continued)**

- 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.

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

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;
- 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, 2006 and for the subsequent period up to January 2007).

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

- USD 350,000 on or before August 1, 2007;
- 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.

**(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.

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**7. CAPITAL STOCK**

**(a) Authorized**

An unlimited number of common shares without par value

**(b) Issued and outstanding**

|  | Three months ended<br>January 31, 2007 |               | Year ended<br>October 31, 2006<br>(audited) |               | Year ended<br>October 31, 2005<br>(audited) |               |
|--|--|---------------|---|---------------|---|---------------|
|  | Number<br>of Shares                    | Amount        | Number<br>of Shares                         | Amount        | Number<br>of Shares                         | Amount        |
| Balance, beginning of period           | 43,122,439                             | \$ 49,460,316 | 41,685,239                                  | \$ 43,917,324 | 38,247,958                                  | \$ 34,666,470 |
| Issued for cash:                       |  |               |   |               |   |               |
| Pursuant to private placements         | 3,700,000                              | 5,550,000     | -   | -             | -   | -             |
| On exercise of share purchase warrants | -                                      | -             | -   | -             | 2,121,781                                   | 4,803,410     |
| On exercise of stock options           | 120,000                                | 204,000       | 1,037,200                                   | 2,732,775     | 960,500                                     | 2,249,000     |
| Share issue costs                      | -                                      | (286,246)     | -   | -             | -   | -             |
|  | 3,820,000                              | 5,467,754     | 1,037,200                                   | 2,732,775     | 3,082,281                                   | 7,052,410     |
| Pursuant to resource property options  | 200,000                                | 380,000       | 300,000                                     | 1,211,000     | 355,000                                     | 1,255,450     |
| Agent's compensation                   | 89,000                                 | 133,500       | -   | -             | -   | -             |
| Pursuant to data purchases             | -                                      | -             | 100,000                                     | 300,000       | -   | -             |
| Reallocated from contributed surplus   | -                                      | 77,020        | -   | 1,299,217     | -   | 942,994       |
| Share issue costs                      | -                                      | (255,002)     | -   | -             | -   | -             |
|  | 289,000                                | 335,518       | 400,000                                     | 2,810,217     | 355,000                                     | 2,198,444     |
| Balance, end of period                 | 47,231,439                             | \$ 55,263,588 | 43,122,439                                  | \$ 49,460,316 | 41,685,239                                  | \$ 43,917,324 |

**(c) Contributed Surplus**

|                              | Three months<br>ended January 31,<br>2007 | Year ended<br>October 31,<br>2006<br>(audited) | Year ended<br>October 31,<br>2005<br>(audited) |
|------------------------------|---|--|--|
| Balance, beginning of period | \$ 6,645,896                              | \$ 4,975,930                                   | \$ 3,520,528                                   |
| Stock-based compensation     | 776,583                                   | 2,969,183                                      | 2,398,396                                      |
| Reallocated to capital stock | (77,020)                                  | (1,299,217)                                    | (942,994)                                      |
| Balance, end of period       | \$ 7,345,459                              | \$ 6,645,896                                   | \$ 4,975,930                                   |

**(d) 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 eighteen months. The net proceeds from the private placements totalled \$5,263,754.

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**7. CAPITAL STOCK (Continued)**

**(e) 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:

|   | <b>Three months ended<br/>January 31, 2007</b> |  | <b>Year ended<br/>October 31, 2006<br/>(audited)</b> |  |
|---|--|--|--|--|
|   | <b>Number of<br/>Warrants</b>                  | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Number of<br/>Warrants</b>                        | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
| Warrants exercisable, beginning of period | -  |  | 2,600,000  | \$3.50   |
| Expired                                   | -  |  | (2,600,000)  | \$(3.50)   |
| Issued                                    | 1,894,500                                      | \$2.00   |  |  |
| Exercised                                 | -  |  | -  | -  |
| Warrants exercisable, end of period       | 1,894,500                                      | \$2.00   | -  | \$ -   |

**(f) 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. 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 January 31, and changes during the periods ended on those dates is presented below:

|                               | <b>Three months ended<br/>January 31, 2007</b> |  | <b>Year ended<br/>October 31, 2006<br/>(audited)</b> |  |
|-------------------------------|--|--|--|--|
|                               | <b>Number of<br/>Shares</b>                    | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Number of<br/>Shares</b>                          | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
| Options outstanding, opening: | 4,150,800                                      | \$2.51   | 3,642,000  | \$2.83   |
| Expired                       | (630,800)                                      | \$(3.25)   | (1,854,000)  | \$(2.83)   |
| Exercised                     | (120,000)                                      | \$(1.70)   | (1,037,200)  | \$(2.63)   |
| Granted                       | 1,076,000                                      | \$1.89   | 3,400,000  | \$2.38   |
| Options outstanding, ending:  | 4,476,000                                      | \$2.34   | 4,150,800  | \$2.51   |

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**7. CAPITAL STOCK (Continued)**

Stock options outstanding are as follows:

| Expiry Date       | January 31, 2007 |                  |                           | October 31, 2006<br>(audited) |                  |                         |
|-------------------|------------------|------------------|---------------------------|-------------------------------|------------------|-------------------------|
|                   | Exercise Price   | Number of Shares | Exercisable At Period End | Exercise Price                | Number of Shares | Exercisable At Year End |
| November 16, 2006 |                  |                  |                           | \$3.25                        | 350,000          | 350,000                 |
| June 9, 2007      | \$3.25           | 25,000           | 25,000                    | \$3.25                        | 305,800          | 305,800                 |
| July 29, 2007     | \$3.00           | 200,000          | 200,000                   | \$3.00                        | 200,000          | 200,000                 |
| September 1, 2007 | \$3.00           | 175,000          | 175,000                   | \$3.00                        | 175,000          | 175,000                 |
| May 2, 2008       | \$2.80           | 1,400,000        | 1,400,000                 | \$2.80                        | 1,400,000        | 1,325,000               |
| August 4, 2008    | \$1.95           | 1,300,000        | 1,250,000                 | \$1.95                        | 1,300,000        | 1,300,000               |
| October 12, 2008  | \$1.70           | 300,000          | 300,000                   | \$1.70                        | 420,000          | 420,000                 |
| July 23, 2008     | \$1.90           | 176,000          | 176,000                   |                               |                  |                         |
| November 29, 2008 | \$2.00           | 600,000          | 600,000                   |                               |                  |                         |
| December 20, 2008 | \$1.65           | 300,000          | 300,000                   |                               |                  |                         |
|                   |                  | 4,476,000        | 4,426,000                 |                               | 4,150,800        | 4,075,800               |

All November 16, 2006 options expired, unexercised, on that date.

The Company uses the fair value method for determining stock-based compensation expense 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.

|                       | Three months ended<br>January 31, 2007 | Year ended<br>October 31, 2006<br>(audited) | Year ended<br>October 31, 2005<br>(audited) |
|-----------------------|--|---|---|
| Expected life (years) | 1.5 – 2                                | 2   | 2   |
| Interest rate         | 4.3%                                   | 4.3%  | 3.3%  |
| Volatility (average)  | 64.11%                                 | 60.96%                                      | 84.0%                                       |
| Dividend yield        | 0.00%                                  | 0.00%                                       | 0.0%  |

Stock-based compensation charges of \$655,081 (2006 - \$2,969,183), (2005 - \$2,398,396) were allocated to administrative expenses and \$121,502 was allocated to share issue costs.

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**8. RELATED PARTY TRANSACTIONS**

During the three months ended January 31, 2007 and 2006, the Company incurred expenses paid to officers or directors of the Company or companies with common directors:

|                            | 2007 |        | 2006 |        |
|----------------------------|------|--------|------|--------|
| Professional fees (Canada) | \$   | 26,750 | \$   | 33,001 |
| Consulting fees            | \$   | 22,500 | \$   | 7,500  |

At January 31, 2007 there was \$9,417 (October 31, 2006 - \$12,012) included in accounts payable and accrued liabilities owing to related parties. Professional fees include amounts paid to a law firm of which a director is a shareholder.

The Company recovered \$33,495 during the three months ended January 31, 2007 (2006 - \$4,600) 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, companies with common officers or directors, of which \$Nil (2006 - \$23,045) was included in accounts receivable.

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, which has been expensed to consulting fees. 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)). Mr. Ballon became President of Cardero Peru in April 2006.

The presidents of MMC and Cardero Argentina provide management services for USD 5,000 each per month, which is expensed to consulting fees or capitalized to property costs depending upon the nature of the services.

**9. GEOGRAPHIC SEGMENTED DATA**

|                     | Three months ended January 31, 2007 |               |              |              |               |
|---------------------|-------------------------------------|---------------|--------------|--------------|---------------|
|                     | Canada                              | Peru          | Argentina    | Mexico       | Total         |
| Resource Properties | \$ -                                | \$ 10,145,929 | \$ 4,751,456 | \$ 5,767,195 | \$ 20,664,580 |
| Cash                | 9,449,201                           | 12,509        | 177,727      | 17,316       | 9,656,753     |
| Investment          | 7,650,000                           | -             | -            | -            | 7,650,000     |
| Other               | 463,431                             | 213,021       | 1,096,509    | 77,159       | 1,850,120     |
|                     | \$ 17,562,632                       | \$ 10,371,459 | \$ 6,025,692 | \$ 5,861,670 | \$ 39,821,453 |

|                     | Year ended October 31, 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     |
| Investment          | 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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**9. GEOGRAPHIC SEGMENTED DATA (Continued)**

|                     | Year ended October 31, 2005 |              |              |              |               |
|---------------------|-----------------------------|--------------|--------------|--------------|---------------|
|                     | Canada                      | Peru         | Argentina    | Mexico       | Total         |
| Resource Properties | \$ -                        | \$ 6,212,992 | \$ 2,711,564 | \$ 3,263,790 | \$ 12,188,346 |
| Cash                | 15,206,219                  | -            | -            | -            | 15,206,219    |
| Investment          | -                           | -            | -            | -            | -             |
| Other               | 1,085,501                   | -            | -            | -            | 1,085,501     |
|                     | \$ 16,291,720               | \$ 6,212,992 | \$ 2,711,564 | \$ 3,263,790 | \$ 28,480,066 |

**10. INCOME TAX LOSSES**

|                               | Three months ended<br>January 31, 2007 | Three months ended<br>January 31, 2006 |
|-------------------------------|--|--|
| Income tax expense (benefit ) | \$ 2,354                               | \$ (324,557)                           |
| Permanent differences         | (86,627)                               | 131,816                                |
| Write-down of properties      | -                                      | -                                      |
| Other temporary differences   | (23,656)                               | (9,299)                                |
| Unrecognized tax losses       | 107,929                                | 202,040                                |
|                               | \$ -                                   | \$ -                                   |

The components of future income tax assets are as follows:

|  | Three months ended<br>January 31, 2007 | Three months ended<br>January 31, 2006 |
|--|--|--|
| Future income tax assets   |  |  |
| Non-capital loss carry-forwards  | \$ 12,756,856                          | \$ 7,510,640                           |
| Difference between undepreciated capital cost<br>over net book value of property and equipment | 22,245                                 | (4,344)                                |
| Cumulative eligible capital deduction  | 54,712                                 | 54,712                                 |
| Tax value of resource properties in excess of book values                                      | 1,550,484                              | 2,017,969                              |
|  | 14,384,297                             | 9,578,977                              |
| Tax rate   | 34%                                    | 34%                                    |
|  | 4,890,661                              | 3,256,852                              |
| Less: Valuation allowance  | (4,890,661)                            | (3,256,852)                            |
|  | \$ -                                   | \$ -                                   |

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 Canadian income tax purposes. The losses expire as follows:

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**10. INCOME TAX LOSSES (Continued)**

| Available to | Amount        |
|--------------|---------------|
| 2007         | \$ 115,500    |
| 2008         | 145,300       |
| 2009         | 362,200       |
| 2010         | 839,922       |
| 2014         | 2,171,361     |
| 2015         | 4,499,959     |
| 2016         | 1,580,780     |
| 2017         | 105,858       |
| 2026         | 2,863,897     |
| 2027         | 72,109        |
|              | \$ 12,756,886 |

The Company also has approximately \$189,000 of capital losses that can be applied against future capital gains taxable in Canada, which carry-forward indefinitely. The benefit of these losses has not been recorded in these financial statements.

**11. CONTINGENT LIABILITY**

On May 20, 2004, Western Telluric Resources Inc. (“Western Telluric”) and Minera Olympic, S. de R.L. de C.V. (“Minera”) (collectively, the “Plaintiffs”) commenced an 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 against the Plaintiffs. The pleadings are closed and documents have been exchanged. Discoveries have been partially completed, and trial is currently set for 2007.

The Company is not currently in a position to quantify the potential exposure to the Company or the potential recovery that may be had pursuant to the Company’s Counterclaim. No specific amounts are claimed in either the Statement of Claim or the Counterclaim. The Plaintiffs have not delivered any evidence with respect to quantum. In addition, the size of any damage award against the Company may be affected by results of work on the subject mineral properties between January 31, 2007 and trial. Accordingly, no provision for the outcome has been included in these financial statements. Any outcome, if any, will be recorded in future periods as they become known.

**12. SUBSEQUENT EVENTS**

Subsequent to January 31, 2007, the Company:

- (a) acquired, by staking, a 100% interest in a 205 square kilometre property located 220 kilometres northeast of Lima, Peru. The property contains a number of anomalous uranium occurrences.

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

**(a) Differences in accounting principles**

i) Exploration expenditures

Under Canadian GAAP, acquisition costs and exploration expenditures are deferred as explained in note 2(f).

Under US GAAP, exploration costs incurred in locating areas of potential mineralization are expensed as incurred. Commercial feasibility is established in compliance with Industry Guide 7, which consists of identifying that part of a 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 prefeasibility 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.

ii. Financial instruments

Under Canadian GAAP prior to October 31, 2006, investments were carried at the lower of aggregate cost or quoted market value. Under US GAAP, investments in marketable securities classified as available for sale are recognized at fair value. Unrealized gains and losses are included in other comprehensive income.

iii. Reconciliation of total assets, liabilities and stockholders' equity:

|  | <b>January 31,<br/>2007</b> | <b>October 31,<br/>2006</b> |
|--|-----------------------------|-----------------------------|
| Total assets per Canadian GAAP                             | \$ 42,921,453               | \$ 27,172,271               |
| Expenditures on resource properties expensed under US GAAP | (20,664,580)                | (18,680,316)                |
| Fair value adjustment to investment                        | -                           | 6,840,000                   |
| <b>Total assets per US GAAP</b>                            | <b>\$ 22,256,873</b>        | <b>\$ 15,331,955</b>        |
| Total liabilities per Canadian GAAP                        | \$ 648,065                  | \$ 478,621                  |
| Adjustments to US GAAP                                     | -                           | -                           |
| <b>Total liabilities per US GAAP</b>                       | <b>648,065</b>              | <b>478,621</b>              |
| Total equity per Canadian GAAP                             | 42,273,388                  | 26,693,650                  |
| Expenditures on resource properties expensed under US GAAP | (20,664,580)                | (18,680,316)                |
| Accumulated other comprehensive income                     | -                           | 6,840,000                   |
| <b>Total equity per US GAAP</b>                            | <b>21,608,808</b>           | <b>14,853,334</b>           |
| <b>Total liabilities and equity per US GAAP</b>            | <b>\$ 22,256,873</b>        | <b>\$ 15,331,955</b>        |

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

iv. Reconciliation of net loss reported in Canadian GAAP and US GAAP:

Statement of operations for the three months ended January 31:

|   | <b>2007</b>    | <b>2006</b>    |
|---|----------------|----------------|
| Reconciliation of net income (loss) from Canadian GAAP to US GAAP |                |                |
| Comprehensive income per Canadian GAAP                            | \$ (303,097)   | \$ (951,779)   |
| Acquisition of mineral properties                                 | (939,762)      | (1,199,510)    |
| Exploration and development costs, net                            | (1,044,502)    | (1,730,145)    |
| Reverse amounts written-off                                       | -              | -              |
| Net loss per US GAAP  | (2,287,361)    | (3,881,434)    |
| Total comprehensive income per US GAAP                            | \$ (2,287,361) | \$ (3,881,434) |
| Net loss per share in accordance with Canadian GAAP               | \$(0.00)       | \$(0.02)       |
| Total differences   | (0.05)         | (0.07)         |
| Net loss per share in accordance with US GAAP                     | \$(0.05)       | \$(0.09)       |
| Weighted average number of common shares outstanding              | 43,983,548     | 42,053,978     |

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

|  | <b>2007</b>    | <b>2006</b>   |
|--|----------------|---------------|
| Net cash used in operating activities of continuing operations in accordance with Canadian GAAP                  | \$ (1,090,873) | \$ (875,743)  |
| Adjustments to net loss involving use of cash  |                |               |
| Write-off of capitalized resource property costs   | (1,604,265)    | (2,011,655)   |
| Net cash used in operating activities of continuing operations in accordance with US GAAP                        | (2,695,138)    | (2,887,398)   |
| Net cash used in investing activities of continuing operations in accordance with Canadian GAAP                  | 773,707        | (2,012,815)   |
| Reclassification of capitalized resource property expenditures   | 1,604,265      | 2,011,655     |
| Net cash used in investing activities of continuing operations in accordance with US GAAP                        | 2,377,972      | (1,160)       |
| Net cash flows provided by financing activities of continuing operations in accordance with Canadian and US GAAP | 5,467,754      | 2,348,950     |
| Net increase (decrease) in cash in accordance with Canadian and US GAAP  | 5,150,588      | (539,608)     |
| Cash, beginning of year in accordance with Canadian and US GAAP  | 4,506,165      | 15,206,219    |
| Cash, end of year in accordance with Canadian and US GAAP  | \$ 9,656,753   | \$ 14,666,611 |

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

**(b) Recent US accounting pronouncements**

- i. FAS 153, Exchanges of Non-Monetary Assets. The provisions of this Statement are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The provisions of this Statement should be applied prospectively. There is no impact on the Company's financial statements.
- ii. FIN 46(R), Consolidation of Variable Interest Entities, applies at different dates to different types of enterprises and entities, and special provisions apply to enterprises that have fully or partially applied Interpretation 46 prior to issuance of Interpretation 46(R). Application of Interpretation 46 or Interpretation 46(R) is required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. Application by small business issuers to entities other than special-purpose entities and by non-public entities to all types of entities is required at various dates in 2004 and 2005. In some instances, enterprises have the option of applying or continuing to apply Interpretation 46 for a short period of time before applying Interpretation 46(R). There is no impact on the Company's financial statements.
- iii. In 2004, FASB issued Statement No. 123 (revised 2004), "*Share-Based Payment*" (SFAS 123R). This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This revised pronouncement requires that all stock options and warrants be accounted for using the fair value method. This pronouncement will have no impact on the Company, as the Company accounts for all options and warrants using the fair value method, under Canadian GAAP.
- iv. On June 7, 2005, FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Statement 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition of a cumulative effect adjustment within net income of the period of the change. Statement 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Statement 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any existing accounting pronouncements. The Company does not believe adoption of Statement 154 will have a material effect on its consolidated financial position, results of operations or cash flows.
- v. 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 derecognition, 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)**

- viii. In 2006, FASB issued Statement No. 157, *Fair Value Measurements*. This new pronouncement provides guidance for using fair value to measure assets and liabilities. FASB believes the pronouncement also responds to investors' requests for expanded information about the extent to which corporation's measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. Statement 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. The standard clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, not just the Company's mark-to-market value. Statement 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data. The Company does not believe adoption of Statement 157 will have a material effect on its consolidated financial position, results of operations or cash flows.

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

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## **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 quarter ended January 31, 2007 to the same period in the previous year. This MD&A should be read in conjunction with the Company's unaudited financial statements for the quarter ended January 31, 2007. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. 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 future anticipated exploration program results and the timing thereof, discovery and delineation of mineral 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 ability 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 26, 2007 can be located on the Company's web site [www.cardero.com](http://www.cardero.com) or on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **DATE**

This Management Discussion and Analysis reflects information available as at March 12, 2007.

## **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 through the sale of its shares. 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. Even though the Company believes that it has sufficient funds on hand to meet its current requirements, there is no guarantee that it will be able to raise additional funds as 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 and Argentinean pesos, and Peruvian Nuevo Soles.
5. The Company's properties are located in Mexico, Argentina 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")

### **Interim Highlights**

#### **Exploration Activities**

The Company 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 focussing its activities in Mexico, Argentina 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 large 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. The Company 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).

| <b>Property</b>        | <b>Total Costs as of<br/>October 31, 2006</b> | <b>Q1 2007<br/>expenditures</b> | <b>Estimated Fiscal 2007<br/>Expenditures<sup>(1)</sup></b> |
|------------------------|---|---------------------------------|---|
| Baja IOCG, Mexico      | \$5,277,115                                   | \$11,394                        | \$578,506   |
| Iron Sands, Peru       | \$3,387,032                                   | \$159,700                       | \$1,256,060   |
| Pampa de Pongo, Peru   | \$2,566,830                                   | \$1,069                         | \$175,901   |
| SHV Project, Argentina | \$1,990,679                                   | \$328,240                       | \$615,600   |

Note: Estimated exploration expenditures only, does not include property payments. Estimated expenditures are contingent upon ongoing successful results justifying further expenditures.

During the quarter, the Company carried out the following exploration activities:

#### ***Mexico***

##### **Picale Property, Baja Iron Oxide Copper Gold Project, Mexico**

At the Picale property, part of the Company's Baja Iron Oxide Copper Gold Project, initial drilling intersected high-grade copper mineralization over an area of approximately 250 square metres (four

intercepts which average 6.35 metres @ 2.7% copper and 0.2 g/t gold). Consequently a 2,500 metre, sixteen borehole, drill program tested for extensions of the newly discovered copper zone. Fifteen of the sixteen boreholes intersected the target magnetite manto horizon, at downhole depths ranging from 69 metres on the east of the property to 263 metres in the westernmost borehole, over an area of approximately 1,300 metres north-south by 1,250 metres east-west. The results indicate that the property is underlain by a large geochemically anomalous (copper – gold) magnetite replacive body within which, scattered to locally isolated higher grade copper ‘pods’ are present. The subsequent geochemical assays indicate that insufficient copper mineralization is present to form an economic ore body. Consequently the property was returned to the property vendor and the Company will re-focus on other priority targets within the district.

Cardero plans to continue to explore the district during the second and third quarters of 2007 for an estimated total budget of USD 500,000. Additional drill testing is scheduled to occur at the San Jose, San Fernando West, El Gato and El Cuervito targets by year end.

## **Argentina**

### 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. Previous exploration work appears to have been very limited, and there are no records or evidence of any extensive modern exploration.

Mapping indicates that copper-gold mineralization is part of a large and well developed porphyry style hydrothermal system. The outcropping porphyry style copper mineralization is closely related to potassic alteration and is developed in two main zones. The Company commenced an initial drill program on the property in November 2006.

The results from the first three holes were released on January 24, 2007. Drilling has intersected significant intervals of copper – gold mineralization associated with two altered porphyritic intrusions. The boreholes are interpreted to have collared above and/along the flanks of the mineralized core of the system. Mineralization is open in all directions including at depth. The results confirm the presence of a significant copper gold endowed porphyry system (Table 1). All holes finished in mineralization and the system remains open in all directions. Due to the positive results received to date, the Company has substantially increased its planned drill program to 4,000 metres.

The most recent boreholes, 07-HU-04 to -07, which were designed to test the Oro Rico Porphyry, were collared 450 to 600 metres southeast of the original discovery boreholes, 06-HU-01 and 02 respectively. Borehole 07-HU-04 returned 276 metres @ 0.31% copper equivalent (CuEq) within which 62 metres returned 0.42% CuEq. The hole collared in potassically altered porphyry containing a weak to locally moderately developed sheeted quartz-chalcopyrite stockwork. Borehole 07-HU-05, collared 110 metres south-southeast of 07-HU-04, intersected 248 metres of 0.39% CuEq within which 118 metres averaged 0.50% CuEq in highly altered volcanic rocks. In general, both copper and gold grades increase downhole with the lowermost 52 metres returning 0.63% CuEq. See Table 1 for details.

Geological reconstruction from surface outcrops and drilling indicates that the mineralized porphyries have the following minimum dimensions: 550 metres north-south by 300 metres east-west and 320 metres vertical depth. Mineralization remains open to the west, north, partially to the east and at depth.

Borehole 07-HU-06 was collared 125 metres east of HU-05 but was abandoned due to poor ground conditions. Borehole 07-HU-07, collared approximately 65 metres east of HU-05, intersected highly altered mafic intrusives containing abundant pyrite mineralization. Samples are at the laboratory and results are pending.

An additional three boreholes are scheduled to test the western and northern extents of the large hydrothermal system, where significant peripheral 'leakage' veining approximately 800 metres west of boreholes 06-HU-01 and -02 (values up to 9.4% copper, 50.2g/t gold and 154 g/t silver - see NR 06-21) is interpreted as a westward vector towards potentially higher grade mineralization. Finally, three more boreholes will provide an initial test of the Sentazon epithermal system (approximately 450 metres by 15 metres wide and minimum 150 metres vertical extent).

**Table 1: Summary of Huachi borehole results**

| <b>Borehole</b> | <b>Dip/Azimuth</b> | <b>From (m)</b>          | <b>To (m)</b>                | <b>Results</b>  |
|-----------------|--------------------|--------------------------|------------------------------|---|
| 06-HU-01        | -80/180            | 1                        | 200                          | 199m @ 0.34% CuEq (0.25% copper & 0.12 g/t gold).   |
| 06-HU-02        | -60/300            | 2<br>112<br>112          | 355.1<br>355.1<br>200        | 353.1m @ 0.48% CuEq (0.35% copper & 0.18 g/t gold).<br>243.1m @ 0.56% CuEq (0.4% copper & 0.21 g/t gold)<br>88m @ 0.68% CuEq (0.48% copper & 0.27 g/t gold).                                  |
| 06-HU-03        | -60/000            | 86<br>164                | 208.4<br>208.4               | 122.4m @ 0.39% CuEq (0.17% copper & 0.31 g/t gold).<br>44.4m @ 0.47% CuEq (0.20% copper & 0.37 g/t gold).   |
| <b>07-HU-04</b> | <b>-60/250</b>     | <b>46.7<br/>192</b>      | <b>323<br/>254</b>           | <b>276.3m @ 0.31% CuEq (0.21% copper &amp; 0.13 g/t gold).</b><br><b>62m @ 0.42% CuEq (0.33% copper &amp; 0.12 g/t gold).</b>   |
| <b>07-HU-05</b> | <b>-60/230</b>     | <b>6<br/>126<br/>192</b> | <b>254.5<br/>244<br/>244</b> | <b>248.5m @ 0.39% CuEq (0.26% copper &amp; 0.17 g/t gold).</b><br><b>118m @ 0.50% CuEq (0.34% copper &amp; 0.22 g/t gold).</b><br><b>52m @ 0.63% CuEq (0.39% copper &amp; 0.32 g/t gold).</b> |
| <b>07-HU-06</b> |                    |                          |                              | Abandoned at 40m due to poor ground conditions  |
| <b>07-HU-07</b> | -60/160            |                          |                              | Results pending.  |

**Note:** All depths downhole.

Copper Equivalent (CuEq) calculation is based on metal prices of \$0.90/lb copper and \$450/oz gold. The calculation has not been adjusted to reflect relative recoveries of the metals as metallurgical testing has yet to be undertaken.

## **Peru**

### Katanga Project

Geological mapping has identified three zones of massive iron-oxide mineralization; the West, East and South Zones. The largest exposed body, the West Zone, is 540 metres long by 235 metres wide and approximately 100 metres thick. The East Zone is 450 metres long by 110 metres wide and has a minimum true thickness of 20 metres. The smallest of the bodies, the South Zone, is poorly exposed over approximately 250 metres strike length and 50 metres width with a maximum thickness of 20 metres. Four continuous chip samples returned the following assay values:

| <b>Zone</b> | <b>Width (m)</b> | <b>Fe (%)</b> | <b>TiO<sub>2</sub> (%)</b> | <b>SiO<sub>2</sub> (%)</b> | <b>MgO (%)</b> | <b>S (%)</b> | <b>MnO (%)</b> | <b>P<sub>2</sub>O<sub>5</sub> (%)</b> |
|-------------|------------------|---------------|----------------------------|----------------------------|----------------|--------------|----------------|---------------------------------------|
| East        | 47m              | 57.7          | 0.22                       | 9.72                       | 0.17           | 0.03         | 0.18           | 0.22                                  |
| East        | 118m             | 63.23         | 0.21                       | 4.35                       | 0.02           | 0.08         | 0.12           | 0.27                                  |
| West        | 233m             | 65.56         | 0.09                       | 3.09                       | 0.26           | 0.04         | 0.18           | 0.27                                  |
| West        | 165m             | 65.53         | 0.11                       | 3.12                       | 0.27           | 0.09         | 0.21           | 0.18                                  |

A 3D magnetic survey of the property suggests that mineralization remains open. Interpretation of the results suggests that there may be potential for a small to modest sized iron deposit which could produce a saleable iron concentrate following crushing, grinding and magnetic separation. Consequently, the Company is presently obtaining quotations for contract mining and processing and combined truck and

rail transportation availability and capacity to the port of Matarani, which is located approximately 650 kilometres to the west of the project area. In conjunction with this, a study of the existing infrastructure in the area will be commissioned in order to assess the costs of any required upgrading necessary in order to accommodate the proposed mining scenario. It is anticipated that such studies will be completed in the second quarter of 2007.

Amable Maria Property

On February 22, 2007 and March 1, 2007, the Company announced that it had acquired, by staking, a 100% interest in an aggregate 205 square kilometre uranium anomaly located 220 kilometres northeast of Lima near the city of San Ramon in Peru. The area is prospective for a variety of uranium mineralization styles including polymetallic uranium veins, intrusion and sedimentary hosted uranium. The Company is presently seeking a joint venture partner to rapidly advance this large untested area, as well as other Peruvian uranium opportunities.

The results from a stream sediment survey, which was designed to test an area of approximately 80 by 80 kilometres adjacent to the San Ramon granite batholith, contain anomalous uranium and thorium concentrations over an area of 205 square kilometres on the western flanks of the batholith.

Within this large geochemically anomalous area three sub-zones occur, being the North anomaly, which covers approximately 103.4 square kilometres and has a maximum value of 57.5 ppm uranium and 386 ppm thorium; the Central anomaly, which covers approximately 48 square kilometres and has a maximum value of 45.9 ppm uranium and 326 ppm thorium; and the Southern anomaly, which covers approximately 11.3 square kilometres and has a maximum value of 81.3 ppm uranium and 144 ppm thorium (Table 2). All the areas contain elevated thorium pathfinder support (thorium formed by the decay of uranium over time is considered geochemically more stable in this environment). Sizeable zinc, lead, silver, gold and copper anomalies also occur in the area. There has been limited previous exploration and none targeting uranium mineralization.

**Table 2: Summary of stream sediment results – Western San Ramon area.**

| <b>Anomaly</b> | <b>Area (km<sup>2</sup>)</b> | <b># of Samples</b> | <b>Uranium ppm (mean)</b> | <b>Uranium ppm (max)</b> | <b>Thorium ppm (mean)</b> | <b>Thorium ppm (max)</b> |
|----------------|------------------------------|---------------------|---------------------------|--------------------------|---------------------------|--------------------------|
| North          | 103                          | 61                  | 22.1                      | 57.5                     | 153.5                     | 386                      |
| South          | 11                           | 17                  | 31.4                      | 81.3                     | 72.7                      | 144                      |
| Central        | 48                           | 19                  | 23.1                      | 45.9                     | 146.2                     | 326                      |

Regional scale government mapping indicates that the San Ramon batholith is comprised of a multiphase intrusion of monzogranite, syenogranite and quartz monzogranite. Carbonate and sedimentary rocks occur to the north, and a thrust sheet has introduced older basement to the west of the intrusion.

The Company anticipates that future work will consist of prospecting up-drainage from anomalous sample sites with scintillometers and a concurrent lithochemical survey that will characterize the granite host by assessing its fertility, delineate anomalous outcrop and assess the style of mineralization as well as its bulk tonnage potential.

Cardero acquired the proprietary stream sediment data that led to the acquisition of the Amable Maria prospect from Consultoria Minera Anglo Peruana, S.A., a private Peruvian consulting firm, and has agreed to issue 20,000 common shares to it as consideration for the data.

*Qualified Person(s) and Quality Control/Quality Assurance*

EurGeol Dr. Mark D. Cruise, 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 the MD&A.

The work programs on the Company's properties are designed and are supervised by Mark D. Cruise, Vice President, Exploration of Cardero, either alone or in conjunction with independent consultants. Dr. Cruise 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 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 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 the exploration and development of 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 Counties and Regulatory Requirements: All of the mineral properties held by the Company are located in Mexico, Argentina 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 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.

### **Summary of Quarterly Results**

During the three months ended January 31, 2007, the Company had a net income of \$6,903 or \$0.00 per share as compared to a net loss of \$951,779 or \$0.02 per share for Q1 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.

The table below sets out the quarterly results, expressed in Canadian dollars, for the fiscal years 2005 and 2006 and the first fiscal quarter of 2007:

#### Fiscal 2007

|                             | <b>First Quarter</b> | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
|-----------------------------|----------------------|-----------------------|----------------------|-----------------------|
| Total revenue               | \$ 82,190            |                       |                      |                       |
| Gain on sale of investment  | 1,818,236            |                       |                      |                       |
| Net income                  | 6,903                |                       |                      |                       |
| Net income per share        | 0.00                 |                       |                      |                       |
| Comprehensive income (loss) | \$ (303,097)         |                       |                      |                       |

#### Fiscal 2006

|                    | <b>First Quarter</b> | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
|--------------------|----------------------|-----------------------|----------------------|-----------------------|
| 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)                |

#### Fiscal 2005

|                    | <b>First Quarter</b> | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
|--------------------|----------------------|-----------------------|----------------------|-----------------------|
| Total revenue      | \$ 60,669            | \$ 128,207            | \$ 95,604            | \$ 91,809             |
| Net loss           | (1,489,617)          | (1,986,307)           | (1,607,002)          | (1,379,964)           |
| Net loss per share | (0.04)               | (0.05)                | (0.04)               | (0.03)                |

- 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.

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

The first quarter 2007 other income of \$1,966,948 largely occurred due to the sale of 1,000,000 shares of International Tower Hill Mines Ltd. for a net gain of \$1,818,236. Interest income of \$82,190 (2006 - \$93,787) reflects lower average cash balances offset by higher interest rates. The foreign exchange gain of \$66,522 (2006 - (\$3,754)) arose principally as a result of a strengthening in the Argentine currency.

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 unaudited consolidated financial statements for the period ended January 31, 2007, The Company's investment in International Tower Hill Mines Ltd. is classified as "available for sale", and accordingly, is carried at quoted market value, including the intrinsic value of the related share purchase warrants. 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 effect of adopting these recommendations resulted in other comprehensive income (loss) of (\$303,097) representing the change in the fair value of the Company's investment which has been recognized for accounting purposes, but not yet realized in cash. This amount, together with the calculated opening balance at November 1, 2006, is also reflected on the Company's balance sheet within the equity section as "Accumulated other comprehensive income".

The principal factors affecting the increase in administrative expenses were increased salaries of \$680,319 (2006 - \$186,879) which contains \$376,100 (2006 - nil) non-cash stock based compensation expense and investor relations expenses of \$241,037 (2006 - \$160,575) which contains \$99,743 (2006 - \$43,056) non-cash stock based compensation expense. The decrease in consulting fees of \$175,572 is due to the reduction of non-cash stock based compensation expense contained within the amount (2007 - \$179,238; 2006 - \$343,500). Professional fees have increased due to higher audit costs, together with fees relating to the Company's compliance with its SOX and MI 52-109 reporting obligations.

All other administrative expenses have risen due to the general increase in the level of activity of the Company, increased expense at its Latin American subsidiaries, and an increase in first quarter property evaluation expenses.

## **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.

On January 12, 2007, the Company closed a non-brokered private placement of 1,500,000 units at a price of \$1.50 per unit for net proceeds of \$2,098,374. Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole warrant is exercisable to acquire an additional common share of the Company at a price of \$2.00 until July 12, 2008.

On January 23, 2007, the Company closed a brokered private placement of 2,200,000 units at a price of \$1.50 per unit for net proceeds of \$3,165,380. Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole warrant is exercisable to acquire an additional common share of the Company at a price of \$2.00 until July 12, 2008.

On December 14, 2006, the Company sold 1,000,000 shares of ITH for net proceeds of \$2,378,236, thereby recouping its initial investment.

As a consequence of the foregoing funding activities, as at March 8, 2007, the Company had working capital of approximately \$10.9 million, which it anticipates will be sufficient to cover its anticipated expenses for the next 18 months. However, if the Company substantially increases its expenditures on property acquisitions or exploration expenditures, additional funding will be required within the next eighteen months.

#### **OFF BALANCE-SHEET ARRANGMENTS**

The Company has no off-balance sheet arrangements.

#### **TRANSACTIONS WITH RELATED PARTIES**

During the period ended January 31, 2007 the Company incurred the following expenses paid to directors of the Company or companies with common directors:

|                   | <b>2007</b> | <b>2006</b> |
|-------------------|-------------|-------------|
| Professional fees | \$ 26,750   | \$ 33,001   |
| Consulting fees   | \$ 22,500   | \$ 7,500    |

At January 31, 2007 there was \$9,417 (October 31, 2006 - \$12,012) included in accounts payable and accrued liabilities owing to related parties.

The Company recovered \$33,495 (2006 - \$4,600) during 2007 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, 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.

The presidents of Minerale y Metales California, S.A. de C.V. and Cardero Argentina S.A. provide management services for USD 5,000 each per month, which is expensed to consulting fees or capitalized to property costs, depending upon the nature of the services. The president on Cardero Peru, S.A.C. provides management and consulting services for USD 10,000 per month, which is expensed to consulting fees or capitalized to property costs, depending upon the nature of the services.

#### **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 where 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 include the rates of amortization for equipment, the 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 are reasonable; however, actual results could differ from those estimates and 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, 2005, being the start of the Company's most recently completed fiscal year, except for the adoption of the recommendations relating to financial instruments referred to in Note 3(a) to the interim unaudited financial statements for the period ended January 31, 2007 and in the "Summary of Quarterly Results" herein.

### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

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

The Company's cash at January 31, 2007 was \$9,656,753 of which \$207,552 was held in Mexican, Argentinean and Peruvian currencies. The Company's cash equivalents was term deposits of \$4,000,000 which yield approximately 2.1% per annum.

The Company's receivables and payables at January 31, 2007 were normal course business items that are settled on a regular basis. The Company's investment in ITH, including the intrinsic value represented by the share purchase warrants, is carried at quoted market value, and is classified as "available for sale" for accounting purposes. The Company has no plans to dispose of any of its remaining securities of ITH.

### **MATERIAL PROCEEDINGS**

On May 20, 2004 Western Telluric Resources Inc. ("Western Telluric") and Minera Olympic, S. de R.L. de C.V. ("Minera") (collectively, the "Plaintiffs") commenced an 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 by which the Company acquired six mineral concessions in Baja California State, Mexico from Minera, a constructive trust over other mineral interests in Baja California State, Mexico held by the Company and damages for breach of contract, breach of duty of confidence and knowing participation in breach of fiduciary duty.

The Company has filed a Statement of Defence in which it denies any liability. As well, the Company has commenced a Counterclaim against the Plaintiffs and William Park, Kelly Klatik, Jack Glavine and Kenneth Tremblett for malicious prosecution, abuse of process, injurious falsehood and conspiracy to injure. In addition to seeking damages, the Company is seeking a declaration that the December 12, 2001 agreement is valid and that it is the owner of the subject mineral concessions.

The pleadings are closed and documents have been exchanged. Discoveries have been partially completed, and trial is currently set for 2007.

The Company is not currently in a position to quantify the potential exposure to the Company or the potential recovery that may be had pursuant to the Company's counterclaim. No specific amounts are claimed in either the Statement of Claim or the Counterclaim. The Plaintiffs have not delivered any evidence with respect to quantum. In addition, the size of any damage award against the Company may be affected by results of work on the subject mineral properties between the date of this MD&A and trial.

#### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's 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 January 31, 2007 as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer, have concluded that, as of January 31, 2007, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for accurate disclosure to be made on a timely basis.

#### **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 three months ended January 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **DISCLOSURE OF OUTSTANDING SHARE DATA (as at March 8, 2007)**

1. Authorized and Issued capital stock:

|  | <b>Authorized</b> | <b>Issued</b> | <b>Value</b> |
|--|-------------------|---------------|--------------|
| An unlimited number of common shares without par value |                   | 47,231,439    | \$55,804,835 |

2. Options Outstanding:

| Number           | Exercise Price | Expiry Date       |
|------------------|----------------|-------------------|
| 25,000           | \$3.25         | June 9, 2007      |
| 200,000          | \$3.00         | July 29, 2007     |
| 175,000          | \$3.00         | September 1, 2007 |
| 1,400,000        | \$2.80         | May 2, 2008       |
| 176,000          | \$1.90         | July 23, 2008     |
| 1,300,000        | \$1.95         | August 4, 2008    |
| 300,000          | \$1.70         | October 12, 2008  |
| 600,000          | \$2.00         | November 30, 2008 |
| 300,000          | \$1.70         | December 20, 2008 |
| <b>4,476,000</b> |                |                   |

3. Warrants/Agent's Options Outstanding:

| Number           | Exercise Price | Expiry Date   |
|------------------|----------------|---------------|
| 750,000          | \$2.00         | July 12, 2008 |
| 1,144,500        | \$2.00         | July 23, 2008 |
| 44,500           | \$1.75         | July 23, 2008 |
| <b>1,894,500</b> |                |               |

**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](http://www.sedar.com) or on the Company's website at [www.cardero.com](http://www.cardero.com).