



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

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

**April 30, 2006**



# 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)**

	<b>April 30, 2006</b>	<b>October 31, 2005</b>
		(Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 12,773,396	\$ 15,206,219
Accounts receivable	796,774	575,436
Prepaid expenses	222,809	464,250
Total Current Assets	13,792,979	16,245,905
<b>Equipment</b> (note 4)	46,855	45,815
<b>Resource Properties</b> (notes 5 and 6)	16,730,960	12,188,346
Total Assets	\$ 30,570,794	\$ 28,480,066
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 443,921	\$ 809,232
<b>Stockholders' Equity</b>		
<b>Capital Stock</b> (note 6)	49,272,969	43,917,324
<b>Contributed Surplus</b> (note 6)	4,141,226	4,975,930
<b>Deficit</b>	(23,287,322)	(21,222,420)
Total Stockholders' Equity	30,126,873	27,670,834
Total Liabilities and Stockholders' Equity	\$ 30,570,794	\$ 28,480,066

**Contingent Liabilities (note 9)**  
**Subsequent Events (note 10)**

Approved on behalf of the Board:

*"Henk Van Alphen"* (signed)  
..... Director  
Henk Van Alphen

*"Lawrence W. Talbot"* (signed)  
..... Director  
Lawrence W. Talbot

**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Consolidated Statements of Operations and Deficit**  
**(Unaudited – Prepared by Management)**

	Three months ended		Six months ended	
	April 30		April 30	
	2006	2005	2006	2005
<b>Administrative Expenses</b>				
Stock-based compensation (note 6)	\$ 26,610	\$ 211,250	\$ 413,166	\$ 762,250
Travel and promotion	172,942	360,116	290,461	909,587
Professional fees (note 7)	111,458	149,568	201,859	278,888
Salaries	152,651	125,786	339,530	276,856
Property evaluations	39,698	299,266	72,897	319,721
Insurance	44,886	-	101,807	9,394
Office costs	70,613	(27,000)	121,617	40,000
Regulatory and transfer agent	66,352	24,608	80,456	98,024
Consulting fees (note 7)	122,133	-	224,147	-
Amortization	3,212	4,353	6,427	8,155
<b>Loss Before Other Items</b>	<b>810,555</b>	<b>1,147,947</b>	<b>1,852,367</b>	<b>2,702,875</b>
<b>Other Items</b>				
Interest income	(103,878)	(128,207)	(197,665)	(188,876)
Write-off of resource properties (note 5)	399,854	966,567	399,854	972,167
Foreign exchange loss	6,592	-	10,346	(10,242)
	302,568	838,360	212,535	773,049
<b>Net Loss for Period</b>	<b>1,113,123</b>	<b>1,986,307</b>	<b>2,064,902</b>	<b>3,475,924</b>
<b>Deficit, Beginning of Period</b>	<b>22,174,199</b>	<b>16,249,147</b>	<b>21,222,420</b>	<b>14,759,530</b>
<b>Deficit, End of Period</b>	<b>\$ 23,287,322</b>	<b>\$ 18,235,454</b>	<b>\$ 23,287,322</b>	<b>\$ 18,235,454</b>
<b>Loss Per Share (note 2(h))</b>	<b>\$ (0.03)</b>	<b>\$ (0.05)</b>	<b>\$ (0.05)</b>	<b>\$ (0.09)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>42,836,132</b>	<b>40,937,872</b>	<b>42,442,870</b>	<b>40,582,160</b>

**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Consolidated Statements of Cash Flows**  
**(Unaudited – Prepared by Management)**

	Three months ended		Six months ended	
	April 30		April 30	
	2006	2005	2006	2005
<b>Operating Activities</b>				
Net loss for period	\$ (1,113,123)	\$ (1,986,307)	\$ (2,064,902)	\$ (3,475,924)
Items not involving cash				
Amortization	3,212	4,353	6,427	8,155
Stock-based compensation	26,610	211,250	413,166	762,250
Write-off of resource properties	399,854	966,567	399,854	972,167
Changes in Non-Cash Working Capital				
Accounts receivable	(30,518)	(75,993)	(221,338)	(129,801)
Prepaid expenses	81,259	(63,224)	241,441	(25,479)
Accounts payable and accrued liabilities	(82,214)	6,006	(365,311)	39,983
<b>Cash Used in Operating Activities</b>	<b>(714,920)</b>	<b>(937,348)</b>	<b>(1,590,663)</b>	<b>(1,848,649)</b>
<b>Investing Activities</b>				
Resource properties	(1,419,813)	(1,347,182)	(3,431,468)	(3,236,639)
Purchase of equipment	(6,307)	(7,342)	(7,467)	(10,258)
<b>Cash Used in Investing Activities</b>	<b>(1,426,120)</b>	<b>(1,354,524)</b>	<b>(3,438,935)</b>	<b>(3,246,897)</b>
<b>Financing Activities</b>				
Proceeds from shares issued	247,825	1,048,270	2,596,775	5,609,660
<b>Cash Provided by Financing Activities</b>	<b>247,825</b>	<b>1,048,270</b>	<b>2,596,775</b>	<b>5,609,660</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,893,215)</b>	<b>(1,243,602)</b>	<b>(2,432,823)</b>	<b>514,114</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>14,666,611</b>	<b>18,678,625</b>	<b>15,206,219</b>	<b>16,920,909</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 12,773,396</b>	<b>\$ 17,435,023</b>	<b>\$ 12,773,396</b>	<b>\$ 17,435,023</b>
<b>Supplemental Cash Flow Information</b>				
Shares issued for property option payments	\$ 293,000	\$ -	\$ 1,211,000	\$ 1,255,450
Shares issued for data acquisition	\$ 300,000	\$ -	\$ 300,000	\$ -
Income tax paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -	\$ -
<b>Cash and cash equivalents</b>				
Consists of:				
Cash	\$ 2,773,396	\$ 935,023	\$ 2,773,396	\$ 935,023
Term deposits	\$ 10,000,000	\$ 16,500,000	\$ 10,000,000	\$ 16,500,000

**1. NATURE OF OPERATIONS**

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

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that any of the Company's current or future exploration programs will result in profitable mining operations. The recoverability of amounts shown for 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.

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.

**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") and Cardero Peru S.A.C. ("Cardero Peru") (collectively, the "Company").

All intercompany 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.

**(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 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. Actual results could differ from those estimates and would impact future results of operations and cash flows.

**(d) Amortization**

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

Computer equipment	- 30%
Office equipment	- 30%

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

**(e) 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.

**(f) 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 year.

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

**(g) Stock-based compensation**

The Company accounts for stock options granted to directors, employees and consultants using the fair value method. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and charged to earnings over the vesting period with a corresponding increase in contributed surplus. Upon exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to capital stock.



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

**(h) Loss per share**

Loss per share computations are based on the weighted average number of common shares outstanding during the year. Diluted loss per share has not been presented separately as the outstanding options and warrants are anti-dilutive for each of the years presented.

**(i) 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.

**(j) Asset retirement obligations**

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The adoption of this accounting policy has not affected the Company's financial statements.

**(k) Income taxes**

The Company uses 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 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) 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 maturity of these financial instruments.

**(b) Interest rate risk**

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

**(c) 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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**3. FINANCIAL INSTRUMENTS (Continued)**

**(d) Translation risk**

The Company translates the results of its foreign operations into Canadian currency using rates approximating the average exchange rate for the year. The exchange rates may vary from time to time. At April 30, 2006, the Company held foreign currencies of CDN \$9,813 (MXN 96,944) (October 31, 2005 - CDN \$38,090 (MXN 349,772)); CDN \$195 (ARS 529) (October 31, 2005 - CDN \$118,873 (ARS 304,257)) and CDN\$ 37,345 (Peru S/. 108,178) (October 31, 2005 – S/. Nil) for the purposes of financing operations and capital expenditures in those currencies.

**4. EQUIPMENT**

	<b>April 30, 2006</b>			<b>October 31, 2005</b>		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer equipment	\$ 79,729	\$ 43,991	\$ 35,738	\$ 72,262	\$ 38,765	\$ 33,497
Office equipment	24,915	13,798	11,117	24,915	12,597	12,318
	\$ 104,644	\$ 57,789	\$ 46,855	\$ 97,177	\$ 51,362	\$ 45,815

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**5. RESOURCE PROPERTIES**

The Company incurred acquisition and exploration expenditures on its resource properties as follows:

	<b>Mexico</b> (note 5(a))	<b>Argentina</b> (note 5(b))	<b>Peru</b> (note 5(c))	<b>Total</b>
Balance, October 31, 2003	\$ 1,464,929	\$ 2,728,953	\$ 558,693	\$ 4,752,575
Acquisition costs				
Cash payments	184,384	551,686	678,625	1,414,695
Common shares issued	680,000	547,500	328,000	1,555,500
	864,384	1,099,186	1,006,625	2,970,195
Deferred exploration costs				
Camp costs	521,594	508,134	437,657	1,467,385
Drilling and analysis	47,757	507,686	866,807	1,422,250
Personnel	192,645	215,975	90,734	499,354
	761,996	1,231,795	1,395,198	3,388,989
Total expenditures for the year	1,626,380	2,330,981	2,401,823	6,359,184
Write-offs	-	(4,521,367)	-	(4,521,367)
Balance, October 31, 2004	3,091,309	538,567	2,960,516	6,590,392
Acquisition costs				
Cash payments	185,467	843,119	931,735	1,960,321
Common shares issued	169,000	256,900	829,550	1,255,450
	354,467	1,100,019	1,761,285	3,215,771
Deferred exploration costs				
Camp costs	218,620	629,597	1,017,559	1,865,776
Drilling and analysis	516,646	78,000	454,243	1,048,889
Personnel	127,155	370,981	160,023	658,159
	862,421	1,078,578	1,631,825	3,572,824
Total expenditures for year	1,216,888	2,178,597	3,393,110	6,788,595
Write-offs	(1,044,407)	(5,600)	(140,634)	(1,190,641)
Balance, October 31, 2005	3,263,790	2,711,564	6,212,992	12,188,346
Acquisition costs				
Cash payments	232,582	280,372	93,380	606,334
Common shares issued	-	-	1,211,000	1,211,000
	232,582	280,372	1,304,380	1,817,334
Deferred exploration costs				
Camp costs	147,047	281,616	269,893	698,556
Drilling and analysis	1,141,315	266,646	263,265	1,671,226
Personnel	301,030	295,888	158,434	755,352
	1,589,392	844,150	691,592	3,125,134
Total expenditures for period	1,821,974	1,124,522	1,995,972	4,942,468
Write-offs	(151,560)	-	(248,294)	(399,854)
Balance, April 30, 2006	\$ 4,934,204	\$ 3,836,086	\$ 7,960,670	\$ 16,730,960

**5. 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 with work programs planned for 2006.

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 owns 8,055 hectares of mineral concessions situated in Baja California State, Mexico, in consideration of aggregate payments of USD 75,000 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).

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 5(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
  - 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

**5. RESOURCE PROPERTIES (Continued)**

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 an agreement dated November 26, 2003) between the Company and Anglo, Anglo has 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 can earn a 70% interest in the mineral concession(s) so acquired, as well as in certain mineral concessions held by the Company, and a 70% interest in a new Mexican company to be formed to hold such concessions, by incurring aggregate exploration expenditures of not less than USD 3,700,000, as follows:

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

Upon Anglo incurring an aggregate USD 3,700,000 of exploration expenditures, a joint venture will 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 has assumed operatorship of the project. Under the terms of the amending agreement, the Company must incur exploration expenditures of not less than USD 500,000 within a 12-month period and, upon doing so, will have 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 may either elect to terminate its expenditure period by delivering a resumption notice to Anglo, or may elect to remain as operator and continue to incur exploration expenditures. If the Company elects to continue incurring exploration expenditures following the USD 500,000 having been incurred, it will earn an additional one-tenth of one percent (0.1%) interest for each additional USD 10,000 of exploration expenditures incurred. If the Company elects to continue incurring exploration expenditures (see subsequent event (Note 10), 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 must deliver an election request notice to Anglo. Upon receipt by Anglo of a resumption notice or an election request notice, Anglo must (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 delivers a resumption notice, or if the Company delivers an election request notice and Anglo elects to continue incurring exploration expenditures, and thereafter Anglo fails to maintain its option in good standing, the Company may terminate the agreement. If the Company delivers an election request notice and Anglo does not elect to resume incurring exploration expenditures, the agreement is automatically terminated. In either case, in the event of termination, the Company will retain its 100% interest in the project, with Anglo having no residual interest therein.

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**5. RESOURCE PROPERTIES (Continued)**

The Company is currently actively exploring this property with programs planned for 2006. As at April 30, 2006, total expenditures on this property exceeded 10% of the Company's total assets as disclosed in the following table presented on a comparative basis for the respective six month periods to April 30:

	<b>2006</b>	<b>2005</b>
Beginning balance	\$ 1,901,958	\$ 1,347,059
Acquisition costs	218,830	-
Deferred exploration costs:		
Camp costs	108,012	31,266
Drilling and analysis	949,552	-
Personnel	285,433	24,689
Balance, April 30	\$ 3,463,785	\$ 1,403,014

vi. Franco Project, San Luis Potosi State, Mexico

Pursuant to an agreement dated August 29, 2003 and accepted on September 3, 2003, as 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;
- 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;
- 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.

**5. RESOURCE PROPERTIES (Continued)**

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 April 30, 2006, been unable to do so. The Company plans to drill this property as soon as access is safe and unrestricted.

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;
- 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 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.

**5. RESOURCE PROPERTIES (Continued)**

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 was written off.

**(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 was 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 was written off.

- Olaroz Chico and Tola Concessions, Jujuy Province, Argentina

Pursuant to an agreement dated May 8, 2002 (as amended on August 8, 2002) among 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 was 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 was written off.



**5. RESOURCE PROPERTIES (Continued)**

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

- Cavok Property, Jujuy Province, Argentina

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

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

Two of these concessions form part of the Olaroz Silver Project (Note 5(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 this an active property, although we have no work programs planned for 2006.

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 has entered into two agreements involving Sociedad Minera Catamarquena de Economia Mixta (“Somicadem”), a governmental corporation owned as to 51% by the Province of Catamarca and 49% by two private Argentinean companies (the “Shareholders”). Somicadem is the holder of the Cerro Atajo property. The first of these agreements is with respect to the acquisition by the Company of the interest of the Shareholders in Somicadem and the second is 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 has 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 is 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);

**5. RESOURCE PROPERTIES (Continued)**

- USD 350,000 on or before January 12, 2006 (subsequently 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 (subsequently re-negotiated for six months to June 12, 2006);
- 150,000 common shares on or before January 12, 2007;
- 500,000 common shares on or before January 12, 2008; and
- 1,000,000 common shares on or before January 12, 2009.

At the election of the Company, it can 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 is a modification agreement dated January 12, 2005 among the Shareholders, Somicadem and the Company to amend the Existing Lease, the Company has 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 is 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 exercises the mining lease option (which must be exercised on or before March 12, 2011), it will 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 will 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.

The Company is currently actively exploring this project.

**5. RESOURCE PROPERTIES (Continued)**

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 has 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 is 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; (subsequently paid)
- USD 75,000 on or before November 12, 2006; and
- USD 150,000 on or before May 12, 2007.

If the Company exercises the option to purchase the property prior to May 12, 2007, the requirement to make any remaining option payments outlined above ceases. 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 has the option to purchase the 0.5% NSR at any time for the sum of USD 1,000,000.

The Company considers this an active property with work programs planned for 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.

The Company is currently exploring this property with work programs planned for 2006.

**5. RESOURCE PROPERTIES (Continued)**

vi. 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 property.

- 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 (\$10,000 paid with an extension to July 25, 2006 to pay the balance);
- 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.

- 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 was written off.

**5. RESOURCE PROPERTIES (Continued)**

**(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 is currently actively exploring this project with work programs planned for 2006.

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:

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

The Company is currently actively exploring this property with work programs planned for 2006.

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.

**5. RESOURCE PROPERTIES (Continued)**

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 current period. The balance of the claims continue 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 5(c)(i)), and an additional 39 mineral claims acquired by staking at a cost of USD 77,000, in the Department of Arequipa, Peru.

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 5(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 2006.

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:

**5. RESOURCE PROPERTIES (Continued)**

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

- 100,000 shares on or before November 15, 2005;
- 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 was written off.

vi. **Corongo Project, Huanuco Province, Peru**

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

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

The Company is currently actively exploring this property with work programs planned for 2006.

**6. CAPITAL STOCK**

**(a) Authorized**

100,000,000 Common shares without par value

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**6. CAPITAL STOCK (Continued)**

**(b) Issued and outstanding**

	<b>Six months ended</b>		<b>Year ended</b>	
	<b>April 30, 2006</b>		<b>October 31, 2005</b>	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	41,685,239	\$43,917,324	38,247,958	\$34,666,470
Issued during the period:				
For cash:				
On exercise of share purchase warrants	-	-	2,121,781	4,803,410
On exercise of share options	957,200	2,596,775	960,500	2,249,000
	957,200	2,596,775	3,082,281	7,052,410
Pursuant to resource property options	300,000	1,211,000	355,000	1,255,450
Pursuant to data purchases	100,000	300,000	-	-
Reallocated from contributed surplus	-	1,247,870	-	942,994
	400,000	2,758,870	355,000	2,198,444
Balance, end of period	43,042,439	\$49,272,969	41,685,239	\$43,917,324

**(c) Contributed Surplus**

	<b>Six months ended April 30, 2006</b>	<b>Year ended October 31, 2005</b>
Balance, beginning of period	\$ 4,975,930	\$ 3,520,528
Stock-based compensation	413,166	2,398,396
Reallocated to capital stock	(1,247,870)	(942,994)
Balance, end of period	\$ 4,141,226	\$ 4,975,930

Contributed surplus arising from stock options exercised in 2004 for which stock-based compensation had been recorded, totalling \$653,780, should have been reallocated to capital stock. This adjustment has been included above and the 2005 opening balance restated accordingly.



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**6. CAPITAL STOCK (Continued)**

**(d) Stock options**

The Company has a stock option plan whereby the Company may grant options to directors, officers, employees and consultants of up to 10% of the common shares outstanding at the time of 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.

A summary of the status of the stock option plan as of April 30, 2006, and changes during the periods ended on those dates is presented below:

	<b>Six months ended April 30, 2006</b>		<b>Year ended October 31, 2005</b>	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	3,642,000	\$2.83	3,477,500	\$2.60
Expired/Forfeited	(75,000)	\$(3.25)	(50,000)	\$(2.50)
Exercised	(957,200)	\$(2.71)	(960,500)	\$(2.34)
Granted	200,000	\$4.00	1,175,000	\$3.16
Options outstanding, end of period	2,809,800	\$2.94	3,642,000	\$2.83

Stock options outstanding are as follows:

Expiry Date	<b>April 30, 2006</b>			<b>October 31, 2005</b>		
	Exercise Price	Number of Shares	Exercisable At Period End	Exercise Price	Number of Shares	Exercisable At Year End
January 27, 2006	\$2.35	-	-	\$2.35	487,500	487,500
April 16, 2006	\$3.25	-	-	\$3.25	350,000	350,000
June 11, 2006	\$2.50	1,229,000	1,229,000	\$2.50	1,329,500	1,329,500
October 6, 2006	\$3.25	300,000	300,000	\$3.25	300,000	300,000
November 16, 2006	\$3.25	350,000	350,000	\$3.25	350,000	300,000
June 9, 2007	\$3.25	305,800	303,717	\$3.25	400,000	381,250
July 29, 2007	\$3.00	200,000	200,000	\$3.00	200,000	200,000
September 1, 2007	\$3.00	225,000	225,000	\$3.00	225,000	225,000
January 11, 2008	\$4.00	200,000	200,000			
		<b>2,809,800</b>	<b>2,807,717</b>		<b>3,642,000</b>	<b>3,573,250</b>

During the six month period ended April 30, 2006 and 2005, the Company used the fair value method for determining compensation expense for all options granted during the period. The fair value was determined using the Black-Scholes option pricing model based on the following assumptions.

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**6. CAPITAL STOCK (Continued)**

	Six months ended April 30, 2006	Six months ended April 30, 2005
Expected life (years)	2.0	2.0
Interest rate	3.83%	3.3%
Volatility	60.68%	84.0%
Dividend yield	0.00%	0.00%

During the six month period ended April 30, 2006, 240,625 (2005 – 525,000) options vested. Stock-based compensation charge of \$413,166 (2005 - \$762,250) resulted from amortizing the compensation expense over the vesting period.

**(e) Share purchase warrants**

At April 30, 2006 and October 31, 2005, the following common share purchase warrants were outstanding entitling the holders thereof the right to purchase one common share for each warrant. On March 17, 2006, the warrants expired unexercised.

	<b>Six months ended April 30, 2006</b>		<b>Year ended October 31, 2005</b>	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants exercisable, beginning of period	2,600,000	\$3.50	5,000,661	\$2.53
Expired	(2,600,000)	\$(3.50)	(278,880)	\$(3.29)
Exercised	-	-	(2,121,781)	\$(2.26)
Warrants exercisable, end of period	-	\$Nil	2,600,000	\$3.50

**7. RELATED PARTY TRANSACTIONS**

During the six months ended April 30, 2006 and 2005, the Company incurred the following expenses paid to directors of the Company or companies with common directors:

	<b>2006</b>	<b>2005</b>
Professional fees	\$ 92,971	\$ 82,518
Consulting fees	99,490	-
Fees charged to investment in and expenditures on resource properties	-	2,612
	\$ 192,461	\$ 85,130

At April 30, 2006 there was \$40,799 (October 31, 2005 - \$24,816) included in accounts payable and accrued liabilities owing to related parties. Professional fees include \$92,971 (2005 - \$181,049) paid to a law firm of which a director is a partner.

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**7. RELATED PARTY TRANSACTIONS (Continued)**

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 and has been expensed to consulting fees. As such, 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 to acquire interests in mineral properties 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 5(c)(i)), the Pampa de Pongo Property (Note 5(c)(ii)), the Katanga Property (Note 5(c)(iii)), the Lircay Project (Note 5(c)(v)) and the Corongo Project (Note 5(c)(vi)).

**8. INCOME TAX LOSSES**

	<b>Six months ended April 30, 2006</b>	<b>Six months ended April 30, 2005</b>
Income tax benefit computed at Canadian statutory rates	\$ (704,132)	\$ (1,216,573)
Permanent differences	140,890	266,788
Write-down of properties	136,350	340,258
Other temporary differences	(18,598)	2,854
Unrecognized tax losses	445,490	606,673
	\$ -	\$ -

The components of future income tax assets are as follows:

	<b>April 30, 2006</b>	<b>October 31, 2005</b>
Future income tax assets		
Non-capital loss carry-forwards for Canadian income tax purposes	\$ 8,615,023	\$ 7,308,600
Difference between undepreciated capital cost over net book value of property and equipment	(7,438)	(6,398)
Cumulative eligible capital deduction	54,712	54,712
Unused cumulative foreign exploration and development expenditures	2,417,823	2,017,969
	11,080,120	9,374,883
Tax rate	34%	34%
	3,778,321	3,196,835
Less: Valuation allowance	(3,778,321)	(3,196,835)
	\$ -	\$ -

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

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:

Available to	Amount
2006	\$ 52,300
2007	115,500
2008	145,300
2009	362,200
2010	817,500
2014	1,446,600
2015	4,369,200
2016	1,306,423
	<hr/>
	\$ 8,615,023

The Company also has approximately \$1,098,200 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.

**9. CONTINGENT LIABILITIES**

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 pleadings are closed and documents have been exchanged. Discoveries have been partially completed, and trial is currently set for March 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 April 30, 2006 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.

**10. SUBSEQUENT EVENTS**

Subsequent to April 30, 2006, the following events occurred:

- a) On May 2, 2006, the Company granted 1,400,000 stock options exercisable at a price of \$2.80 until May 1, 2007.
- b) On May 17, 2006, the Company announced the acquisition of the Incahuasi gold property, northwestern Argentina in exchange for aggregate payments of US\$1,410,000 over five years, and a 2% NSR.
- c) On June 1, 2006, the Company announced that it had assumed 100% control of the Baja California IOCG, Mexico property following Anglo American's election to exit the joint venture arrangement.

**11. 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(e).

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.

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

ii. Stock-based compensation

Under Canadian GAAP, the Company elected to use the settlement method for employee stock options during 2003 where no compensation expense is recorded for options granted to employees. For US GAAP purposes the settlement method is not available, and therefore, the Company has elected to measure compensation expense using the intrinsic value-based method for employee stock options for US GAAP purposes. For 2004 and 2005, the Company used the fair value method for both Canadian and US GAAP purposes.

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

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

	<b>April 30, 2006</b>	<b>October 31, 2005</b>
Total assets per Canadian GAAP	\$ 30,570,794	\$ 28,480,066
Expenditures on resource properties expensed under US GAAP	(16,730,960)	(12,188,346)
Total assets per US GAAP	\$ 13,839,834	\$ 16,291,720
Total liabilities per Canadian GAAP	\$ 443,921	\$ 809,232
Adjustments to US GAAP	-	-
Total liabilities per US GAAP	443,921	809,232
Total equity per Canadian GAAP	30,126,873	27,670,834
Expenditures on resource properties expensed under US GAAP	(16,730,960)	(12,188,346)
Total equity per US GAAP	13,395,913	15,482,488
 Total liabilities and equity per US GAAP	 \$ 13,839,834	 \$ 16,291,720

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

Statement of operations for the six months ended April 30:

	<b>2006</b>	<b>2005</b>
Reconciliation of net loss from Canadian GAAP to US GAAP		
Net loss per Canadian GAAP	\$ (2,064,902)	\$ (3,475,924)
Acquisition of mineral properties	(1,817,334)	(2,695,383)
Exploration and development costs, net	(3,125,134)	(1,796,706)
Reverse amounts written-off	399,854	972,167
Stock-based compensation using intrinsic method	-	-
Net loss per US GAAP	\$ (6,607,516)	\$ (6,995,846)
 Net loss per share in accordance with Canadian GAAP	 \$(0.04)	 \$(0.09)
Total differences	\$(0.12)	\$(0.08)
 Net loss per share in accordance with US GAAP	 \$(0.16)	 \$(0.17)
 Weighted average number of shares outstanding	 42,442,870	 40,582,160

**11. 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.

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**(An Exploration Stage Company)**  
**Form 51-102F1**  
**Management's Discussion and Analysis**  
**For the period ended April 30, 2006**

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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 April 30, 2006 to the corresponding quarter in the previous year. This MD&A should be read in conjunction with the Company's unaudited financial statements for the quarter ended April 30, 2006. 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 is made as of June 9, 2006.

This MD&A contains certain statements that 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 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 can be located on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **BACKGROUND**

Cardero Resource Corp. is a junior resource mineral exploration company. Its assets consist of mineral properties and cash. The Company funds its operations through the sale of its shares or of interests in its mineral properties. 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 junior resource market, where the Company raises funds, is extremely volatile. Even though the Company 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 and expensive 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 sols.
- 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 and licenses 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 mineral deposits.

## **EXPLORATION ACTIVITIES**

### **Mexico**

#### **Baja IOCG Project, Mexico**

Cardero has assumed 100% control of the Baja California Norte Iron Oxide Copper Gold (IOCG) District, Mexico after Anglo American elected to exit the joint exploration partnership.

To date, only three targets have been partially drill tested, two of which contain potentially significant mineralization. As valued exploration partners over the past four years Anglo has expended in excess of US\$2.5 million on grass-roots exploration within this emergent IOCG belt. All drill holes to date contain intense IOCG alteration with associated visible copper mineralization that varies from trace amounts to potentially significant accumulations (+20 m).

Highlights of the work to date include the intersection of copper mineralization in every borehole over a 38km strike length associated with intense alteration.

Diamond drilling on the San Fernando target area has intersected multiple copper intersections up to and including (see press release of January 5, 2006 for details):

- 18.0m @ 0.54% Cu
- 31.0m @ 0.96% Cu
- 46.8m @ 0.74% Cu
- 68.5m @ 0.23% Cu

Previous reconnaissance has indicated that macroscopically similar potassic alteration continues at least 2.5 km west of the westernmost borehole, SF-05 (31 m @ 0.96% Cu). Recent mapping has confirmed the presence of weak to moderate hydrothermal biotite associated with disseminated pyrite and trace chalcopyrite mineralization over an approximate 1.3 km<sup>2</sup> area within this potassic zone which remains untested.

At Picale; diamond drilling has intersected high-grade copper mineralization over an area of approximately 250 m<sup>2</sup>, four intercepts which average 6.35 m @ 2.7% Cu and 0.2 g/t Au (see press releases of January 5 and March 29, 2006 for details). To date only a very minor portion of the six kilometre strike length of the manto horizon has been drill tested and copper mineralization, as presently defined, remains open to the north, west and south.

Proposed future work will consist of an additional minimum 2,000 meters of diamond drilling in 12 to 15 boreholes at Picale, geochemical sampling at the San Fernando and San Jose targets and geological mapping at the El Cuervito and Pilates targets.

Although Cardero is very encouraged by the results to date, it is important to realize that such results are only from preliminary exploration, and it is uncertain if further exploration will result in the discovery of a mineral deposit or resource within the district.

Franco Property, Mexico

Drill testing, scheduled for late September 2005, has been delayed due to unforeseen access problems with the local landholders. The Company continues to liaise with the relevant Federal and local State authorities to resolve this issue as soon as possible.

**Argentina**

Huachi Project, Argentina

The Company recently acquired the Huachi copper - gold property in San Juan Province in northwestern Argentina. The 432 hectare property, consists of 72 pertenencias in 30 claim blocks, and is located in the Precordillera Range of Argentina. The property has good access and exploration can be carried out on a year-round basis.

Previous exploration work at the Huachi property appears to have been very limited, and there are no records or evidence of any extensive modern exploration. The Company has recently completed the first-ever detailed geological mapping of the property.

The 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 Main Copper Zone is mineralized over an area of 350 by 250 metres and is surrounded by an elongated pyrite halo that could potentially overly additional porphyry mineralization. Structurally controlled zones of advanced argillic alteration related to artisanal historic gold workings are peripheral to the porphyry system and indicate exploration potential for high-sulphidation, epithermal gold targets. The property has never been drill tested.

Cardero is presently awaiting the various permits required to upgrade the property access, to be followed additional mapping, geochemical sampling and ultimately drill testing in the fourth quarter of 2006.

Cerro Juncal Project, Argentina

Recent mapping at Cerro Juncal has demonstrated that a porphyry-style hydrothermal system underlies the area. Hydrothermal alteration, coextensive with epizonal intrusions, has been mapped over an area of approximately 2.5 by 3 kilometres, and consists of widespread limonite, hydrothermal breccias and scattered quartz stockworks in addition to widespread clay alteration.

The hypabyssal nature of the felsic intrusions, prominence of hydrothermal breccia bodies and evidence of abundant hypogene pyrite suggests that the Cerro Juncal porphyry system is exposed at a high level of erosion, and is therefore substantially preserved. The presence of significant 'live limonite', and evidence of strongly acidic supergene leaching conditions, also suggests exploration potential for a chalcocite enrichment blanket at depth. The apparent rarity of visible surface copper is very likely the result of extensive and thorough supergene leaching.

Future work will consist of additional mapping and drill testing in the third or fourth quarter of 2006.

Cerro Atajo Project, Argentina

Diamond drill testing in 2005 failed to intersect porphyry style mineralization and the resultant geochemical samples are only weakly anomalous. Consequently further expenditures are not warranted.

The exploration potential remaining at Cerro Atajo is for bulk mineable epithermal high sulphidation mineralization. Certain terms pursuant to the Cerro Atajo Agreement relating to property payments and share issuances were renegotiated and the Company is presently seeking third party interest.

Olaroz/Chingolo Project, Argentina

No further exploration work is proposed for this project at this time.

Organullo Property, Argentina

Compilation of previous exploration data indicates that the property has been inadequately tested and a joint venture partner is presently being sought.

Mina Angela Property, Argentina

A joint venture partner is presently being sought to progress exploration.

Argentina SHV

Cardero recently announced the acquisition of twelve new gold properties located in the provinces of Jujuy and Catamarca in northwest Argentina. The properties cover an aggregate area of approximately 800 square kilometres and are a combination of 100% Cardero owned (staked) ground and land being acquired through option agreements with local third parties (presently being finalized).

The discovery and acquisition of these properties is the result of an aggressive year long multidisciplinary regional exploration program targeting a Sedimentary Hosted Vein (SHV) model in the 61,000 square kilometre Ordovician Santa Victoria Basin.

SHV type deposits are capable of forming a wide range of deposit sizes from sub-million ounce up to and including world-class to giant deposits. Premier global examples include the SHV gold deposits of Asia (Muruntau, Sukoy Log), Australia (Bendigo-Ballarat) and New Zealand (Otago Schist) and, as such, they form attractive bulk tonnage gold exploration targets. All SHV deposits occur with a common set of characteristics that unite them as a class. These characteristics are consistent with those observed to date in the Puna region of NW Argentina, namely, age, tectonic setting, metallongeny, alteration and style of mineralization.

The 2005/2006 regional exploration program carried out by Cardero consisted of regional scale target generation based on the structural interpretation of Landsat, regional magnetic, geologic, and geochemical datasets of the entire 61,000 km<sup>2</sup> prospective belt. A total of fifty-one targets areas were delineated for follow-up field work. To date, a total of 2,220 rock samples have been collected for gold assay and the results received to date have outlined the presence of numerous gold-bearing systems within the belt. Cardero has discovered five new gold endowed properties in addition to four historically worked properties yet to be systematically sampled.

The Incahuasi property consists of seven minas and two cateos (665 hectares) and is centered on the former Incahuasi gold mine, a significant high-grade historical Sediment Hosted Vein (SHV) type gold producer in the region.

Reconnaissance scale sampling conducted by Cardero targeted surficial quartz veins, altered sediments with quartz veinlets, and tailings from the historical workings. The average grade from a total of 108 characterization or grab samples was 4.3 g/t gold and in-situ veins returned values up to 231 g/t gold. Ten grab samples of material scattered around the former mill assayed 25.3, 19.25, 13.1, 12.65, 12.05, 9.97, 7.26, 6.63, 5.95, 2.15 g/t gold with an additional three samples assaying less than 1 g/t gold, suggesting that the head grade of the former operation was probably in the order of 5 to 10 g/t gold.

In detail, the results from the 108 characterization samples collected are as follows:

From twenty-seven samples collected from in-situ quartz veins, a single sample returned a bonanza grade of 231 g/t gold, four samples ranged from 3-10 g/t gold, eight samples ranged from 1-3 g/t gold, with the remaining fourteen samples containing 0.05-1 g/t gold. Twenty-six samples collected from altered sediments with quartz veinlets yielded grades up to 10.05 g/t gold and all samples contain detectable gold, indicating the potential for disseminated bulk tonnage gold mineralization adjacent to principle vein sets. Finally, forty-two composite samples from the approximately 75000 m<sup>3</sup> tailings dump averaged 2.2 g/t Au and yielded results ranging from 0.26 g/t to 13.45 g/t gold, in part, confirm the high grade nature of the past producing mine.

Geologically, the Incahuasi property is characterized by multiple generations of gold-bearing quartz veins hosted within structural and hydrothermally modified sediments. The exposed system measures approximately 1.5 km by 4 km, with the most intensely altered zone centered over the main deposit area, and remains open to both the North and South. This zone is characterized by a sericite-pyrite-iron carbonate assemblage associated with intense quartz veining over a 300 meter by 1200 meter area within a faulted and sheared anticline. Preliminary mapping has revealed hydrothermal features and associated quartz veining that are no less extensive than those found over the area of the formerly producing deposit and which have not been evaluated by modern exploration techniques.

Mining activity at Incahuasi dates back to the pre-Hispanic and Jesuit periods, with modern mining techniques first used at the Incahuasi mine from 1936 to 1954. During this period the Nueva Compania Minera Incahuasi conducted a 40 tonne per day operation exploiting a series of high-grade quartz veins, reportedly ranging from 9.8 g/t to 43 g/t gold on six underground levels. High-grade gold values up to 300 g/t are reported from quartz veins within the deposit and are locally confirmed by Cardero's initial reconnaissance sampling.

Mining ceased at a depth of 130 metres in ore grade rocks, not due to a lack of gold bearing veins, but rather due to flooding which inhibited further mining efforts. Most recently, during the mid to late 1990s a junior exploration company conducted a modest reverse circulation drill program within the deposit area. Although the results of this drilling program are unknown, Cardero's preliminary property evaluation suggests that the program only tested the principal veins that have historically been mined. Based on the drill pad locations, it appears that this initial drill program did not test the northern and southern extensions of the deposit, nor the potential for disseminated bulk tonnage gold mineralization along the flanks.

Dr. Paul Klipfel, a recognized authority on SHV deposits, has visited the project area for a total of three weeks on two separate occasions. Dr. Klipfel concurs that all the necessary criteria are present for the discovery of an SHV deposit or deposits within the Ordovician Santa Victoria Group fold and thrust belt.

Cardero plans to systematically explore the Incahuasi property through a phased program of detailed structural and alteration mapping, trenching, and geochemical sampling. Contingent on favourable results, an initial drill program will then evaluate the continuity of the known high-grade gold deposit along strike and at depth as well as the potential for disseminated bulk tonnage gold mineralization. Detailed structural mapping is presently in progress and will be followed by systematic trenching and associated geochemical sampling in the third quarter of 2006.

Following completion of the relevant option agreements, the twelve SHV properties identified to date will be systematically explored through via structural and alteration mapping, trenching, and geochemical sampling and, contingent on the results from phase one, a second phase consisting of drill testing in late 2006/early 2007.

### Peru

#### Marcona Iron Oxide Copper-Gold (IOCG) District, Peru (Carbonera, Daniella and Pampa de Pongo properties)

In order to concentrate on its Iron Sands project (details below) the Company optioned the hard rock potential of its Marcona IOCG District, that is, the Carbonera, Daniella and Iron Sands properties to Peregrine Diamonds Peru S.A.C.

The option agreement governs all hard rock potential other than the rights to the unconsolidated and semi-consolidated sands and all minerals therein in the respective areas. Under terms of the agreement Peregrine may earn a 70% interest by incurring aggregate expenditures of US\$3,000,000 by November 18, 2009. Peregrine plans an initial drill test in the Carbonera area in early June 2006.

#### Pampa de Pongo

The Company is presently designing a suitable strategy to advance the project. No additional work is scheduled in the near-future.

#### Iron Sands

The Company acquired through staking a 32,000-hectare (320 km<sup>2</sup>) iron (magnetite) sand property near the city of Nazca in the desert coastal region of southern Peru. Geographically the property forms part of, and is adjacent to the Company's properties in the Marcona IOCG district (Carbonera, Daniella).

Cardero's near term strategy for the Iron Sands Project is to highlight a logistically easily accessible area containing sufficient magnetite (iron oxide) bearing sands to support a 20 to 30 year integrated mining operation. Following this strategy, Cardero has focused its initial exploration work on the highest-grade area of the Pampa El Toro target, with additional magnetite-bearing areas within the Company's large claim block to be examined in due course.

Previous coarsely spaced reconnaissance surface sampling on a staggered 1000 x 500 m grid of the Pampa El Toro defined an aggregate area of approximately 15 square kilometres (km<sup>2</sup>) containing 5 percent by weight (wt. %) or greater magnetic mineral concentration. In detail, the magnetite bearing areas may be subdivided into two areas, referred to as the Toro West and Toro South-East respectively.

The infill sampling targeted the larger Toro West area on a 250 x 250m grid for a total of 327 samples. The more detailed sampling has increased the magnetic concentrate content of the 11 km<sup>2</sup> area from 5 wt% to 6.3 wt%. Within this area resides a higher grade core of approximately 5.5 km<sup>2</sup> containing an average of 9.2 wt% magnetic concentrate. The area remains partially open to the south and northeast, and additional sampling, scheduled to occur in conjunction with the Toro East infill program is expected to further increase this area. Quality Control/Quality Analysis of within pit and field duplicates illustrates a high degree of sample homogeneity throughout the infill areas.

An approximately 4,500 m, seventy-four hole definition drill campaign commenced in mid-May and is scheduled to be completed in July. The definition drill program will focus on the Toro West area within which resides a series of higher-grade core areas (at least 7.5 wt% magnetic minerals), individually up to about 2.7 km<sup>2</sup> in size, which cover in total approximately 5.3 km<sup>2</sup>. These higher-grade areas contain an average of 9.2 wt% magnetic minerals at surface, with average results from individual zones in the range 8.4 to 9.8 wt% magnetic minerals. Iron grades from the initial coarse reconnaissance sampling within this zone ranged from approximately 52% to 61% iron. The area remains partially open to the south and northeast and, additional surface sand sampling, scheduled to occur in conjunction with the recently-begun Toro East infill program, is anticipated to further increase this area.

Following advice from SRK Consulting, a leading global mining and geoscientist consulting firm, the seventy-four borehole program will systematically percussion drill-test an approximately 6.5 km<sup>2</sup> area of Toro West using a combination of 500 and 250 meter drill centres. Of this, an approximately 2.5 km<sup>2</sup> area will be tested using 250 metre drill centres. It is anticipated that the drilling program will take approximately 6 to 8 weeks to complete. Borehole sand samples will be processed at Cardero's on-site magnetic separation laboratory and the resultant magnetic concentrates will then be shipped to ACME Laboratories Vancouver for analysis of total iron, titanium, vanadium and related elements.

SRK Consulting has been retained to provide ongoing advice and to complete a 43-101 compliant mineral resource estimate utilizing the data from the drill program.

In tandem with the above work program additional metallurgical testing will examine the possibility of increasing the iron grade of the magnetic concentrates. Contingent on SRK's findings, the resultant magnetite concentrate will be used to commission a full Midrex FASTMELT® Pilot Plant study. The resultant slag from this pilot test will then be utilized for titanium and vanadium beneficiation studies.

#### Katanga, Peru

Following additional field work non-core claims were returned to the vendor. Consequently a rapid, low cost, 14 - 18 line km walking magnetic survey was designed to screen the various outcropping magnetic bodies zones for undercover extensions. It is anticipated that 3D modelling of the resultant dataset will enable more accurate assessment of the depth potential of the systems pending further work.

#### **OVERALL PERFORMANCE**

The Company does not have any new material information to report since the annual management discussion and analysis was released. Updates on exploration activities are discussed under "Highlights" and updates on funding are discussed under "Liquidity and Capital Resources".

*Results of Operations*

	<b>Three months ended April 30</b>		<b>Six months ended April 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net loss	\$ 1,113,123	\$ 1,986,307	\$ 2,064,902	\$ 3,475,924
Interest income	103,878	128,207	197,665	188,876
General and administrative costs	783,945	936,697	1,439,201	1,940,625
Stock-based compensation	26,610	211,250	413,166	762,250
Write-down of resource properties	399,854	966,567	399,854	972,167

Three months ended April 30, 2006 compared to three months ended April 30, 2005

In the quarter ended April 30, 2006 the Company had a net loss of \$1,113,123 or \$0.03 per share as compared to a net loss of \$1,986,307 or \$0.05 per share for the quarter ended April 30, 2005. 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.

The Company's interest income decreased from \$128,207 in the 2005 quarter to \$103,878 in 2006. This was because the Company had higher cash balances in 2005. Surplus cash is invested in banker's acceptance and term deposits that yield approximately 2.4% per annum, a slightly higher rate than in 2005.

The Company's general and administrative costs were substantially lower in 2006, \$783,945 as compared to \$936,697. Costs were up in most categories. The major decrease was in property evaluations. The Company was actively looking for new properties and incurred substantial geological consulting and travel costs in 2005. There was a significant decrease in corporate promotion costs, and to disseminate information regarding the Company as widely as possible, from \$360,116 in 2005 to \$172,942 in the current period, due primarily to lower travel for those purposes. The Company's philosophy is to keep a high profile for the investing public. The Company has a full time, in-house investor relations manager as well as several investor relations contracts with outside consultants. The Company has benefited substantially from these activities in the past and it continues to benefit through the exercise of options and warrants.

Professional fees were down in the quarter, in large part due to legal costs. The majority of these costs relate to the lawsuit commenced against the Company and others in May 2004 (see "Material Proceedings"). The increasing acquisition and exploration activity by the Company has required an increase in staff, and the Company now has four full time employees, which accounts for the increase in salary and benefit costs. Office and miscellaneous costs were negative for the comparable 2005 quarter, as there was a one time correction to the Company's prepaid office rent account.

Consulting fees of \$122,133 in the 2006 quarter result primarily from the Company's Latin American mineral property activities (see note 7 to the unaudited financial statements) and Board advisory services that commenced after the 2005 comparative quarter. Insurance cost is a new category in 2006 and relates to the Company's D & O coverage that was not in effect during the comparable 2005 period.

Stock based compensation is a non cash item that attempts to put a dollar value on the benefit being given on the vesting of stock options. The number is determined by the "fair value method", which is based on statistical models, taking into account the volatility of the stock, the risk free interest rate and the weighted average life of the options. Where the market is highly volatile and not perfectly liquid, the

results may not be very meaningful. In the quarter 15,625 options vested, resulting in a stock based compensation charge of \$26,610 (2005 – 150,000 options, \$211,250 expense).

The Company writes off its resource property costs at such time as it either abandons the property or determines that there has been a permanent impairment in its value. In the quarter write offs were \$399,854 relating to the Ludavina, Mexico and Katanga, Peru properties. The 2005 quarter was \$966,567 being the Company's costs at La Zorra, Mexico which was returned to the property vendor.

Six months ended April 30, 2006 compared to six months ended April 30, 2005

In the period ended April 30, 2006 the Company had a net loss of \$2,064,902 or \$0.05 per share as compared to a net loss of \$3,475,924 or \$0.09 per share for the period ended April 30, 2005. 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.

The Company's interest income increased from \$188,876 in the 2005 quarter to \$197,665 in 2006. While the Company had lower overall cash balances in 2006, we attracted a slightly higher interest rate than in 2005. Surplus cash is invested in banker's acceptance and term deposits that yield approximately 2.4% per annum.

The Company's general and administrative costs were substantially lower in the 2006 quarter primarily as a result of lower investor relations expense compared to 2005. The 2005 figure of \$909,587 included a one-time US\$200,000 promotion expenditure that was not repeated in 2006, together with a greater amount of related travel cost than was incurred in the current period. The Company continues to maintain its philosophy of keeping a high profile for the investing public and to disseminate information regarding the Company as widely as possible. The Company has a full time, in-house investor relations manager as well as several investor relations contracts with outside consultants. The Company has benefited substantially from these activities in the past and it continues to benefit through the exercise of options and warrants.

Consulting fees of \$224,147 in the 2006 period result primarily from the Company's Latin American mineral property activities (see note 7 to the unaudited financial statements) and Board advisory services that commenced after the 2005 comparative quarter. Professional fees were also lower due to the timing of costs relating to the lawsuit commenced against the Company and others in May 2004 (see "Material Proceedings"). The increasing acquisition and exploration activity by the Company has required an increase in staff, and the Company now has four full time employees, which accounts for the increase in salary and benefit costs. Insurance cost is a new category in 2006 and relates to the Company's D & O coverage that was not in effect during the comparable 2005 period.

Stock based compensation is a non cash item that attempts to put a dollar value on the benefit being given on the vesting of stock options. The number is determined by the "fair value method", which is based on statistical models, taking into account the volatility of the stock, the risk free interest rate and the weighted average life of the options. Where the market is highly volatile and not perfectly liquid, the results may not be very meaningful. In the period 240,625 options vested, resulting in a stock based compensation charge of \$413,166 (2005 – 525,000 options, \$762,250 expense).

The Company writes off its resource property costs at such time as it either abandons the property or determines that there has been a permanent impairment in its value. During the period ended April 30,



2006, the Company wrote down the value of two properties for a total amount of \$399,854. Write offs for the comparable period in 2005 were \$972,167.

### *Summary of Quarterly Results*

The table below sets out the quarterly results, expressed in Canadian dollars, unless otherwise indicated, for the past eight quarters:

#### Fiscal 2006

	<b>First Quarter</b>	<b>Second Quarter</b>
Total revenue	\$ 93,787	103,878
Net income (loss)	(951,779)	(1,113,123)
Net income (loss) per share	(0.02)	(0.03)

#### 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 income (loss)	(1,489,617)	(1,986,307)	(1,607,002)	(1,379,964)
Net income (loss) per share	(0.04)	(0.05)	(0.04)	(0.03)

#### Fiscal 2004

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Total revenue	\$ 51,284	61,144	76,241	96,189
Net income (loss)	(1,125,061)	(642,308)	(2,120,197)	(5,435,436)
Net income (loss) per share	(0.04)	(0.02)	(0.06)	(0.14)

- Notes: 1) The total revenue consists of interest income.  
2) There were no discontinued operations or extraordinary items in the periods under review.  
3) The basic and diluted income (loss) per share numbers were the same in each of the periods under review.

Quarterly results can vary significantly depending on whether the Company has abandoned any properties or granted any stock options (see "Results of Operations").

## **LIQUIDITY AND CAPITAL RESOURCES**

In the period the Company raised \$2,596,775 from the exercise of stock options.

At April 30, 2006 the Company had 49.3 million shares outstanding, 2.8 million stock options outstanding with a weighted average exercise price of \$2.94 and no warrants outstanding. At April 30, 2006 the Company had \$12.7 million in cash and cash equivalents and working capital of \$13.4 million.

In the period the Company spent \$3.4 million on property acquisitions and exploration and \$1.6 million on administration. This level of expenditure can be expected to increase as the Company grows.

The Company has sufficient funds to take it through the next year. However, if the Company substantially increases its expenditure levels on property acquisitions or exploration activities, additional funding may be required within that time frame. There can be no certainty that any such additional funding as may be required can be obtained, although the Company has historically been able to raise any required capital in the equity markets.

## **OFF BALANCE-SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

During the six months ended April 30, 2006 and 2005, the Company incurred the following expenses paid to directors of the Company or companies with common directors:

	<b>2006</b>	<b>2005</b>
Professional fees	\$ 92,971	\$ 82,518
Consulting fees	99,490	-
Fees charged to investment in and expenditures on resource properties	-	2,612
	<b>\$ 192,461</b>	<b>\$ 85,130</b>

At April 30, 2006 there was \$40,799 (2005 - \$Nil) included in accounts payable and accrued liabilities owing to related parties. Professional fees include \$92,971 (2005 - \$181,049) paid to a law firm of which a director is a partner.

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.

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

None during the quarter under review.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

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

The Company's cash and cash and term deposit equivalents of \$12.7 million consists of cash on hand of \$2.7 million and banker's acceptance and term deposits of \$10 million. The bankers' acceptance and term deposits yield approximately 2.4% per annum.

Receivables and payables of \$796,774 and \$443,921 respectively are normal course business items that are usually settled within thirty days.

The Company has assessed the risk associated with these resources as nominal as the funds are placed with Canadian chartered banks.

## **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 (the "Action") in the British Columbia Supreme Court (Vancouver Registry, No. S042795) against the Company and James Dawson, Murray McClaren and their respective companies, Dawson Geological Consultants Ltd. and 529197 B.C. Ltd. (carrying on business as Crockite Resources).

No material changes have occurred with respect to the Action during the period covered by this MD&A. However, the Company's application to have the Plaintiffs post security for costs in the amount of \$115,000 was granted by the Court on March 10, 2005. Accordingly, until such time as the Plaintiffs post acceptable security in this regard, the Action is stayed as against the Company. The Company anticipates that the Plaintiffs will post the required security.

The Company is not currently in a position to quantify the potential exposure to the Company arising from the Action 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 would be affected by results of work on the subject mineral properties between now and trial.

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

A reconciliation is included in the unaudited financial statements at April 30, 2006 as Note 11. There have been no changes in GAAP since the annual management discussion and analysis.