



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

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

**April 30, 2010**

**CARDERO RESOURCE CORP.  
(AN EXPLORATION STAGE COMPANY)  
Consolidated Financial Statements  
(Unaudited – Prepared by management)**

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

|  | <b>April 30,<br/>2010</b> | <b>October 31,<br/>2009</b><br>(audited) |
|--|---------------------------|--|
| <b>ASSETS</b>  |                           |  |
| <b>Current</b>                                       |                           |  |
| Cash and cash equivalents                            | \$ 73,677,911             | \$ 5,823,196                             |
| Accounts receivable                                  | 229,546                   | 286,291                                  |
| Due from related parties (note 8)                    | 451,598                   | 587,956                                  |
| Prepaid expenses                                     | 258,698                   | 240,028                                  |
| <b>Total Current Assets</b>                          | <b>74,617,753</b>         | <b>6,937,471</b>                         |
| <b>Fixed Assets</b> (note 3)                         | 202,946                   | 228,553                                  |
| <b>Resource Related Investments</b> (note 4)         | 42,985,172                | 23,406,055                               |
| <b>Equity Investment</b> (note 5)                    | 650,000                   | -  |
| <b>Resource Properties</b> (note 6)                  | 12,674,319                | 17,499,592                               |
| <b>Total Assets</b>                                  | <b>\$ 131,130,190</b>     | <b>\$ 48,071,671</b>                     |
| <b>LIABILITIES</b>                                   |                           |  |
| <b>Current</b>                                       |                           |  |
| Accounts payable and accrued liabilities (note 8)    | \$ 814,435                | \$ 568,951                               |
| Income taxes payable (note 10)                       | 27,051,383                | -  |
| Future income taxes payable (note 10)                | -                         | 2,564,900                                |
| <b>Total Current Liabilities</b>                     | <b>27,865,818</b>         | <b>3,133,851</b>                         |
| <b>SHAREHOLDERS' EQUITY</b>                          |                           |  |
| <b>Capital Stock</b> (note 7)                        | 70,265,707                | 70,034,895                               |
| <b>Obligation to Issue Shares</b> (notes 5 and 6(e)) | -                         | 111,500                                  |
| <b>Contributed Surplus</b>                           | 13,640,440                | 13,058,271                               |
| <b>Accumulated Other Comprehensive Income</b>        | 22,420,087                | 13,003,496                               |
| <b>Retained Earnings (Deficit)</b>                   | (3,061,862)               | (51,270,342)                             |
| <b>Total Shareholders' Equity</b>                    | <b>103,264,372</b>        | <b>44,937,820</b>                        |
| <b>Total Liabilities and Shareholders' Equity</b>    | <b>\$ 131,130,190</b>     | <b>\$ 48,071,671</b>                     |

**Nature of operations and going concern (note 1)**  
**Commitments (note 11)**  
**Subsequent events (note 13)**

Approved on behalf of the Board:

*"Hendrik Van Alphen"*  
..... Director  
Hendrik Van Alphen

*"Lawrence W. Talbot"*  
..... Director  
Lawrence W. Talbot

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

|   | Three Months Ended  |                    | Six Months Ended    |                    |
|---|---------------------|--------------------|---------------------|--------------------|
|   | April 30            |                    | April 30            |                    |
|   | 2010                | 2009               | 2010                | 2009               |
| <b>Administrative Expenses</b>                                    |                     |                    |                     |                    |
| Amortization  | \$ 16,857           | \$ 11,571          | \$ 33,580           | \$ 23,845          |
| Bad debts   | -                   | -                  | 104,835             | -                  |
| Consulting fees (note 8)  | 494,071             | 760,002            | 732,436             | 944,417            |
| Insurance   | 44,699              | 43,022             | 89,834              | 85,778             |
| Investor relations  | 409,560             | 161,985            | 580,298             | 362,611            |
| Office costs  | 150,959             | 214,432            | 429,091             | 287,137            |
| Professional fees (note 8)  | 333,128             | 228,562            | 465,497             | 391,942            |
| Property evaluations  | 29,778              | 56,577             | 80,832              | 272,521            |
| Regulatory and transfer agent fees                                | 34,353              | 84,853             | 57,556              | 121,469            |
| Salaries  | 492,499             | 385,103            | 1,049,278           | 1,300,370          |
| <b>Loss Before Other Items and Income Taxes</b>                   | <b>(2,005,904)</b>  | <b>(1,946,107)</b> | <b>(3,623,237)</b>  | <b>(3,790,090)</b> |
| <b>Other Gain (Loss) Items</b>                                    |                     |                    |                     |                    |
| Foreign exchange gain (loss)                                      | (3,957,437)         | 246,181            | (4,198,449)         | 290,985            |
| Interest income   | (993)               | 5,446              | (582)               | 12,577             |
| Realized gain on sale of available-for-sale investment            | 162,517             | 1,722,356          | 298,609             | 2,382,459          |
| Unrealized gain on derivative investment<br>(note 4)              | 13,361              | -                  | 132,898             | -                  |
| Unrealized gain (loss) on held-for-trading investment<br>(note 4) | (31,000)            | -                  | 15,000              | -                  |
| Gain (adjustment) on sale of resource property (note<br>6(c)(ii)) | (780,415)           | -                  | 88,625,601          | -                  |
| Write-off of resource properties                                  | (8,180,742)         | 45,559             | (8,180,742)         | (2,596,492)        |
| Loss on equity investment   | -                   | (11,257)           | -                   | (11,257)           |
| Loss on debt settlement   | -                   | (17,176)           | -                   | (17,176)           |
|   | <b>(12,774,709)</b> | <b>1,991,109</b>   | <b>76,692,335</b>   | <b>61,096</b>      |
| <b>Income (Loss) Before Income Taxes</b>                          | <b>(14,780,613)</b> | <b>45,002</b>      | <b>73,069,098</b>   | <b>(3,728,994)</b> |
| <b>Income Taxes</b>   |                     |                    |                     |                    |
| Current   | 269,234             | -                  | (26,522,369)        | -                  |
| Future recovery (note 10)   | 458,284             | (107,463)          | 1,661,751           | 668,712            |
|   | <b>727,518</b>      | <b>(107,463)</b>   | <b>(24,860,618)</b> | <b>668,712</b>     |
| <b>Net Income (Loss) for Period</b>                               | <b>(14,053,095)</b> | <b>(62,461)</b>    | <b>48,208,480</b>   | <b>(3,060,282)</b> |
| <b>Basic and Diluted Income (Loss) Per Share</b>                  | <b>\$ (0.24)</b>    | <b>\$ (0.01)</b>   | <b>\$ 0.82</b>      | <b>\$ (0.05)</b>   |
| <b>Weighted Average Number of Shares Outstanding</b>              | <b>58,666,747</b>   | <b>58,419,731</b>  | <b>58,638,483</b>   | <b>58,297,116</b>  |

**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Consolidated Statements of Shareholders' Equity**  
**(Unaudited – Prepared by Management)**

|   | Capital Stock     |                      | Obligation to issue shares | Deficit                | Contributed Surplus | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|-------------------|----------------------|----------------------------|------------------------|---------------------|--|----------------------------|
|   | Shares            | Amount               |                            |                        |                     |  |                            |
| <b>Balance, October 31, 2007</b>  | <b>47,321,439</b> | <b>\$ 55,473,921</b> | <b>\$ -</b>                | <b>\$ (35,186,052)</b> | <b>\$ 8,490,791</b> | <b>\$ 4,692,000</b>                    | <b>\$ 33,470,660</b>       |
| Net loss for the year   | -                 | -                    | -                          | (15,829,662)           | -                   | -                                      | (15,829,662)               |
| Other comprehensive income (loss)   | -                 | -                    | -                          | -                      | -                   | (1,887,697)                            | (1,887,697)                |
| Unrealized loss on available-for-sale investments                           | -                 | -                    | -                          | -                      | -                   | -                                      | -                          |
| Transfer to income of realized gain on sale of resource related investments | -                 | -                    | -                          | -                      | -                   | (186,563)                              | (186,563)                  |
| Comprehensive loss for the year   | -                 | -                    | -                          | -                      | -                   | -                                      | -                          |
| Shares issued for cash  | 998,500           | 1,838,750            | -                          | -                      | -                   | -                                      | 1,838,750                  |
| Exercise of options   | 1,411,908         | 2,758,816            | -                          | -                      | -                   | -                                      | 2,758,816                  |
| Exercise of warrants  | 7,501,000         | 8,251,100            | -                          | -                      | -                   | -                                      | 8,251,100                  |
| Private placement   | -                 | (866,167)            | -                          | -                      | -                   | -                                      | (866,167)                  |
| Share issue costs   | -                 | -                    | -                          | -                      | -                   | -                                      | -                          |
| Shares issued for non-cash  | -                 | 689,036              | -                          | -                      | (689,036)           | -                                      | -                          |
| Reclassification of contributed surplus on exercise of options              | -                 | 1,000,000            | -                          | -                      | -                   | -                                      | 1,000,000                  |
| Property acquisition  | 500,000           | -                    | 795,000                    | -                      | -                   | -                                      | 795,000                    |
| Obligation to issue shares  | -                 | -                    | -                          | -                      | -                   | -                                      | -                          |
| Agent's compensation  | 50,000            | 55,000               | -                          | -                      | -                   | -                                      | 55,000                     |
| Share issue costs   | -                 | (375,634)            | -                          | -                      | 320,634             | -                                      | (55,000)                   |
| Stock-based compensation  | -                 | -                    | -                          | -                      | 3,789,920           | -                                      | 3,789,920                  |
| <b>Balance, October 31, 2008</b>  | <b>57,782,847</b> | <b>68,824,822</b>    | <b>795,000</b>             | <b>(51,015,714)</b>    | <b>11,912,309</b>   | <b>2,617,740</b>                       | <b>33,134,157</b>          |

**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Consolidated Statements of Shareholders' Equity (cont'd)**  
**(Unaudited – Prepared by Management)**

|   | Capital Stock     |                      | Obligation to issue shares | Deficit                | Contributed Surplus  | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|-------------------|----------------------|----------------------------|------------------------|----------------------|--|----------------------------|
|   | Shares            | Amount               |                            |                        |                      |  |                            |
| <b>Balance, October 31, 2008 (carried forward)</b>                          | <b>57,782,847</b> | <b>\$ 68,824,822</b> | <b>\$ 795,000</b>          | <b>\$ (51,015,714)</b> | <b>\$ 11,912,309</b> | <b>\$ 2,617,740</b>                    | <b>\$ 33,134,157</b>       |
| Net loss for the year   | -                 | -                    | -                          | (254,628)              | -                    | -                                      | (254,628)                  |
| Other comprehensive income (loss)   | -                 | -                    | -                          | -                      | -                    | 12,043,882                             | 12,043,882                 |
| Unrealized gain on available-for-sale investments                           | -                 | -                    | -                          | -                      | -                    | -                                      | -                          |
| Transfer to income of realized gain on sale of resource related investments | -                 | -                    | -                          | -                      | -                    | (1,658,126)                            | (1,658,126)                |
| Comprehensive income for the year   | -                 | -                    | -                          | -                      | -                    | -                                      | 10,131,128                 |
| Shares issued for cash  | 25,000            | 36,750               | -                          | -                      | -                    | -                                      | 36,750                     |
| Exercise of options   | 92,500            | 127,500              | -                          | -                      | -                    | -                                      | 127,500                    |
| Exercise warrants   | -                 | -                    | -                          | -                      | -                    | -                                      | -                          |
| Shares issued for non-cash  | -                 | 14,088               | -                          | -                      | (14,088)             | -                                      | -                          |
| Reclassification of contributed surplus on exercise of options              | -                 | 32,059               | -                          | -                      | (32,059)             | -                                      | -                          |
| Reclassification of contributed surplus on exercise of warrants             | -                 | 795,000              | (795,000)                  | -                      | -                    | -                                      | -                          |
| Investment acquisition  | 500,000           | -                    | 111,500                    | -                      | -                    | -                                      | 111,500                    |
| Obligation to issue shares  | 143,130           | 204,676              | -                          | -                      | -                    | -                                      | 204,676                    |
| Debt settlement   | -                 | -                    | -                          | -                      | 1,192,109            | -                                      | 1,192,109                  |
| Stock-based compensation  | -                 | -                    | -                          | -                      | -                    | -                                      | -                          |
| <b>Balance, October 31, 2009</b>  | <b>58,543,477</b> | <b>70,034,895</b>    | <b>111,500</b>             | <b>(51,270,342)</b>    | <b>13,058,271</b>    | <b>13,003,496</b>                      | <b>44,937,820</b>          |
| Net income for the period   | -                 | -                    | -                          | 48,208,480             | -                    | -                                      | 48,208,480                 |
| Other comprehensive income (loss)   | -                 | -                    | -                          | -                      | -                    | 9,619,758                              | 9,619,758                  |
| Unrealized gain on available-for-sale investments                           | -                 | -                    | -                          | -                      | -                    | -                                      | -                          |
| Transfer to income of realized gain on sale of resource related investments | -                 | -                    | -                          | -                      | -                    | (203,167)                              | (203,167)                  |
| Comprehensive income for the period   | -                 | -                    | -                          | -                      | -                    | -                                      | 57,625,071                 |
| Shares issued for cash  | 67,125            | 90,619               | -                          | -                      | -                    | -                                      | 90,619                     |
| Exercise warrants   | -                 | -                    | -                          | -                      | -                    | -                                      | -                          |
| Shares issued for non-cash  | -                 | 28,693               | -                          | -                      | (28,693)             | -                                      | -                          |
| Reclassification of contributed surplus on exercise of warrants             | -                 | 111,500              | (111,500)                  | -                      | -                    | -                                      | -                          |
| Property acquisition  | 75,000            | -                    | -                          | -                      | -                    | -                                      | -                          |
| Stock-based compensation  | -                 | -                    | -                          | -                      | 610,862              | -                                      | 610,862                    |
| <b>Balance, April 30, 2010</b>  | <b>58,685,602</b> | <b>\$ 70,265,707</b> | <b>\$ -</b>                | <b>\$ (3,061,862)</b>  | <b>\$ 13,640,440</b> | <b>\$ 22,420,087</b>                   | <b>\$ 103,264,372</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             |                     |
|   | 2010                 | 2009                | 2010                 | 2009                |
| <b>Operating Activities</b>                                   |                      |                     |                      |                     |
| Net loss for period   | \$ (14,053,095)      | \$ (62,461)         | \$ 48,208,480        | \$ (3,060,282)      |
| Items not involving cash                                      |                      |                     |                      |                     |
| Amortization  | 16,857               | 11,571              | 33,580               | 23,845              |
| Bad debts   | -                    | -                   | 104,835              | -                   |
| Stock-based compensation                                      | 348,983              | 147,270             | 610,862              | 539,064             |
| Write-off resource properties                                 | 8,180,742            | (45,559)            | 8,180,742            | 2,596,492           |
| Realized gain on sale of available-for-sale investments       | (162,517)            | (1,722,356)         | (298,609)            | (2,382,459)         |
| Unrealized gain(loss) on held-for-trading investment          | 31,000               | -                   | (15,000)             | -                   |
| Loss on equity investment                                     | -                    | 11,257              | -                    | 11,257              |
| Loss on debt settlement                                       | -                    | 17,176              | -                    | 17,176              |
| Unrealized loss on derivative investment (note 4)             | (13,361)             | -                   | (132,898)            | -                   |
| Gain on sale of resource property                             | 780,415              | -                   | (88,625,601)         | -                   |
| Future income tax (recovery) expense                          | (458,284)            | 107,463             | (1,661,751)          | (668,712)           |
| Unrealized foreign exchange gain (loss)                       | 2,865,596            | (221)               | 2,976,096            | 6,139               |
| Changes in Non-Cash Working Capital Items                     |                      |                     |                      |                     |
| Accounts receivable   | (16,010)             | (1,059,411)         | (48,090)             | (1,007,508)         |
| Accounts receivable – related parties                         | (2,193)              | -                   | 136,358              | -                   |
| Prepaid expenses  | (36,399)             | 29,330              | (18,670)             | 114,441             |
| Accounts payable and accrued liabilities                      | (2,572,664)          | 2,532,851           | 285,253              | 2,446,602           |
| Income taxes payable  | (2,305,120)          | -                   | 24,486,483           | -                   |
| <b>Cash Used in Operating Activities</b>                      | <b>(7,396,050)</b>   | <b>(33,090)</b>     | <b>(5,777,930)</b>   | <b>(1,363,945)</b>  |
| <b>Investing Activities</b>                                   |                      |                     |                      |                     |
| Investment in and expenditures on resource properties         | (1,726,796)          | (336,838)           | (4,031,135)          | (1,152,286)         |
| Proceeds from resource property transactions,<br>net of costs | (785,189)            | -                   | 89,261,496           | -                   |
| Proceeds from sale of resource related investments            | 291,417              | 2,308,106           | 447,909              | 3,442,809           |
| Purchase of resource related investments                      | (7,685,194)          | -                   | (8,502,176)          | -                   |
| Purchase of equity investment                                 | (650,000)            | -                   | (650,000)            | -                   |
| Purchase of fixed assets                                      | (5,373)              | -                   | (7,972)              | 4,295               |
| <b>Cash Provided by (Used in) Investing Activities</b>        | <b>(10,561,135)</b>  | <b>1,971,268</b>    | <b>76,518,122</b>    | <b>2,294,818</b>    |
| <b>Financing Activities</b>                                   |                      |                     |                      |                     |
| Proceeds from shares issued                                   | 90,619               | 127,500             | 90,619               | 164,250             |
| <b>Cash Provided by Financing Activities</b>                  | <b>90,619</b>        | <b>127,500</b>      | <b>90,619</b>        | <b>164,250</b>      |
| Effect of foreign exchange on cash                            | (2,865,596)          | 221                 | (2,976,096)          | (6,139)             |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>       | <b>(20,732,162)</b>  | <b>2,065,899</b>    | <b>67,854,715</b>    | <b>1,088,984</b>    |
| <b>Cash and Cash Equivalents, Beginning of Period</b>         | <b>94,410,073</b>    | <b>311,925</b>      | <b>5,823,196</b>     | <b>1,288,840</b>    |
| <b>Cash and Cash Equivalents, End of Period</b>               | <b>\$ 73,677,911</b> | <b>\$ 2,377,824</b> | <b>\$ 73,677,911</b> | <b>\$ 2,377,824</b> |
| <b>Supplemental Cash Flow Information</b>                     |                      |                     |                      |                     |
| Accounts payable related to property expenditure              | \$ 163,781           | \$ 390,085          | \$ 163,781           | \$ 390,085          |
| Shares issued for property option payments                    | \$ -                 | \$ 795,000          | \$ -                 | \$ 795,000          |
| Shares issued for debt settlement                             | \$ -                 | \$ 204,676          | \$ -                 | \$ 204,676          |
| Shares issued for brokers' commission                         | \$ -                 | \$ -                | \$ -                 | \$ -                |
| Interest paid   | \$ -                 | \$ -                | \$ -                 | \$ -                |
| Income taxes paid   | \$ 2,035,886         | \$ -                | \$ 2,035,886         | \$ -                |

**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to Consolidated Financial Statements**  
**For the Six Months ended April 30, 2010 and 2009**  
**(Unaudited – Prepared by Management)**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

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

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company had a net income of \$48,208,480 for the six months ended April 30, 2010 (2009 – \$(3,060,282)). The Company has working capital of \$46,751,935 (October 31, 2009 - \$3,803,620), and a deficit of \$(3,061,862) (October 31, 2009 – \$(51,270,342)).

During the period, the Company successfully concluded the sale of its Pampa de Pongo Iron Deposit in Peru and received the final payment of US \$88 million, which ensures sufficient funding for operations in the near future. Management believes that this transaction, together with the fair value of its investments, results in the going concern assumption being an appropriate underlying concept for the preparation of these consolidated financial statements.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral interests. The recoverability of amounts shown for resource properties is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of presentation**

These unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are stated in Canadian dollars. As described in Note 15, accounting principles generally accepted in Canada differ in certain material respects from accounting principles generally accepted in the United States (“U.S. GAAP”).

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

**(b) Cash and cash equivalents**

Cash and cash equivalents include cash and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

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

**(c) Use of estimates**

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

**(d) Amortization**

Amortization of equipment is recorded at the following annual rates:

|                        |   |   |
|------------------------|---|---|
| Computer equipment     | - | 30% declining balance basis                         |
| Office equipment       | - | 20% declining balance basis                         |
| Leasehold improvements | - | over the term of the lease on a straight-line basis |

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

**(e) Investments**

Investments over which the Company exercises significant influence are accounted for using the equity method. Resource related investments, not including derivatives, are principally classified as available-for-sale, and are carried at quoted market value, where applicable, or at an estimate of fair value. Resulting unrealized gains or losses, net of applicable income taxes, are reflected in other comprehensive income, while realized gains or losses are reflected in operations. Share purchase warrants included in investments are derivative financial instruments and are classified as held-for-trading and, accordingly, unrealized gains or losses, net of applicable income taxes, are included in operations.

**(f) Resource properties**

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

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

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

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

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

**(f) Resource properties (Continued)**

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

**(g) Foreign currency translation**

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

- i. Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- ii. Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- iii. Interest income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the transaction date.

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

**(h) Stock-based compensation**

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the option is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached, or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to capital stock.

**(i) Basic and diluted loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

**(j) Revenue recognition**

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

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

**(k) Asset retirement obligations (“ARO”)**

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

**(l) Income taxes**

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

**(m) Financial instruments**

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

**(n) Future accounting changes**

**i. International Financial Reporting Standards (“IFRS”)**

In 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its January 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended October 31, 2010. The Company is currently evaluating the impact of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

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

**(n) Future accounting changes (Continued)**

ii. Business Combinations

In January 2009, the CICA issued Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

iii. Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

iv. Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1602, Non-Controlling Interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to IFRS on consolidated and separate financial statements. This standard is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently.

**3. FIXED ASSETS**

|                        | <b>April 30, 2010</b> |              |            | <b>October 31, 2009</b> |              |            |
|------------------------|-----------------------|--------------|------------|-------------------------|--------------|------------|
|                        |                       | Accumulated  | Net        |                         | Accumulated  | Net        |
|                        | Cost                  | Amortization |            | Cost                    | Amortization |            |
| Computer equipment     | \$ 171,624            | \$ 111,520   | \$ 60,104  | \$ 171,625              | \$ 100,915   | \$ 70,710  |
| Office equipment       | 98,839                | 42,556       | 56,283     | 90,866                  | 36,894       | 53,972     |
| Leasehold improvements | 180,869               | 94,310       | 86,559     | 180,869                 | 76,998       | 103,871    |
|                        | \$ 451,332            | \$ 248,386   | \$ 202,946 | \$ 443,360              | \$ 214,807   | \$ 228,553 |

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**4. RESOURCE RELATED INVESTMENTS**

| <b>April 30, 2010</b>               | <b>Shares</b> |                   | <b>Warrants</b> |                   | <b>Total</b>  |
|-------------------------------------|---------------|-------------------|-----------------|-------------------|---------------|
|                                     | <b>Number</b> | <b>Fair Value</b> | <b>Number</b>   | <b>Fair Value</b> |               |
| International Tower Hill Mines Ltd. | 4,591,223     | \$ 32,689,508     | -               | \$ -              | \$ 32,689,508 |
| Trevali Resources Corp.             | 4,134,588     | 5,168,235         | 1,427,294       | 649,299           | 5,817,534     |
| Wealth Minerals Ltd.                | 2,641,853     | 1,532,275         | 2,380,953       | 738,095           | 2,270,370     |
| Dorato Resources Inc.               | 2,231,000     | 2,141,760         | -               | -                 | 2,141,760     |
| Indico Resources Ltd.               | 50,000        | 23,000            | -               | -                 | 23,000        |
| Ethos Capital Corp.                 | 100,000       | 43,000            | -               | -                 | 43,000        |
|                                     |               | \$ 41,597,778     |                 | \$ 1,387,394      | \$ 42,985,172 |

| <b>October 31, 2009 (Audited)</b>   | <b>Shares</b> |                   | <b>Warrants</b> |                   | <b>Total</b>  |
|-------------------------------------|---------------|-------------------|-----------------|-------------------|---------------|
|                                     | <b>Number</b> | <b>Fair Value</b> | <b>Number</b>   | <b>Fair Value</b> |               |
| International Tower Hill Mines Ltd. | 3,482,800     | \$ 17,657,796     | -               | \$ -              | \$ 17,657,796 |
| Trevali Resources Corp.             | 4,154,588     | 2,908,212         | 1,427,294       | 587,829           | 3,496,041     |
| Wealth Minerals Ltd.                | 2,641,853     | 1,241,671         | 2,380,953       | 666,667           | 1,908,338     |
| Dorato Resources Inc.               | 596,000       | 315,880           | -               | -                 | 315,880       |
| Ethos Capital Corp.                 | 100,000       | 28,000            | -               | -                 | 28,000        |
|                                     |               | \$ 22,151,559     |                 | \$ 1,254,496      | \$ 23,406,055 |

All resource related investments in shares are classified as available-for-sale, unless otherwise indicated. All resource related investments in warrants are classified as held-for-trading.

**(a) International Tower Hill Mines Ltd. (“ITH”)**

ITH is considered to be a related party as a result of common officer and director relationships (note 8).

During the year ended October 31, 2008, the Company sold 249,700 common shares of ITH for net proceeds of \$418,610 resulting in a gain on sale of \$258,920, and purchased 2,094,300 common shares at a cost of \$2,124,666 (2,000,000 shares were acquired through the exercise of share purchase warrants held by the Company).

During the year ended October 31, 2009, the Company sold 1,481,800 common shares for net proceeds of \$3,752,030, realizing a gain of \$2,637,280 and purchased 120,000 common shares at a cost of \$423,849.

During the period ended April 30, 2010, the Company sold 24,000 shares of ITH for net proceeds of \$156,492 resulting in a gain on sale of \$136,092. Meanwhile, the Company acquired 1,132,423 shares of ITH at a cost of \$6,853,990. At April 30, 2010, the Company held 4,591,223 common shares, or approximately 6.98% of the issued and outstanding ITH common shares.

At April 30, 2010, the quoted market value of ITH common shares was \$7.12 (October 31, 2009 - \$5.07) per share, or a total market value for the Company’s ITH shares of \$32,689,508 (2009 - \$17,657,796). Fair value adjustments for the period ended April 30, 2010 amounted to unrealized gains of \$7,048,575 (October 31, 2009 – unrealized gain of \$11,217,746) on the shares, net of tax, as other comprehensive income.

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**4. RESOURCE RELATED INVESTMENTS (Continued)**

**(b) Trevali Resources Corp. (“Trevali”)**

On April 24, 2007, the Company acquired 1,000,000 common shares of Trevali, a related party (note 8), at a cost of \$100,000.

On May 11, 2009, the Company purchased 1,250,000 units of Trevali at \$0.80 per unit and allocated \$0.60 and \$0.20 to each common share and warrant, respectively. Each unit consists of one common share and one-half of a common share purchase warrant. Each whole warrant is exercisable to acquire a common share of Trevali at a price of \$1.30 per share until May 11, 2011.

On May 29, 2009, the Company purchased 134,000 units of Trevali from a company related by virtue of common officers and directors at a price of \$0.75 per unit and allocated \$0.57 and \$0.18 to each common share and warrant, respectively. Each unit consists of one common share and one-half of a common share purchase warrant. Each whole warrant is exercisable to acquire a common share of Trevali at a price of \$1.20 per share until December 29, 2010.

On August 31, 2009, the Company purchased 300,000 Trevali common shares at a cost of \$185,732.

On October 9, 2009, the Company settled an outstanding \$1,000,000 loan to Trevali (advanced on July 30, 2009) on the basis of 1,470,588 units at a price of \$0.68 per unit and allocated \$0.51 and \$0.17 to each common share and warrant, respectively. Each unit consisted of one common share and one-half of a common share purchase warrant. Each warrant is exercisable to acquire an additional common share of Trevali at a price of \$1.00 per share until October 9, 2011.

During the period ended April 30, 2010, the Company acquired 135,000 common shares of Trevali at a cost of \$169,609. Meanwhile, the Company sold 155,000 shares of Trevali for net proceeds of \$239,387 resulting in a gain on sale of \$149,487. At April 30, 2010, the quoted market value of the Trevali common shares was \$1.25 per share, or a total market value for the Company’s shares of \$5,168,235 (October 31, 2009 - \$2,908,212). Fair value adjustments for the period ended April 30, 2010 amounted to unrealized gain of \$1,950,762 (October 31, 2009 – an unrealized gain of \$294,185), net of tax, recorded as other comprehensive income. The Company held 4,134,588 common shares, or 7.81% of the issued and outstanding common shares of Trevali as of April 30, 2010.

At April 30, 2010, the fair value of 625,000 Trevali warrants (purchased on May 11, 2009) was \$237,500 (October 31, 2009 - \$237,500). Fair value adjustments for the period ended April 30, 2010 amounted to \$ Nil (October 31, 2009 - \$12,500).

At April 30, 2010, the fair value of 67,000 Trevali warrants (purchased on May 29, 2009) was \$14,740 (October 31, 2009 - \$26,800). Fair value adjustments for the period ended April 30, 2010 amounted to an unrealized loss of \$12,060 (October 31, 2009 - \$2,680).

At April 30, 2010, the fair value of 735,294 Trevali warrants (purchased on October 9, 2009) was \$397,059 (October 31, 2009 - \$323,529). Fair value adjustments for the period ended April 30, 2010 amounted to an unrealized gain of \$73,530 (October 31, 2009 - \$73,529).

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**4. RESOURCE RELATED INVESTMENTS (Continued)**

**(c) Wealth Minerals Ltd. (“Wealth”)**

On June 2, 2009, the Company purchased 2,841,400 common shares of Wealth Minerals Ltd. (“Wealth”), a related party (note 8), at \$0.30 per share.

On October 23, 2009, the Company purchased 2,380,953 units at \$1,000,000 and allocated \$0.26 and \$0.16 to each common share and warrant, respectively. Each unit consisted of one common share and one non-transferable common share purchase warrant, with each warrant being exercisable to acquire one additional common share until October 23, 2011 at an exercise price of \$0.60.

During the last quarter of 2009, the Company sold 2,580,500 common shares of Wealth for net proceeds of \$855,124 resulting in a gain on sale of \$80,974.

At April 30, 2010, the quoted market value of Wealth common shares was \$0.58 per share, or a total market value for the Company’s shares of \$1,532,275. Fair value adjustments for the period ended April 30, 2010 amounted to unrealized gain of \$247,013, net of tax, recorded as other comprehensive loss. The Company held 2,641,853 shares, or 6.95% of the issued and outstanding common shares of Wealth as of April 30, 2010.

At April 30, 2010, the total market value of 2,380,953 Wealth warrants (purchased on October 23, 2009) was \$738,095. Fair value adjustments for the period ended April 30, 2010 amounted to an unrealized gain of \$71,428 (October 31, 2009 - \$285,715).

**(d) Dorato Resources Inc. (“Dorato”)**

In October 2009, the Company purchased 596,000 common shares of Dorato, a related party (note 8) at a cost of \$311,825.

During the period, the Company purchased 1,695,000 common shares of Dorato at a cost of \$1,448,623. Meanwhile, the Company sold 60,000 shares of Dorato for net proceeds of \$52,030 resulting in a gain on sale of \$13,030.

At April 30, 2010, the Company held 2,231,000 common shares, or 3.24% of issued and outstanding common shares of Dorato. The quoted market value of Dorato common shares was \$0.96, or a total market value for the Company’s shares of \$2,141,760. Fair value adjustment at the period ended April 30, 2010 amounted to an unrealized gain, net of tax, of \$379,319 (October 31, 2009 - \$3,447).

**(e) Indico Resources Ltd. (“Indico”)**

During the period ended April 30, 2010, the Company purchased 50,000 common shares of Indico at a cost of \$29,954.

At April 30, 2010, the quoted market value of Indico common shares was \$0.46, or a total market value for the Company’s shares of \$23,000. Fair value adjustment at the period ended April 30, 2010 amounted to an unrealized loss, net of tax, of \$5,911.

The Company held 50,000 common shares, or 0.39% of issued and outstanding common shares of Indico as of April 30, 2010.

**(f) Ethos Capital Corp. (“Ethos”)**

During the year ended October 31, 2009, the Company received 100,000 common shares of Ethos valued at \$17,000 pursuant to a property option agreement (note 6(a)(iv)). This investment is classified as held-for-trading. Fair value adjustments for the period ended April 30, 2010 amounted to an unrealized gain, of \$15,000 (October 31, 2009 - \$11,000).

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**5. EQUITY INVESTMENT**

|  | <b>April 30, 2010</b> | <b>October 31, 2009</b> |
|--|-----------------------|-------------------------|
|  |                       | <b>(audited)</b>        |
| Abzu Resources Ltd. (ownership interest – 22%) | \$ 650,000            | \$ -                    |

**(a) Abzu Resources Ltd. (“Abzu”)**

During the period ended April 30, 2010, the Company acquired 4,333,334 shares of Abzu Resources Ltd. at a gross cost of \$650,000. The Company accounts for its investment in Abzu using the equity method. No changes to the carrying value of the investment have been recorded as the necessary financial information is not currently available.

**(b) IMM Gold Ltd. (“IMMG”)**

Pursuant to a Memorandum of Understanding dated August 8, 2008 (but effective as and from April 25, 2008) between the Company and International Minerals and Mines Ltd., a private Gibraltar company (“IMM”), the Company has the right to acquire up to a 30% interest in IMM Gold Limited (“IMMG”), a subsidiary of IMM, which is presently engaged in reconnaissance exploration programs in the Caucasian Region. The Company is the manager of the exploration programs, but no properties have yet been acquired by IMMG. A director of Cardero is a director and significant shareholder of a private company, which is the major shareholder (67%) of IMM (note 8).

The Company acquired a 15% interest in IMMG by issuing to IMM 500,000 common shares upon acceptance for filing of the transaction by the Toronto Stock Exchange (“TSX”) and the NYSE Alternext (“NYSE-A”). The shares were issued on November 24, 2008 valued at \$795,000, and the Company received 123,530 ordinary shares of IMMG, representing a 15% interest. The Company may also be required to issue up to an additional 250,000 common shares as consideration for the initial 15% interest in IMMG if, on November 24, 2009, the volume weighted average trading price for the Company’s common shares on the TSX for the five trading days immediately prior to such date (“Final VWAP”) is less than \$1.83. In such case, the Company is then required to issue to IMM such number of additional common shares of the Company (up to a maximum of 250,000 additional shares) as is equal to the difference between the \$1.83 and the Final VWAP, multiplied by 500,000 and divided by the Final VWAP.

The Company has the option to acquire an additional 15% of IMMG by issuing an additional 1,000,000 shares to IMM on or before December 31, 2009.

For the year ended October 31, 2009, the Company’s share of IMMG’s results of operations amounted to a loss of \$199,677 (2008 - \$Nil) based upon IMMG’s audited financial statements for the year then ended. After consideration of current market conditions and IMMG’s operating loss, the Company recorded an impairment charge of \$595,323 to reduce the carrying value of the investment to \$Nil.

The Company has determined that it has an obligation to issue an additional 214,843 common shares to IMM pursuant to the acquisition of its 15% investment in IMMG, the final issuance of which is currently the subject of on-going negotiations with IMM. The Company determined not to acquire an additional 15% interest in IMMG and did not therefore issue the additional 1,000,000 common shares on or before December 31, 2009.

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**6. RESOURCE PROPERTIES**

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

|                                   | Mexico              |                   | Argentina           | Peru                |                     |                    | USA                 | Total                |
|-----------------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|--------------------|---------------------|----------------------|
|                                   | Baja                | Other             |                     | Total               | Pampa de Pongo      | Iron Sands/Marcona |                     |                      |
| <b>Balance, October 31, 2008</b>  | <b>\$ 7,064,909</b> | <b>\$ 370,115</b> | <b>\$ 3,315,933</b> | <b>\$ 3,692,705</b> | <b>\$ 7,071,620</b> | <b>\$ 343,110</b>  | <b>\$ 20,854</b>    | <b>\$ 21,879,246</b> |
| Acquisition costs                 | 102,417             | 108,871           | 7,744               | 301,254             | 258,463             | 95,220             | 172,322             | 1,046,291            |
| Deferred exploration costs:       |                     |                   |                     |                     |                     |                    |                     |                      |
| Camp                              | 48,644              | 7,931             | 79,194              | 229,958             | 594,631             | 6,456              | 25,118              | 991,932              |
| Drilling and analysis             | 23,560              | -                 | 22,807              | -                   | 55,582              | 89                 | -                   | 102,038              |
| Personnel and geology             | 96,997              | 204               | 64,928              | 665,741             | 747,330             | 28,920             | 91,053              | 1,695,173            |
| Total exploration costs           | 169,201             | 8,135             | 166,929             | 895,699             | 1,397,543           | 35,465             | 116,171             | 2,789,143            |
| Total expenditures for the year   | 271,618             | 117,006           | 174,673             | 1,196,953           | 1,656,006           | 130,685            | 288,493             | 3,835,434            |
| Costs recovered–Acquisition       | -                   | (192,627)         | -                   | (1,552,292)         | -                   | -                  | -                   | (1,744,919)          |
| Costs recovered–Exploration       | -                   | (62,516)          | -                   | (3,337,366)         | -                   | -                  | -                   | (3,399,882)          |
| Total before write-offs           | 7,336,527           | 231,978           | 3,490,606           | -                   | 8,727,626           | 473,795            | 309,347             | 20,569,879           |
| Write-offs – Acquisition costs    | -                   | -                 | (1,162,834)         | -                   | -                   | (238,597)          | -                   | (1,401,431)          |
| Write-offs – Exploration costs    | -                   | -                 | (1,433,658)         | -                   | -                   | (235,198)          | -                   | (1,668,856)          |
| Total write-offs                  | -                   | -                 | (2,596,492)         | -                   | -                   | (473,795)          | -                   | (3,070,287)          |
| <b>Balance, October 31, 2009</b>  | <b>7,336,527</b>    | <b>231,978</b>    | <b>894,114</b>      | <b>\$ -</b>         | <b>8,727,626</b>    | <b>\$ -</b>        | <b>309,347</b>      | <b>17,499,592</b>    |
| Acquisition costs                 | 146,902             | 9,991             | 4,978               | -                   | 526,017             | -                  | 16,065              | 703,953              |
| Deferred exploration costs:       |                     |                   |                     |                     |                     |                    |                     |                      |
| Camp                              | 93,322              | 8,226             | 55,953              | 11,573              | 348,664             | -                  | 217,392             | 735,130              |
| Drilling and analysis             | 511,048             | -                 | 88,449              | -                   | 5,606               | -                  | 883,852             | 1,488,955            |
| Personnel and geology             | 92,944              | -                 | 83,343              | 22                  | 121,692             | -                  | 141,026             | 439,027              |
| Total exploration costs           | 697,314             | 8,226             | 227,745             | 11,595              | 475,962             | -                  | 1,242,270           | 2,663,112            |
| Total expenditures for the period | 844,216             | 18,217            | 232,723             | 11,595              | 1,001,979           | -                  | 1,258,335           | 3,367,065            |
| Costs recovered–Acquisition       | -                   | -                 | -                   | (11,595)            | -                   | -                  | -                   | -                    |
| Costs recovered–Exploration       | -                   | -                 | -                   | -                   | -                   | -                  | -                   | (11,595)             |
| Total before write-offs           | 8,180,743           | 250,195           | 1,126,837           | -                   | 9,729,605           | -                  | 1,567,682           | 20,855,062           |
| Write-offs – Acquisition costs    | (3,411,569)         | -                 | -                   | -                   | -                   | -                  | -                   | (3,411,569)          |
| Write-offs – Exploration costs    | (4,769,174)         | -                 | -                   | -                   | -                   | -                  | -                   | (4,769,174)          |
| Total write-offs                  | (8,180,743)         | -                 | -                   | -                   | -                   | -                  | -                   | (8,180,743)          |
| <b>Balance, April 30, 2010</b>    | <b>\$ -</b>         | <b>\$ 250,195</b> | <b>\$ 1,126,837</b> | <b>\$ -</b>         | <b>\$ 9,729,605</b> | <b>\$ -</b>        | <b>\$ 1,567,682</b> | <b>\$ 12,674,319</b> |
| Represented by:                   |                     |                   |                     |                     |                     |                    |                     |                      |
| Acquisition costs                 | \$ -                | \$ 62,484         | \$ 186,503          | \$ -                | \$ 2,563,025        | \$ -               | \$ 188,387          | \$ 3,000,400         |
| Exploration costs                 | -                   | 187,711           | 940,334             | -                   | 7,166,580           | -                  | 1,379,295           | 9,673,919            |
| <b>Balance, April 30, 2010</b>    | <b>\$ -</b>         | <b>\$ 250,195</b> | <b>\$ 1,126,837</b> | <b>\$ -</b>         | <b>\$ 9,729,605</b> | <b>\$ -</b>        | <b>\$ 1,567,682</b> | <b>\$ 12,674,319</b> |

**6. RESOURCE PROPERTIES (Continued)**

**(a) Mexico**

The properties in Mexico consist of the following:

i. Baja IOCG Project, Baja California State, Mexico

Pursuant to an agreement dated December 1, 2002 (as amended by agreements dated November 26, 2003 and June 30, 2005) between the Company and Anglo (the “Anglo Agreement”), Anglo agreed to manage and fund exploration expenditures for the identification and acquisition of not less than one mineral concession within an area of interest measuring approximately 50,050 square kilometres in size. Anglo could earn a 70% interest in the mineral concession(s) so acquired, as well as in certain previously acquired 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 (see below).

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

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

**6. RESOURCE PROPERTIES (Continued)**

**(a) Mexico (Continued)**

i. Baja IOCG Project, Baja California State, Mexico (Continued)

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

On May 20, 2004, Western Telluric Resources Inc. (“WTR”) and Minera Olympic, S. de R.L. de C.V. (“Minera”) (collectively, the “Plaintiffs”) commenced an action (the “Action”) in the British Columbia Supreme Court (Vancouver Registry, No. S042795) against the Company and James Dawson, Murray McClaren and their respective companies, Dawson Geological Consultants Ltd. and 529197 B.C. Ltd. (carrying on business as Crockite Resources). The relief claimed against the Company is the setting aside of an agreement dated December 12, 2001 between the Company and Minera regarding the acquisition of mineral concessions. The Company filed a Statement of Defence, in which it denied any liability, as well as a counterclaim (the “Counterclaim”) against the Plaintiffs. Pursuant to an agreement dated October 17, 2007 (“Settlement Agreement”) among the Plaintiffs, the Company and all other parties to the various actions, all actions (including the Action and the Counterclaim) have been settled. As its part of the settlement, the Company has agreed to issue an aggregate of 500,000 shares to WTR and to grant to WTR a 1.5% net smelter return (“NSR”) royalty over its existing and future acquired Baja California properties, of which the Company can acquire one-half (0.75%) for the price of \$2,000,000. Fulfillment by the Company of its obligations under the Settlement Agreement was subject to the acceptance for filing thereof by the TSX (received on November 20, 2007) and the NYSE-A (formerly, the American Stock Exchange) (received on November 13, 2007). Effective May 23, 2008, the transaction closed and the 500,000 shares were released to WTR.

During the period, the Company wrote off its remaining investment in the property in the amount of \$8,180,742.

ii. Corrales Property, Chihuahua State, Mexico

The Corrales property consists of one exploitation concession (100 hectares) located in the Municipality of Lopez, Chihuahua State, plus an additional 8,400-hectare exploration concession held 100% by the Company.

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

- USD 24,000 on execution (paid);
- USD 18,000 on or before January 23, 2008 (paid);
- USD 15,000 on or before October 23, 2008 (paid);
- USD 60,000 on or before October 23, 2009 (note 6 (a)(iv));
- USD 90,000 on or before October 23, 2010;
- USD 100,000 on or before October 23, 2011; and
- USD 350,000 on or before October 23, 2012.

The Company has granted to a public company the option to acquire up to a 70% interest in the Corrales property (see note 6(a)( iv)).

**CARDERO RESOURCE CORP.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**For the Six Months ended April 30, 2010 and 2009**  
**(Unaudited – Prepared by Management)**

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**6. RESOURCE PROPERTIES (Continued)**

**(a) Mexico (Continued)**

iii. Santa Teresa Property, Coahuila State

The Santa Teresa property consists of 8,715 hectares of exploration concessions held 100% by the Company.

The Company has granted to a public company the option to acquire up to a 70% interest in the Santa Teresa property (note 6(a)(iv)).

iv. Ethos Capital Corp. Option/Joint Venture, Mexico

The Company signed a letter of intent dated June 12, 2008, as amended October 9, 2008, (“LOI”) with Ethos Capital Corp. (“Ethos”), a capital pool company listed on the TSX Venture Exchange (“TSXV”), pursuant to which Ethos has been granted an option to earn an interest in the Company’s Corrales and Santa Teresa Silver-Lead-Zinc projects in Mexico (notes 6(a)(ii) and (iii)).

Pursuant to the LOI, Ethos has an exclusive option to earn an undivided 70% interest in the Corrales and Santa Teresa properties by:

- (a) paying to the Company the sum of \$500,000, as follows:
  - (i) \$100,000 by July 17, 2009 (the “Acceptance Date”) , which is five days after the LOI is accepted for filing by the TSXV (received August 18, 2009);
  - (ii) an additional \$150,000 by the day, which is one year after the Acceptance Date;
  - (iii) an additional \$250,000 by the day, which is two years after the Acceptance Date;
- (b) delivering to the Company 1,434,000 Ethos common shares, as follows:
  - (i) 100,000 shares with a fair value of \$17,000 on the Acceptance Date (received);
  - (ii) 266,800 shares by the day, which is one year after the Acceptance Date;
  - (iii) an additional 466,900 shares by the day, which is two years after the Acceptance Date; and
  - (iv) an additional 600,300 shares by the day, which is three years after the Acceptance Date; and
- (c) maintaining the properties (including making all required payments pursuant to the underlying option agreements) in good standing during the option period.

Following the exercise of the option by Ethos, the Mexican subsidiaries of Ethos and the Company will enter into a joint venture, with each party being responsible for its ongoing share of further expenditures. If the interest of a participant is diluted to 10% or less, the interest of that participant will be converted to a 10% net profits interest royalty.

During the year ended October 31, 2009, the Company received \$255,143 from Ethos, comprised of \$138,143 of expenditure reimbursement and \$117,000 of option payments.

**6. RESOURCE PROPERTIES (Continued)**

**(b) Argentina**

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

- Cavok Property, Jujuy Province, Argentina

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

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

Two of these concessions form part of the Olaroz Silver Project (note 6(b)(i)) and, during the fiscal year ended October 31, 2004, these two concessions were written down by \$4,381,701 to a nominal value of \$1. The third concession forms part of the Chingolo Silver Project. During the year ended October 31, 2009, the Company relinquished or abandoned, or commenced the process of relinquishing or abandoning, all properties relating to its investment in the Chingolo Project, resulting in a charge to operations of \$679,055 during the year ended October 31, 2009.

- Cozzi Property, Jujuy Province, Argentina

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

The Company considers the Chingolo Silver Project to be an active property although the Company is presently seeking a joint venture partner and no work by the Company is planned for the fiscal year ending October 31, 2010.

During the year ended October 31, 2007, the Company wrote off its remaining investment in the property in the amount of \$5,600.

ii. Huachi Property, Argentina

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

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

- USD 70,000 on June 13, 2005 (paid);
- USD 70,000 on or before April 13, 2006 (paid);
- USD 200,000 on or before June 13, 2007 (paid);
- USD 600,000 on or before April 13, 2008 (renegotiated to USD 110,000, which was paid);
- USD 1,000,000 on or before June 13, 2009 (see below); and
- USD 3,560,000 on or before June 13, 2010.

**6. RESOURCE PROPERTIES (Continued)**

**(b) Argentina (Continued)**

ii. Huachi Property, Argentina (Continued)

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

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

Pursuant to an agreement dated November 30, 2006 between the Company and an Argentinean individual, the Company can acquire a 50% interest in one mining concession (mina) adjacent to the 30 Huachi concessions noted above. In order to maintain the option in good standing, to be permitted to carry out exploration activities prior to such exercise, and to exercise the option, the Company is required to make aggregate payments of USD 965,000 to the vendor, as follows:

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

The Company has relinquished or abandoned, or is in the process of relinquishing or abandoning, all properties relating to its investment in the Huachi Project, resulting in a charge to operations of \$1,917,437 during the year ended October 31, 2009.

iii. Other Argentinean Properties

a. Organullo Property, Salta Province, Argentina

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

The Company considers this an active project, with a work program currently planned for the fiscal year ending October 31, 2010.

b. Los Manantiales Property (formerly “Mina Angela”), Chubut Province, Argentina

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

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

The Company has the option to purchase the 1% NSR royalty from the vendor for the sum of USD 500,000 at any time.

**6. RESOURCE PROPERTIES (Continued)**

**(b) Argentina (Continued)**

iii. Other Argentinean Properties (Continued)

b. Los Manantiales Property (formerly “Mina Angela”), Chabut Province, Argentina (Continued)

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

In June 2007, the optionee elected to make all remaining payments required under the underlying agreement, and thereby permit the Company to exercise the option and acquire the property (subject to the 1% NSR royalty). The property has been transferred to the Company. On December 3, 2008, the optionee terminated the option and returned all interest in the property to the Company.

c. Pirquitas Property, Jujuy Province, Argentina

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

The Company has entered into an agreement dated July 9, 2009 with a private Australian company, whereby the optionee may earn a 55% interest in the Pirquitas Property by incurring exploration expenditures of USD 1,000,000 over four years, of which USD 50,000 must be incurred in the first year. The effective date of the agreement is July 14, 2009. Following the optionee having earned its interest, the parties will enter into a joint venture, and thereafter each party is required to contribute its proportional share of further expenditures or be diluted on a straight-line basis.

**(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

**6. RESOURCE PROPERTIES (Continued)**

**(c) Peru (Continued)**

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 determined not to exercise the option from Rio Tinto, and terminated the underlying agreement with Rio Tinto. In addition, the Company abandoned all but five of the concessions (3,200 hectares) held by Koripampa (which retained concessions form part of the Company's Iron Sands project (see note 6(c)(iv))). Accordingly, as of October 31, 2007, the Company wrote down its investment in the property by \$1,890,172.

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 7,970 hectares in Caraveli Province, Peru. The private Peruvian company holds the exclusive right and option to acquire a 100% interest in these concessions from Rio Tinto in consideration of the payment to Rio Tinto of aggregate payments of USD 500,000 over four years as follows:

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

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).

In January 2008, the Company gave notice to Rio Tinto that it was exercising the option, and made the final USD 300,000 payment as required to do so. Rio Tinto transferred title to the concessions to a Peruvian subsidiary of the Company in November 2008, subject to their continuing right of first refusal concerning any disposition of these concessions by the Company.

**6. RESOURCE PROPERTIES (Continued)**

**(c) Peru (Continued)**

ii. Pampa de Pongo Property, Caraveli Province, Peru

In the summer of 2008, the Company made applications for ten additional concessions surrounding the Rio Tinto concessions (19,900 hectares), all of which form part of the Pampa de Pongo property.

On October 24, 2008, the Company entered into an agreement with Nanjinzhao Group Co., Ltd., (“Nanjinzhao”), a private Chinese enterprise located in Zibo City, Shandong Province, PRC, whereby the Company agreed to sell the Pampa de Pongo property to Nanjinzhao for USD 200 million (subject to Rio Tinto declining to exercise its right of first refusal in respect thereof). The agreement requires an initial deposit of USD 10 million, payable on or before March 17, 2009, with a final payment of USD 190 million due on or before September 17, 2009. During the initial three-month period, Nanjinzhao will obtain the appropriate Chinese governmental consents to the transaction. The Pampa de Pongo property will be transferred to a Peruvian subsidiary of Nanjinzhao once the USD 10 million deposit has been received. The agreement permits Cardero to decline to proceed with the transaction at any time prior to the receipt of the final USD 190 million final payment, provided that, if such decision is made at any time after the initial USD 10 million deposit has been paid, Cardero is required to return the deposit and pay Nanjinzhao an additional USD 20 million as a break-up fee. Upon repayment of the deposit (and break fee, if required), the Pampa de Pongo property will be retransferred to the Company. The Company will pay a finder’s fee to an arm’s length private company in consideration of the finder introducing Cardero to Nanjinzhao and providing ongoing advice in the negotiations. On December 17, 2008, the Company received notification from Rio Tinto that it was declining to exercise its right of first refusal with respect to the October 24, 2008 transaction between the Company and Nanjinzhao.

The Company, Cardero Iron Peru and Zibo Hongda Mining Co., Ltd. (“Hongda”), a subsidiary of Nanjinzhao, agreed to amend the provisions of the October 24, 2008 sale agreement among the Company, Cardero Iron Peru and Nanjinzhao (the interest of Nanjinzhao in which was assigned to Hongda on April 3, 2009) for the purchase by Hongda of the Pampa de Pongo Iron Deposit in Peru.

Hongda had requested a purchase price reduction due to difficult global economic conditions that have significantly adversely impacted iron ore prices. Following negotiations, Cardero and Cardero Iron Peru agreed to revise the final sale price to USD 100 million (of which USD 2 million had already been paid).

Accordingly, on May 21, 2009 Hongda paid the required USD 10 million deposit to Cardero Iron Peru, which is non-refundable unless either (i) Cardero terminates the agreement or (ii) Rio Tinto exercises its right of first offer. Due to the new lower purchase price, pursuant to its right of first offer Rio Tinto had another 45-day period (expired on July 9, 2009) to match the revised terms. The Rio Tinto right of first offer expired unexercised, and therefore the USD 10 million deposit from Hongda is non-refundable unless Cardero chooses to terminate the purchase agreement.

The balance of the purchase price of USD 88 million was split into three payments and paid as follows:

- a) USD 18 million, received on December 17, 2009;
- b) USD 40 million, received on December 17, 2009; and
- c) USD 30 million, to be received on December 31, 2009 (received January 11, 2010)

As of October 31, 2009, the payments received to date of \$13,898,800 (USD 12,000,000) was recognized in other income, net of related property costs of \$4,889,658 and transaction costs of \$411,487, for a gain of \$8,597,655 before applicable income taxes.

**6. RESOURCE PROPERTIES (Continued)**

**(c) Peru (Continued)**

ii. Pampa de Pongo Property, Caraveli Province, Peru (Continued)

During the period ended April 30, 2010, payments received of \$93,607,400 (USD 88,000,000) have been recognized in other income, net of related property costs of \$635,895 and transaction costs of \$4,345,904 before applicable income taxes.

iii. Iron Sands Project, Nazca and Caraveli Provinces, 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 certain of the mineral claims comprising the Carbonera and Daniella properties (note 6(c)(i)), and an additional 39 mineral claims acquired by staking at a cost of USD 77,000, in the Departments of Arequipa, (Caraveli Province) and Ica (Nazca Province), Peru. As a result of work to date, some of the foregoing concessions have been dropped, and the property now consists of 16 concessions (12,100 hectares in four areas) owned 100% by the Company and five concessions (3,600 hectares in two areas) held under option as described below.

The Company has assumed, from a private Peruvian company, all rights and obligations under an agreement dated December 16, 2005 between a private Peruvian company and Minera Ataspacas S.A., an arm's length private Peruvian company, whereby the private Peruvian company has the option to acquire, from Minera Ataspacas, an initial 70% interest in five mineral sand concessions (3,600 hectares total) surrounded by certain of the Company's mineral tenures noted above. In order to exercise the option, the Company is required to pay a total of USD 2,500,000 over five years to December 15, 2010 (with an initial payment of USD 20,000 on or before December 16, 2005 (paid)) and incur exploration expenditures of not less than USD 250,000 over the same period, as follows and as amended (see below):

- USD 80,000 on or before December 16, 2006 (paid);
  - USD 100,000 on or before December 16, 2007 (paid);
  - USD 150,000 on or before December 16, 2008 (paid);
  - USD 500,000 on or before December 16, 2009 (paid); and
  - USD 6,150,000 on or before December 16, 2010.
- 
- USD 50,000 on or before December 16, 2007 (incurred);
  - USD 50,000 on or before December 16, 2008 (incurred);
  - USD 50,000 on or before December 16, 2009 (incurred);
  - USD 50,000 on or before December 16, 2010 (incurred); and
  - USD 50,000 on or before December 16, 2011 (incurred).

Upon the Company having acquired the 70% interest, a joint venture company will be formed with Minera Ataspacas, and each party will thereafter be required to contribute its share of ongoing expenditures or be diluted. If either party is diluted to less than 10%, such interest will be converted to a 2% NSR royalty. If Minera Ataspacas is reduced to the 2% NSR, the Company may purchase half the NSR (1%) for USD 2,000,000 within 24 months of the exercise of the option, and the remaining half (1%) for USD 8,000,000 within 36 months of the exercise of the option.

The Company 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 certain of the mineral claims comprising the Iron Sands Project (plus additional claims acquired from Koripampa ( note 6(c)(i)).

**6. RESOURCE PROPERTIES (Continued)**

**(c) Peru (Continued)**

iii. Iron Sands Project, Nazca and Caraveli Provinces, Peru (Continued)

In order to exercise the option, the Optionee is required to incur an aggregate of USD 3,000,000 in expenditures over four years to November 18, 2009 and perform all of the obligations of the Company under the underlying agreements with respect to the Carbonera and Daniella properties (note 6(c)(i)), including making all payments and incurring all exploration expenditures required thereunder. Upon the Optionee having earned its 70% interest, the Optionee and the Company will incorporate a new Peruvian company to hold such rights, in which the Optionee and the Company will hold a 70% and a 30% interest therein, respectively. Each party will thereafter be required to contribute its *pro rata* share of future expenditures, and a party failing to contribute will have its interest in the joint venture company diluted. At such point as a party's interest in the joint venture company is reduced to 10%, such interest will be acquired by the joint venture company in exchange for the grant to the diluted party of a 1% NSR. The Optionee terminated the agreement and returned its interest in the applicable concessions on April 16, 2007.

In November 2009, the Company entered into agreements with Minera Ataspacas and others regarding its option on certain of the concession comprised in its Iron Sands Project, Peru. Pursuant to two agreements dated November 13, 2009, the original option agreement of December 16, 2005 with Minera Ataspacas was amended to provide that the Company may now acquire a 100% interest in the shares of a new Peruvian company (into which Minera Ataspacas will transfer a 100% interest in the five concessions subject to the option in favour of the Company) by paying to the shareholders of such new company the sum of USD 500,000 upon execution (paid) and USD 6,150,000 on or before December 16, 2010.

The Company is currently actively exploring this property with work programs planned for the fiscal year ending October 31, 2010.

- iv. Amable Maria Property, Peru. The Amable Maria Property consists of 37 mining concessions (approximately 29,620 hectares) located in the Provinces of Chanchamayo and Jauja, Department of Junin, Peru, and acquired by the Company through staking and application therefor. After an unsuccessful search for a joint venture partner, the property was abandoned in July 2009, and the Company has written off the associated costs of \$473,795 at October 31, 2009.

**(d) United States of America**

i. TiTac Property, Minnesota

Pursuant to an option agreement dated July 1, 2008 (as amended on July 24, 2008) between the Company and an arm's length private mineral owner, the Company has a two-year option to enter into a mining lease for an aggregate of 1,402 acres (567 hectares) of mineral rights located in Louis County, Minnesota. The mining lease will grant a lease over any mineral substance of a metalliferous nature, including those intermingled or associated materials or substances, recovered from each ton of crude ore for the purpose of extracting iron (essentially, iron, titanium and vanadium).

Option Agreement: Requires an initial payment of USD 5,000 on execution (paid) plus an extension payment of USD 25,000 due on the first anniversary of the agreement in order to extend the option for an additional year. There are no work commitments under the option, but the Company is required to comply with all laws and to maintain specified insurance in place during the option term. The Company can exercise the option to enter into a mineral lease at any time prior to June 29, 2010 upon notice to that effect to the owner.

**6. RESOURCE PROPERTIES (Continued)**

**(d) United States of America (Continued)**

1. TiTac Property, Minnesota (Continued)

Mining Lease: The initial term of the mining lease is for a period of 20 years, provided that the lease may be extended for an additional five-year period if the Company gives notice at least 180 days prior to the end of such term, and has either paid to the owner at least USD 10,000,000 in royalties over the initial term or pays to the owner the difference between the royalties actually paid and USD 10,000,000. In like manner, the lease can be extended for up to three additional five-year terms, provided that the appropriate notice is given and that the Company has paid to the owner at least USD 5,000,000 in royalties during the previous five-year term (or pays any deficiency in cash).

On May 29, 2009, the Company, through Cardero Iron US, exercised its option to enter into a mining lease with respect to the TiTac property in Minnesota, and made the initial USD 2,500 payment required upon execution of the lease (which is dated July 1, 2009).

The Company considers this an active property, and plans a work program during the fiscal year ending October 31, 2010.

ii. Longnose Property, Minnesota

Pursuant to an agreement dated November 26, 2008 between the Company and an arm's length individual on behalf of an arm's length B.C. company, the Company was granted the option to acquire up to an 85% interest in the interest of the optionor in certain existing mineral leases, and in a lease to be entered into, covering 100% of the fee mineral rights (approximately 200 acres) located in St. Louis County, Minnesota, just north of the town of Hoyt Lakes. The Company can earn an initial 70% interest by incurring cumulative expenditures of USD 1,850,000 as follows:

- USD 100,000 on or before December 8, 2009 (incurred);
- USD 250,000 on or before December 8, 2010;
- USD 500,000 on or before December 8, 2011; and
- USD 1,000,000 on or before December 8, 2012.

A payment of USD 50,000 (paid) to the optionor is required on or before August 15, 2009 (and each and every August 28 thereafter) to be used by the optionor to make the annual USD 50,000 advance royalty payment due to the underlying landowners. The Company can earn an additional 15% interest (85% overall) by delivering a feasibility study (no time limit for delivery). Upon the Company having earned a 70% or 85% interest, the optionor can elect to convert its interest to a 10% net profits interest (if the Company elects not to earn the additional 15% interest) or a 5% net profits interest (if the Company elects to earn the full 85% interest). If the optionor does not so elect, upon the Company having earned its 70% or 85% interest, as applicable, the Company and the optionor will enter into a joint venture, with each party being responsible for its pro rata share of all joint venture expenditures. If a party to the joint venture is diluted to a 10% or lesser interest, such interest will be converted to a 2.5% net profits interest.

During the period, the Company issued 75,000 common shares valued at \$111,500 as a finder's fee in connection with the acquisition of its interests in the TiTac and Longnose properties in Minnesota.

**(e) Other regions**

Caucasian Region (note 5, Equity Investment).

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**6. RESOURCE PROPERTIES (Continued)**

**(f) Title and environmental**

Although the Company has taken steps to verify the title to mineral properties in which it has or had 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.

**(g) Asset retirement obligations ("ARO")**

The Company is not aware of any ARO's as of April 30, 2010 and October 31, 2009.

**7. CAPITAL STOCK**

**(a) Authorized**

An unlimited number of common shares without par value.

**(b) Share purchase warrants**

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

|   | <b>April 30, 2010</b> |  | <b>October 31, 2009<br/>(audited)</b> |  |
|---|-----------------------|--|---------------------------------------|--|
|   | Number of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Warrants                 | Weighted<br>Average<br>Exercise<br>Price |
| Warrants outstanding, beginning of period | 4,303,100             | \$1.47                                   | 4,395,600                             | \$1.47                                   |
| Exercised                                 | (67,125)              | \$1.35                                   | (92,500)                              | (\$1.38)                                 |
| Expired                                   | (4,235,975)           | \$1.48                                   | -                                     | -  |
| Warrants outstanding, end of period       | -                     | \$ -                                     | 4,303,100                             | \$1.47                                   |

Details of warrants outstanding are as follows:

|                                     | <b>April 30, 2010</b> |                   | <b>October 31, 2009<br/>(audited)</b> |                   |
|-------------------------------------|-----------------------|-------------------|---------------------------------------|-------------------|
| Expiry date                         | Number of<br>Warrants | Exercise<br>Price | Number of<br>Warrants                 | Exercise<br>Price |
| March 1, 2010                       | -                     | \$ -              | 3,628,000                             | \$1.50            |
| March 1, 2010                       | -                     | \$ -              | 675,100                               | \$1.35            |
| Warrants outstanding, end of period | -                     | -                 | 4,303,100                             | -                 |

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**7. CAPITAL STOCK**

**(c) Stock options**

The Company has a stock option plan whereby the Company may grant options to directors, officers, employees and consultants to purchase common shares, provided that the aggregate number of shares subject to such options may not exceed 10% of the common shares outstanding at the time of any grant (not including agent or broker options). The exercise price of each option is required to be set at the higher of the closing price of the Company's common shares on the trading day prior to the date of grant and the five day volume-weighted average trading price for the five trading days prior to the date of grant (without any discounts). The option term and vesting period is determined by the Board of Directors within regulatory guidelines (the maximum term is ten years). All options are recorded at fair value when granted.

A summary of the status of the stock option plan as of April 30, 2010 and October 31, 2009 and changes during the periods ended on those dates is presented below:

|  | <b>April 30, 2010</b> |  | <b>October 31, 2009<br/>(audited)</b> |  |
|--|-----------------------|--|---------------------------------------|--|
|  | Number of<br>Options  | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Options                  | Weighted<br>Average<br>Exercise<br>Price |
| Options outstanding, beginning of period | 5,500,000             | \$ 1.77                                  | 5,687,500                             | \$ 1.93                                  |
| Expired and cancelled                    | (500,000)             | \$ (1.50)                                | (1,962,500)                           | \$ (1.78)                                |
| Exercised                                | -                     | \$ -                                     | (25,000)                              | \$ (1.47)                                |
| Granted                                  | 860,000               | \$ 1.37                                  | 1,800,000                             | \$ 1.27                                  |
| Options outstanding, end of period       | 5,860,000             | \$ 1.73                                  | 5,500,000                             | \$ 1.77                                  |

Stock options outstanding are as follows:

|                    | <b>April 30, 2010</b> |                      |                                 | <b>October 31, 2009<br/>(audited)</b> |                      |                               |
|--------------------|-----------------------|----------------------|---------------------------------|---------------------------------------|----------------------|-------------------------------|
| Expiry Date        | Exercise<br>Price     | Number of<br>Options | Exercisable<br>at Period<br>End | Exercise<br>Price                     | Number of<br>Options | Exercisable<br>at Year<br>End |
| January 16, 2010   | \$ 1.50               | -                    | -                               | \$ 1.50                               | 500,000              | 500,000                       |
| July 21, 2010      | \$ 2.04               | 2,000,000            | 2,000,000                       | \$ 2.04                               | 2,000,000            | 2,000,000                     |
| August 8, 2010     | \$ 2.18               | 1,200,000            | 1,200,000                       | \$ 2.18                               | 1,200,000            | 1,200,000                     |
| December 9, 2010   | \$ 1.16               | 575,000              | 575,000                         | \$ 1.16                               | 575,000              | 575,000                       |
| April 9, 2011      | \$ 1.39               | 225,000              | 225,000                         | \$ 1.39                               | 225,000              | 225,000                       |
| September 11, 2011 | \$ 1.30               | 1,000,000            | 1,000,000                       | \$ 1.30                               | 1,000,000            | 1,000,000                     |
| December 11, 2011  | \$ 1.31               | 360,000              | 360,000                         |                                       | -                    | -                             |
| February 2, 2012   | \$ 1.41               | 500,000              | 500,000                         |                                       | -                    | -                             |
|                    |                       | 5,860,000            | 5,860,000                       |                                       | 5,500,000            | 5,500,000                     |

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

|                       | Period ended<br>April 30, 2010 | Year ended<br>October 31, 2009 | Year ended<br>October 31, 2008 |
|-----------------------|--------------------------------|--------------------------------|--------------------------------|
| Expected life (years) | 2.0                            | 2.0                            | 2.0                            |
| Interest rate         | 1.25%                          | 1.32%                          | 3.01%                          |
| Volatility (average)  | 89.34%                         | 102.04%                        | 88.37%                         |
| Dividend yield        | 0.00%                          | 0.00%                          | 0.00%                          |

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**7. CAPITAL STOCK**

**(b) Stock Options (Continued)**

Stock-based compensation charges for the six month ended April 30, 2010 totalled \$610,862 (April 30, 2009 - \$539,064), of which \$346,914 (April 30, 2009 - \$289,587) was allocated to salary expenses, \$54,558 (April 30, 2009 - \$249,477) was allocated to consulting expense, and \$209,390 was allocated to investor relations expense (April 30, 2009 - \$Nil).

**8. RELATED PARTY TRANSACTIONS**

During the six months ended April 30, 2010 and 2009, the Company incurred the following expenses paid to officers or directors of the Company or companies with common directors:

|                   | <b>April 30,<br/>2010</b> | <b>April 30,<br/>2009</b> |
|-------------------|---------------------------|---------------------------|
| Professional fees | \$ 44,363                 | \$ 44,138                 |
| Consulting fees   | \$ 45,000                 | \$ 45,000                 |

At April 30, 2010, there was \$7,700 (October 31, 2009 - \$18,900) included in accounts payable and accrued liabilities, and \$451,598 (October 31, 2009 - \$587,956) included in due from related parties. Professional fees include amounts paid to a law firm of which a director is a shareholder.

Amounts due from related parties are comprised as follows:

|   | <b>April 30,<br/>2010</b> | <b>October 31,<br/>2009<br/>(audited)</b> |
|---|---------------------------|---|
| Unsecured promissory notes, 1% per annum, due the earlier of 30 days after demand or the due date, if applicable: |                           |   |
| Trevali Resource Corp.  | \$ 41,397                 | \$ 290,003                                |
| Wealth Minerals Ltd.  | 170,454                   | 121,393                                   |
| Dorato Resources Inc.   | 55,330                    | 25,490                                    |
| Directors, employees and other  | 184,417                   | 151,070                                   |
|   | <b>\$ 451,598</b>         | <b>\$ 587,956</b>                         |

The Company recovered \$393,286 during the six months ended April 30, 2010 (April 30, 2009 - \$301,670) in rent and administration costs from Wealth Minerals Ltd., International Tower Hill Mines Ltd., Dorato Resources Inc., Indico Resources Ltd., Trevali Resources Corp., Balmoral Resources Inc., and Lawrence W. Talbot Law Corporation (“LWTLC”), companies with common officers or directors.

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

Mr. Stephan Fitch, a director of the Company, is a director and significant shareholder of a private company that is the major shareholder (67%) of IMM. The Company has a 15% interest in IMM, a subsidiary of IMM, and has the option to acquire an additional 15% interest by issuing 1,000,000 common shares prior to December 31, 2009 (note 5). This transaction was approved by the Company’s audit committee and Board of Directors (other than Mr. Fitch, who abstained from voting in each case). The Company considers the collectability of advances totalling \$468,099 to IMM to be doubtful and accordingly wrote them off during the year ended October 31, 2009.

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

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. (“Koripampa”), for a fee of USD 10,000 per month (reduced to USD 7,500 per month starting from March 2007), which has been expensed to consulting fees. Mr. Ballon became President of Cardero Peru in April 2006. Accordingly, Mr. Ballon is 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 with either Koripampa 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, the Pampa de Pongo Property (note 6(c)(ii)), the Katanga Property and the Corongo Property.

The presidents of MMC and Cardero Argentina provide management services for USD 3,750 each per month, which is expensed to consulting fees or capitalized to property costs, depending upon the nature of the services.

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

**9. GEOGRAPHIC SEGMENTED DATA**

The Company operates in one industry segment, the mineral resources industry, and in five geographical segments, Canada, Peru, Mexico, Argentina and the United States. All current exploration activities are conducted in the affected jurisdictions outside of Canada. The significant asset categories identifiable with these geographical areas are as follows:

|                     | <b>April 30, 2010</b> |                      |                     |                   |                      |
|---------------------|-----------------------|----------------------|---------------------|-------------------|----------------------|
|                     | <b>Canada/US</b>      | <b>Peru</b>          | <b>Argentina</b>    | <b>Mexico</b>     | <b>Total</b>         |
| Resource properties | \$ 1,567,682          | \$ 9,729,605         | \$ 1,126,837        | \$ 250,195        | \$ 12,674,319        |
| Cash                | 10,987,335            | 62,543,430           | 143,818             | 3,328             | 73,677,911           |
| Investments         | 43,635,172            | -                    | -                   | -                 | 43,635,172           |
| Other               | 859,182               | 96,878               | 38,827              | 147,901           | 1,142,788            |
|                     | <b>\$ 57,049,371</b>  | <b>\$ 72,369,913</b> | <b>\$ 1,309,482</b> | <b>\$ 401,424</b> | <b>\$131,130,190</b> |

  

|                     | <b>October 31, 2009</b> |                     |                     |                     |                      |
|---------------------|-------------------------|---------------------|---------------------|---------------------|----------------------|
|                     | <b>(audited)</b>        |                     |                     |                     |                      |
|                     | <b>Canada/US</b>        | <b>Peru</b>         | <b>Argentina</b>    | <b>Mexico</b>       | <b>Total</b>         |
| Resource properties | \$ 309,347              | \$ 8,727,626        | \$ 894,114          | \$ 7,568,505        | \$ 17,499,592        |
| Cash                | 5,672,162               | 59,040              | 69,706              | 22,288              | 5,823,196            |
| Investments         | 23,406,055              | -                   | -                   | -                   | 23,406,055           |
| Other               | 973,482                 | 93,077              | 148,183             | 128,086             | 1,342,828            |
|                     | <b>\$ 30,361,046</b>    | <b>\$ 8,879,743</b> | <b>\$ 1,112,003</b> | <b>\$ 7,718,879</b> | <b>\$ 48,071,671</b> |

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**10. INCOME TAXES**

|  | Six months ended<br>April 30,<br>2010 | Six months ended<br>April 30,<br>2009 |
|--|---------------------------------------|---------------------------------------|
| Income tax expense (benefits)              | \$ 22,062,073                         | \$ (1,131,128)                        |
| Permanent differences                      | (180,556)                             | (19,851)                              |
| Stock-based compensation                   | 175,623                               | 163,516                               |
| Non-taxable portion of capital gains       | (42,925)                              | (361,340)                             |
| Write-down of properties                   | 2,351,964                             | 786,127                               |
| Other temporary differences                | 1,126,120                             | (117,959)                             |
| Effect of tax rates in other jurisdictions | (27,290)                              | (19,095)                              |
| Effect of rate reduction                   | (197,166)                             | (65,055)                              |
| Unrecognized (utilized) tax losses         | (407,225)                             | 96,073                                |
|  | \$ 24,860,618                         | \$ (668,712)                          |

The components of future income tax assets (liabilities) are as follows:

|  | April 30, 2010 | October 31, 2009<br>(audited) |
|--|----------------|-------------------------------|
| Future income tax assets   |                |                               |
| Non-capital loss carry-forwards  | \$ 8,143,975   | \$ 7,257,958                  |
| Difference between undepreciated capital cost<br>over net book value of property and equipment | 47,656         | 39,262                        |
| Cumulative eligible capital deduction  | 13,678         | 13,678                        |
| Share issue costs  | 198,212        | 242,007                       |
| Tax value of resource properties in excess of book values                                      | 2,307,249      | 453,032                       |
| Other  | 236,652        | 236,652                       |
| Total future income tax assets   | 10,947,422     | 8,242,589                     |
| Valuation allowance  | (7,590,060)    | (6,286,632)                   |
| Net future income tax assets   | \$ 3,357,362   | \$ 1,955,957                  |
| Future income tax liabilities  |                |                               |
| Book value of investments in excess of tax values  | \$ (3,357,362) | \$ (1,955,957)                |
| Timing of revenue recognition on sale of property  | -              | (2,564,900)                   |
| Total future income tax liabilities  | (3,357,362)    | (4,520,857)                   |
| Net income tax assets (liabilities)  | \$ -           | \$ (2,564,900)                |

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

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

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**10. INCOME TAXES (Continued)**

| Available to    | Canada        | Foreign       | Total         |
|-----------------|---------------|---------------|---------------|
| 2010            | \$ 812,500    | \$ -          | \$ 812,500    |
| 2011            | -             | 599,748       | 599,748       |
| 2012            | -             | 1,465,295     | 1,465,295     |
| 2013            | -             | 894,185       | 894,185       |
| 2014            | 1,446,622     | 693,716       | 2,140,338     |
| 2015            | 2,950,454     | 200,087       | 3,150,541     |
| 2016            | -             | 1,580,780     | 1,580,780     |
| 2017            | -             | 356,852       | 356,852       |
| 2018            | -             | 918,397       | 918,397       |
| 2019            | -             | 477,096       | 477,096       |
| 2020            | -             | 862,084       | 862,084       |
| 2026            | 2,850,458     | -             | 2,850,458     |
| 2027            | 3,086,818     | 69,804        | 3,156,622     |
| 2028            | 3,824,078     | 354,362       | 4,178,440     |
| 2029            | 2,184,169     | 230,673       | 2,414,842     |
| 2030            | 2,145,514     | 239,933       | 2,385,447     |
| Deferred expiry | -             | 1,631,398     | 1,631,398     |
|                 | \$ 19,300,613 | \$ 10,574,410 | \$ 29,875,023 |

**11. COMMITMENTS**

The Company is committed to monthly lease payments of \$11,907 for its premises at 1901 – 1177 West Hastings Street, Vancouver, under its current lease expiring August 31, 2010. On September 8, 2008, the Company sub-leased the premises to another company for the remaining term of the lease with the landlord's consent. The Company has entered into a sub-lease dated May 14, 2008 for new office space located at 1920 – 1188 West Georgia Street, Vancouver. The new sub-lease commences August 1, 2008 and is for a term of 51 months. The initial lease payments are \$14,654 per month for basic rent and \$9,623 per month for estimated operating costs, commencing in September 2008.

Other commitments are disclosed elsewhere in these consolidated financial statements as appropriate.

**12. RISK AND CAPITAL MANAGEMENT; FINANCIAL INSTRUMENTS**

The Company manages its capital structure, and makes adjustments to it, based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company currently has no source of revenues; as such, the Company is dependent upon external financings or the sale of assets (or an interest therein) to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the six months ended April 30, 2010. The Company is not subject to externally imposed capital requirements.

The Company classified its cash and cash equivalents as held-for-trading; amounts receivable as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities. The classification of resource related investments is set out in note 4. The carrying values of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The fair values of amounts due to and from related parties have not been disclosed as their fair values cannot be reliably measured since the parties are not at arm's length.

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**12. RISK AND CAPITAL MANAGEMENT; FINANCIAL INSTRUMENTS (Continued)**

CICA Handbook Section 3862 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company’s financial assets measured at fair value by level within the fair value hierarchy.

|                              | Level 1        | Level 2      | Level 3 | Total          |
|------------------------------|----------------|--------------|---------|----------------|
| Assets:                      |                |              |         |                |
| Cash and cash equivalents    | \$ 73,677,911  | \$ -         | \$ -    | \$ 73,677,911  |
| Resource related investments | 42,247,778     | -            | -       | 42,247,778     |
| Resource related investments | -              | 1,387,394    | -       | 1,387,394      |
|                              | \$ 115,925,689 | \$ 1,387,394 | \$ -    | \$ 117,313,083 |

The Company’s exposure to risk on its financial instruments is summarized below:

**(a) Credit risk**

The Company manages credit risk, in respect of cash and cash equivalents, by purchasing highly liquid, short-term investment grade securities held at a major Canadian financial institution in accordance with the Company’s investment policy. In regards to amounts receivable, the Company is not exposed to significant credit risk as they are primarily due from governmental agencies.

Concentration of credit risk exists with respect to the Company’s cash and cash equivalents as all amounts in Canada and Peru are held at major financial institutions. The Company’s concentration of credit risk and maximum exposure thereto is as follows relating to funds held in Canada, Peru and other countries:

|                        | April 30, 2010 | October 31, 2009<br>(audited) |
|------------------------|----------------|-------------------------------|
| Bank accounts - Canada | \$ 10,796,696  | \$ 5,672,162                  |
| Bank accounts - Peru   | 62,543,430     | 59,040                        |
| Bank accounts - Others | 337,785        | 91,994                        |
|                        | \$ 73,677,911  | \$ 5,823,196                  |

The credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with major financial institutions with strong investment grade ratings given by a primary ratings agency. The Company does not hold any asset backed securities.

With respect to the \$451,598 (October 31, 2009 - \$587,956) due from related parties, the credit risk has been assessed as low by management as the Company has strong working relationships with the related parties involved.

**12. RISK AND CAPITAL MANAGEMENT; FINANCIAL INSTRUMENTS (Continued)**

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet commitments. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company maintains sufficient cash and cash equivalents at April 30, 2010 of \$73,677,911 (October 31, 2009 - \$5,823,196) in order to meet short-term business requirements. At April 30, 2010 the Company had accounts payable and accrued liabilities of \$814,435 (October 31, 2009 - \$568,951), which are due within 30 days.

**(c) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk, and other price risk.

**i. Interest rate risk**

The Company's cash and cash equivalents consists of cash held in bank accounts and guaranteed investment certificates that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of April 30, 2010. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

**ii. Foreign currency risk**

The Company is exposed to foreign currency risk to the extent that monetary financial instruments are denominated in Mexican, Argentinean and Peruvian currencies. The Company has not entered into any foreign currency contracts to mitigate this risk as it believes this risk is minimized by the amount of cash held in these foreign jurisdictions. The Company's sensitivity analysis suggests that a consistent 5% change in the rate of exchange in all foreign jurisdictions where it has assets employed would change mineral properties and foreign exchange gain or loss by \$160,639 (October 31, 2009 - \$519,590).

**iii. Other price risk**

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company's investments are carried at market value, and are therefore directly affected by fluctuations in the market value of the underlying securities. The Company's sensitivity analysis suggests that a 1% change in market prices would change the value of the resource related investments by \$436,352, and the change on resource related investments in warrants cannot be predicted. During the six months ended April 30, 2010, the Company's investments increased an average of 86%.

**13. SUBSEQUENT EVENTS**

Subsequent to April 30, 2010:

- (a) On May 27, 2010, the Company subscribed for 3,333,334 common shares (raising its ownership interest to 33 %) of Abzu Resources Ltd., a private British Columbia company with mineral interests in Ghana, Africa, by way of private placement at a price of \$0.15 per share.

**14. COMPARATIVE FIGURES**

Certain of the figures for 2009 have been reclassified to conform to the presentation adopted for the current period.

**15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP**

**(a) Differences in accounting principles**

i. Exploration expenditures

Under Canadian GAAP, acquisition costs and exploration expenditures are capitalized. Under US GAAP, exploration costs incurred in locating areas of potential mineralization are expensed as incurred.

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

Under US GAAP, mining projects are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. If estimated future cash flows expected to result from the use of the mining project or property, and their eventual disposition are less than the carrying amount of the mining project or property, 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, property, calculated using estimated mineable reserves, mineral resources, based on engineering reports, projected rates of production over the estimated mine, recovery rates, capital requirements, remediation costs and future prices considering the Company’s hedging and marketing plans. At April 30, 2010, all mineral properties considered active under US GAAP had a book value of \$3,000,400 (\$5,708,015 at October 31, 2009) (note 6), after all applicable impairment charges.

**CARDERO RESOURCE CORP.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**For the Six Months ended April 30, 2010 and 2009**  
**(Unaudited – Prepared by Management)**

**15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP (Continued)**

**(a) Differences in accounting principles (Continued)**

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

|   | <b>April 30, 2010</b> | <b>October 31, 2009<br/>(audited)</b> |
|---|-----------------------|---------------------------------------|
| Total assets per Canadian GAAP  | \$ 131,130,190        | \$ 48,071,671                         |
| Exploration expenditures on resource properties<br>expensed under US GAAP | (9,673,919)           | (11,791,577)                          |
| <b>Total assets per US GAAP</b>   | <b>\$ 121,456,271</b> | <b>\$ 36,280,094</b>                  |
| Total liabilities per Canadian and US GAAP                                | \$ 27,865,818         | \$ 3,133,851                          |
| Total shareholders' equity per Canadian GAAP                              | 103,264,372           | 44,937,820                            |
| Exploration expenditures on resource properties<br>expensed under US GAAP | (9,673,919)           | (11,791,577)                          |
| <b>Total shareholders' equity per US GAAP</b>                             | <b>93,590,453</b>     | <b>33,146,243</b>                     |
| <b>Total liabilities and shareholders' equity per US GAAP</b>             | <b>\$ 121,456,271</b> | <b>\$ 36,280,094</b>                  |

iii. Reconciliation of net income (loss) and comprehensive income (loss) reported in Canadian GAAP and U.S. GAAP:

Statements of operations for the six months ended April 30:

|   | <b>April 30, 2010</b> | <b>April 30, 2009</b> |
|---|-----------------------|-----------------------|
| Reconciliation of net income (loss) from Canadian to US GAAP                  |                       |                       |
| Net income (loss) per Canadian GAAP   | \$ 48,208,480         | \$ (3,060,282)        |
| Acquisition of mineral interests  | -                     | -                     |
| Exploration and development costs   | (2,663,111)           | (865,965)             |
| Reverse exploration and developments costs written-off                        | 4,769,174             | 1,913,631             |
| Exploration and development costs recovered                                   | 11,595                | -                     |
| <b>Total difference</b>   | <b>2,117,658</b>      | <b>1,047,666</b>      |
| <b>Total net income (loss) per US GAAP</b>                                    | <b>\$ 50,326,138</b>  | <b>(2,012,616)</b>    |
| <b>Weighted average number of common shares outstanding</b>                   | <b>58,638,483</b>     | <b>58,297,116</b>     |
| Basic and diluted income (loss) per share in accordance with Canadian<br>GAAP | \$ 0.82               | \$ (0.05)             |
| Total differences   | 0.04                  | 0.02                  |
| <b>Basic and diluted income (loss) per share in accordance with US GAAP</b>   | <b>\$ 0.86</b>        | <b>\$ (0.03)</b>      |

Statements of comprehensive income (loss) for six months ended April 30:

|   | <b>April 30, 2010</b> | <b>April 30, 2009</b> |
|---|-----------------------|-----------------------|
| Comprehensive income (loss) in accordance with Canadian GAAP        | \$ 57,625,071         | \$ 729,086            |
| Total difference in net income (loss) between Canadian and US GAAP  | 2,117,658             | 1,047,666             |
| <b>Total comprehensive income (loss) in accordance with US GAAP</b> | <b>\$ 59,742,729</b>  | <b>\$ 1,776,752</b>   |

**CARDERO RESOURCE CORP.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**For the Six Months ended April 30, 2010 and 2009**  
**(Unaudited – Prepared by Management)**

**15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP (Continued)**

**(a) Differences in accounting principles (Continued)**

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

Statements of cash flow for six months ended April 30:

|  | April 30, 2010 | April 30, 2009 |
|--|----------------|----------------|
| Net cash used in operating activities of continuing operations in accordance with Canadian GAAP                  | \$ (5,777,931) | \$ (1,363,945) |
| Adjustments to net loss involving use of cash  |                |                |
| Write-off of capitalized resource property exploration costs   | (2,702,882)    | (871,954)      |
| Net cash provided by (used in) operating activities of continuing operations in accordance with US GAAP          | (8,480,813)    | (2,235,899)    |
| Net cash provided by investing activities of continuing operations in accordance with Canadian GAAP              | 76,518,122     | 2,294,818      |
| Reclassification of capitalized resource property exploration costs  | 2,702,882      | 871,954        |
| Net cash provided by (used in) investing activities of continuing operations in accordance with US GAAP          | 79,221,004     | 3,166,772      |
| Net cash flows provided by financing activities of continuing operations in accordance with Canadian and US GAAP | 90,619         | 164,250        |
| Effect of foreign exchange on cash in accordance with Canadian and US GAAP                                       | (2,976,096)    | (6,139)        |
| Net increase (decrease) in cash and cash equivalents in accordance with Canadian and US GAAP                     | 67,854,714     | 1,088,984      |
| Cash and cash equivalents, beginning of period in accordance with Canadian and US GAAP                           | 5,823,196      | 1,288,840      |
| Cash and cash equivalents, end of period in accordance with Canadian and US GAAP                                 | \$ 73,677,911  | \$ 2,377,824   |

**(b) Recent US accounting pronouncements**

- i. In May 2009, the FASB issued Accounting Standards Codification (“ASC”) 855-10, *Subsequent Events* (“ASC 855-10”) (formerly SFAS Statement No 165), which establishes principles and requirements for subsequent events. In particular, ASC 855-10 sets forth: (a) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (b) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and (c) the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. ASC 855-10 also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. As a result of the adoption of this new standard, the Company evaluated subsequent events to June 10, 2010, the date these consolidated financial statements were available for issue.

**15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP (Continued)**

**(b) Recent US accounting pronouncements (Continued)**

- ii. In June 2009, the FASB issued new guidance which is now a part of ASC 860-10 (formerly SFAS Statement No 166), to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The FASB undertook this project to address (1) practices that have developed since the issuance of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (which is now a part of ASC 860-10), that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This new guidance is effective for fiscal years beginning after November 15, 2009 and is not expected to have a material impact on the Company's consolidated financial statements.
- iii. In June 2009, the FASB issued new guidance which is now part of ASC 810-10 (formerly SFAS Statement No. 167), to improve financial reporting by enterprises involved with variable interest entities. The FASB undertook this project to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (which is now part of ASC 810-10), as a result of the elimination of the qualifying special-purpose entity, and (2) constituent concerns about the application of certain key provisions of ASC 810-10, including those in which the accounting and disclosures under ASC 810-10 do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This new guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. This new guidance is not expected to have a material impact on the Company's consolidated financial statements.
- iv. In June 2009, the FASB issued new guidance which is now part of ASC 105-10 (the "Codification") (formerly Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification*<sup>TM</sup> and the *Hierarchy of Generally Accepted Accounting Principles*), which will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of the Codification, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the Codification only had the effect of amending references to authoritative accounting guidance in the Company's consolidated financial statements.
- v. In August 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-05, "Measuring Liabilities at Fair Value" ("ASU 2009-05"). This update provides amendments to ASC 820, "Fair Value Measurements and Disclosure", for the fair value measurement of liabilities when a quoted price in an active market is not available. ASU 2009-05 is effective for reporting periods beginning after August 28, 2009. This new guidance is not expected to have a material impact on the Company's consolidated financial statements.

**15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP (Continued)**

**(b) Recent US accounting pronouncements (Continued)**

- vi. In September 2009, the FASB issued Accounting Standards Update No. 2009-12, “Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)” (“ASU 2009-12”). This update provides amendments to ASC Topic 820, “Fair Value Measurements and Disclosure”, permitting companies to estimate the fair value of investments within ASC 820’s scope using the net asset value per share. ASU 2009-05 is effective for reporting periods ending after December 15, 2009.
  
- vii. In September 2009, the FASB reached a consensus on Accounting Standards Update (“ASU”) -2009-13 “Revenue Recognition” (“ASC 605”) – “Multiple-Deliverable Revenue Arrangements” (“ASU 2009-13”), and ASU 2009-14 “Software” (“ASC 985”) – “Certain Revenue Arrangements That Include Software Elements (“ASU 2009-14”). ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 eliminates the requirement that all undelivered elements must have either: (i) VSOE or (ii) third-party evidence, or TPE, before an entity can recognize the portion of an overall arrangement consideration that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. Overall arrangement consideration will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity’s estimated selling price. The residual method of allocating arrangement consideration has been eliminated. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product’s essential functionality. These new updates are effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. However, these provisions are not expected to have a material impact on the Company’s consolidated financial statements.

**CARDERO RESOURCE CORP.**  
**Form 51-102F1**  
**Management's Discussion and Analysis**  
**For the six months ended April 30, 2010**

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## **INTRODUCTION**

This Management Discussion and Analysis ("MD&A") for Cardero Resource Corp. ("Cardero" or the "Company") for the period ended April 30, 2010 has been prepared by management, in accordance with the requirements of National Instrument 51-102, as of June 10, 2010, and compares its financial results for the quarter ended April 30, 2010 to the previous year. This MD&A provides a detailed analysis of the business of Cardero and should be read in conjunction with the Company's audited consolidated financial statements for the years ended October 31, 2009 and 2008 and unaudited consolidated interim financial statements for the three and six months period ended April 30, 2010. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The Company reports its financial position, results of operations and cash-flows in accordance with Canadian generally accepted accounting principles.

This MD&A contains certain statements that may constitute "forward-looking statements". All statements, other than statements of historical fact, included herein, including but not limited to, statements regarding future anticipated property acquisitions, the anticipated content, commencement, timing, cost and nature of future anticipated exploration programs and metallurgical testing programs and pilot plant tests and the results thereof, discovery and delineation of mineral resources/reserves, the potential for the expansion of resources at Pampa el Toro, business and financing plans and business trends, are forward-looking statements. Information concerning mineral resource estimates also may be deemed to be forward-looking statements in that it reflects a prediction of the mineralization that would be encountered if a mineral deposit were developed and mined. 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, variations in the nature, quality and quantity of any mineral deposits that may be located, variations in the market for, and pricing of, any mineral products the Company may produce or plan to produce, the Company's inability to obtain any necessary permits, consents or authorizations required for its activities, the Company's inability 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, and other risks and uncertainties identified herein under "Risk Factors". Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. The Company does not expect to update forward-looking statements continually as conditions change and the reader is referred to the full discussion of the Company's business contained in the Company's disclosure filed with the Canadian securities regulatory authorities. For the reasons set forth above, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

Historical results of operations and trends that may be inferred from the following discussion and analysis may not necessarily indicate future results from operations. In particular, the current state of the global securities markets may cause significant fluctuations in the price of the Company's securities and render it difficult or impossible for the Company to raise the funds necessary to develop any of its present or future mineral properties.

This MD&A contains information with respect to adjacent or similar mineral properties in respect of which the Company has no interest or rights to explore or mine. The Company advises US investors that the mining guidelines of the US Securities and Exchange Commission (the "SEC") set forth in the SEC's Industry Guide 7 strictly prohibit information of this type in documents filed with the SEC. Readers are cautioned that the Company has no interest in or right to acquire any interest in any such properties, and that mineral deposits on adjacent or similar properties, and any production therefore or economics with respect thereto, are not indicative of mineral deposits on the Company's properties or the potential production from, or cost or economics of, any future mining of any of the Company's mineral properties.

#### **Cautionary Note to US Investors Concerning Reserve and Resource Estimates**

National Instrument 43-101 "Standards of Disclosure for Mineral Projects" ("NI 43-101") is a rule developed by the Canadian Securities Administrators, which established standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all reserve and resource estimates contained in this MD&A or released by the Company in the future, have been or will be prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resource and Mineral Reserves, adopted by the CIM Council on November 14, 2004 (the "CIM Standards") as they may be amended from time to time by the CIM.

The terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" are Canadian mining terms as defined in accordance with NI 43-101. These definitions differ from the definitions in the SEC's Industry Guide 7 ("Guide 7") under the U.S. Securities Act of 1933, as amended (the "Securities Act"). Under Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. Under Guide 7 standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made.

In addition, the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves or that they can be mined economically or legally. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all, or any part, of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or that it can be economically or legally mined. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this MD&A contain descriptions of the Company's mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

All of the Company's public disclosure filings, including its most recent management information circular, material change reports, press releases and other information, may be accessed via [www.sedar.com](http://www.sedar.com) and readers are urged to review these materials, including the technical reports filed with respect to the Company's mineral properties.

## **DATE**

This Management Discussion and Analysis reflects information available as at June 10, 2010.

## **RESULTS OF OPERATIONS**

### **Background**

Cardero Resource Corp. is a junior resource mineral exploration company. Its assets consist of interests in mineral properties, the securities of other junior natural resource exploration companies and cash. The Company funds its operations primarily through the sale of its equity securities and of its investments in other companies and the sale of interests in its mineral properties. The mineral exploration business is very high risk (See "Risk Factors").

### **Exploration Activities**

Cardero is actively assessing, acquiring interests in and exploring a number of mineral exploration properties, primarily those it considers to be prospective for gold, copper and iron. At the present time, it is focusing its activities in Mexico, Argentina, Peru and the state of Minnesota in the United States, where it has established subsidiaries and the infrastructure to enable it to actively work in such countries. The Company, through its subsidiaries, holds, or has the right to acquire interests in, mineral properties in these countries. However, at the present time it does not consider all of these to be material as, in many cases, the properties are in the early stages of evaluation, or have not had sufficient work done on them by the Company to determine if they are material. Cardero presently considers its only material property to be the Pampa el Toro Iron Sands Project in Peru.

| <b>Property</b>                             | <b>Total Costs as of<br/>October 31, 2009</b> | <b>Total Costs to<br/>April 30, 2010</b> | <b>Estimated Fiscal<br/>2010 Expenditures<sup>(1)</sup></b> |
|---|---|--|---|
| Pampa el Toro Iron<br>Sands - Marcona, Peru | \$ 8,727,626                                  | \$ 9,729,605                             | \$ 3,100,000  |

**Note:** 1. This amount represents the estimated exploration expenditures for fiscal year ending October 31, 2010. Estimated expenditures are contingent upon ongoing successful results justifying further expenditures.

During the quarter April 30, 2010 and to June 10, 2010, the Company was primarily focussed on promoting the Pampa el Toro Iron Sands program as a viable project for the production of iron ore concentrate and/or pig iron to serve the needs of the PRC, and formulating and commencing the drilling programs for the Baja IOCG, Longnose and TiTac properties and planning and commencing Phase II exploration program on the Organullo property.

*Material Mineral Property*

*Pampa El Toro Iron Sands Project, Peru*

*General*

The Company's Iron Sands project now comprises an aggregate of 21 concessions in two dune fields – Pampa el Toro and Carbonera. Of these concessions, 16 (12,100 hectares in four areas) are owned 100% by the Company and 5 concessions (3,600 hectares in 2 areas) are held under option from an arm's length private Peruvian company. The Iron Sands project is located near the city of Nazca in the desert coastal region of southern Peru approximately 45 kilometres northeast of the port of San Juan and close to the large Marcona iron mine and the Company's Pampa de Pongo iron deposit. The primary focus of the Company's work during the quarter and to date continues to be the Pampa el Toro dune field.

During the quarter and to date the Company successfully promoted and show-cased the Pampa el Toro program as a viable project for the production of iron ore concentrate and/or pig iron to serve the needs of steelmakers located in the PRC, including a demonstration of concentrate production pilot plant operation. The Company also invested approximately \$40,000 of additional capital in its Peru pilot plant to install concentrate screens to further demonstrate the necessary classification step that needs to be applied to the cleaned iron ore concentrate from the magnetic separation plant so as to achieve the final grade of 63~64% FeTotal. Demonstration of this step is important to any venture partner as it clearly shows that the final iron ore concentrate is of merchant grade quality suitable for offtake agreements.

In July, 2009, the Company received from SRK Consulting (South Africa) Inc. ("SRK") an initial resource estimate for the Pampa el Toro Iron Sands Project. Indicated and inferred resources have been defined over an approximate area of 1,595 hectares (approximately 13% of the total 12,200 hectare Pampa El Toro concession area), and only to a nominal depth of 30 metres from surface, as follows:

| <u>Category</u> | <u>Volume m<sup>3</sup></u> | <u>Tonnes</u> | <u>Fe<sub>2</sub>O<sub>3</sub> %</u> | <u>TiO<sub>2</sub> %</u> | <u>V (ppm)</u> |
|-----------------|-----------------------------|---------------|--------------------------------------|--------------------------|----------------|
| Indicated       | 133,608,000                 | 241,831,000   | 6.66%                                | 0.72%                    | 172 ppm        |
| Inferred        | 348,000,000                 | 629,881,000   | 6.48%                                | 0.70%                    | 166 ppm        |

Although a 30-metre cut-off depth was selected by SRK – as a conceptual mining depth to provide a 30-year life-of-mine (LOM) – drill testing of dune sand has been undertaken up to 60 metres depth in certain drillholes and has returned similar grades. The resource estimate was described in detail in a 43-101 technical report dated September 10, 2009 by SRK entitled "Pampa el Toro Mineral Resource Technical Report", which is available on SEDAR. Readers are urged to review the SRK report in full.

*Future Work*

The Company intends to complete the metallurgical test program presently underway for the recovery of vanadium and titanium from the smelter slag produced in the melting test, and believes that the results of this testing will add significant value in terms of potential high-quality pig-iron and titanium-vanadium co-products. This testing is expected to be completed in the third quarter, 2010. The Company is also considering undertaking pre-feasibility studies to address the mining of the Pampa el Toro resource as well as a pre-feasibility study for the value-added smelting operation.

At the present time, the Company is actively engaged in securing a partner who can help move the project to a commercial stage and, although the Company is presently in discussions with interested entities (including conducting property visits), there can be no assurance that it will be able to do so.

***Other Mineral Projects***

*Mexico*

*Baja IOCG*

The Baja IOCG project was reviewed in August 2008 by a structural consultant, who spent 3 weeks in the field mapping and reviewing core. A structural approach to the interpretation of the extensive IOCG mineralization system at San Fernando outlined several areas which have the potential for the generation of copper-rich ore bodies. A series of prospective targets and drill recommendations were defined on the basis of the new structural map, surface indications of mineralization from outcrop, geochemistry and a review of other geological data (such as host rock favourability), previous drilling and geophysics.

Drilling has now finished, with a total of 3,800 metres completed. During the current drill program, a total of 11 drillholes were completed at San Fernando with 8 in the eastern/central zone and 3 in the new western zone. Most drillholes contained significant alteration, brecciation and sulphide mineralization, together with trace chalcopyrite. However, drill results received to date do not represent a material improvement on previous San Fernando drilling results and results outstanding from the final drillholes are not expected to be significant.

Four drillholes were completed at San Jose for a total of 971 metres. No significant mineralization was intersected in these drillholes and the target is considered to be fully tested. One drillhole was completed and a second abandoned at the Santa Maria target, for a total of 310 metres. No assay results have been returned, but under visual inspection the mineralization encountered is unlikely to be considered potentially economic. The Company has engaged personnel at the Colorado School of Mines to review the results to date and determine potential additional areas for drill testing.

The Company is presently seeking a joint venture partner to explore the area further.

*Corrales and Santa Teresa Projects Option*

Ethos Capital Corp. ("Ethos"), the TSXV listed capital pool company to which the Company has optioned its Corrales and Santa Teresa zinc-lead-silver projects in Mexico as a qualifying transaction, received TSXV acceptance to the transaction on July 17, 2009. The Company understands that Ethos will be proceeding with the work program at Santa Teresa outlined in the Technical Report filed in support of its qualifying transaction (available on SEDAR) but, to the date of this MD&A, has not received any progress report or exploration data.

*Argentina*

*Organullo*

The Organullo Project is located in the Salta Province of north-western Argentina in the central South American Andes mountain ranges approximately 18 kilometres by road south of San Antonio de Los Cobres. The Company holds a 100% interest in the property, which covers approximately 6,100 hectares.

The Company initiated a two-phase exploration program in August, 2009. Phase I, a multi-faceted ground campaign, was designed to establish targeting parameters for future exploration and refine drill targets at known zones of mineralization and was completed in April, 2010. Highlights of the Company's recent drill-targeting exploration program include:

- Gold values from 361 rock samples collected over 8 kilometres of strike on the 6,100 hectare property average 0.48 g/t and range from below detection to 29.7 g/t.
- Mapping and geochemical analyses have defined a 2.1-kilometre by 800-metre zone of high-temperature hydrothermal alteration typical of both low- and high-sulphidation epithermal gold deposits.
- Geophysical surveying has characterized the historical Julio Verne Mine and identified similar targets over a 5-kilometre strike length.
- Geology and geochemical results consistent with the upper levels of a large magmatic porphyry-high sulphidation system have been highlighted. These type of systems host prolific gold mineralization elsewhere in the central Andes, such as in the Pascua - El Indio belt, and do not preclude the potential for a large Bajo de la Alumbrera or El Salvador-style porphyry deposit at depth.

The positive results from Phase I indicated potential for a large, bulk-tonnage gold system and the Company has commenced Phase II exploration, which includes an initial 2,000 metre, 5-hole diamond drill program. The drilling will test an approximately 2.1-kilometre long by 800-metre wide north-south trending structural zone defined by the coincidence of significant historical drill intercepts, gold-in-rock surface geochemistry, and variably developed advanced argillic (alunite+/-dickite+/-pyrophyllite) and silica alteration in the vicinity of the former Julio Verne mine.

Phase II work completed to date includes the collection of 340 talus-fine samples and 29 stream sediment samples from across the property plus 267 drill core samples from approximately 252 metres of diamond drilling close to the Julio Verne drill target. Samples have been submitted to ALS Chemex in Mendoza, Argentina for geochemical analysis and assays are pending.

Additional drilling will be contingent on positive results from the initial drill tests.

#### *Los Manantiales (Mina Angela) Project*

On December 3, 2008, Hochschilds Mining Holdings Limited terminated its option to acquire an interest in the project, and returned all interest in the property to the Company. The Company is presently awaiting receipt of all the data generated by Hochschilds in connection with its activities on the property as required by the option agreement. However, several attempts to secure such data have been unsuccessful. Upon receipt of the data, the Company will formulate a plan for the property, which will likely involve seeking a new optionee/joint venture partner.

#### *Minas Pirquitas*

On July 17, 2009, the Company and Davcha Resources Pty. Ltd. finalized the formal agreement in connection with the option to Davcha to earn a 55% interest in the property. Davcha is the operator. The Company has been advised that Davcha has agreed to option its interest in the Minas Pirquitas property, and four other properties in the same region, to Artha Resources Corporation ("Artha"). Pursuant to the Cardero/Davcha agreement, Davcha is required to incur expenditures of USD 50,000 on or before July 14, 2010 and additional expenditures of USD 950,000 on or before July 14, 2013.

Artha has, announced (see Artha news release of May 18, 2010) completion of phase one follow-up work on two key properties that immediately adjoin Silver Standards Pirquitas Mine and include Cardero's Pirquitas property. Over 200 rock chip samples have been collected from the recently mapped Pirquitas NW and Pirquitas South prospects.

Artha provided a second update (see Artha news release of June 4, 2010), having successfully completed follow-up work on the Pirquitas NW and Pirquitas South prospects in NW Argentina (including Cardero's property) adjacent to the Pirquitas Silver Mine. Artha reported one rock chip sample returning 2 g/t gold within a coincident silver-gold-bismuth-arsenic anomaly covering an area of over 1.5 square kilometres within the Pirquitas NW prospect. Artha has not provided details of other results or a table of results, but Cardero expects a full technical report on work completed to date, anticipated to be delivered in the third quarter. Results are still awaited from the Pirquitas South prospect.

Artha also report that Induced Polarization geophysics is expected to begin on this prospect in mid-June, as part of a larger program, to better define its lateral extent underneath alluvial cover and its depth extent.

### United States

#### *TiTac and Longnose Projects, Minnesota*

The Company has commenced an initial work program at the Longnose and TiTac projects. Previous work has included re-sampling to verify historical laboratory analysis, surveying and cleaning of previously existing local grids, negotiating to secure surface access rights and initiating the necessary permitting process. The Company initiated drilling in mid-February 2010, aiming to complete new NI 43-101 compliant resource estimates for each property. SRK Consulting have been retained to complete this work, which will utilize historical and new drill data, once the current drilling program has been completed. The operations were visited and reviewed by a representative of SRK Consulting in mid-March as part of this work. The Company has retained a consultant to conduct preliminary metallurgical test work to concentrate the sample with density (table) and magnetic separation.

A total of 36 drillholes (including two abandoned) have been completed on the properties. The drill program was completed on May 30, 2010 after drilling a total of 37,741.5 feet (11,506 metres).

A total of 13 holes were programmed for the Longnose property, but only 4 drillholes were completed before being stopped by unseasonably early warm weather and spring breakup. An additional drillhole was temporarily abandoned before hitting target depth (LNG002; Table 1). Drilling is scheduled to recommence in late 4<sup>th</sup> quarter 2010. The mineralized host oxide ultramafic intrusion ("OUI") unit at this property is moderately-dipping to the SE, and was intersected in four holes. Analytical results are pending.

A total of 17 drillholes were originally planned for the Titac property, which consists of two magnetic anomalies (Titac North and Titac South). Drilling commenced on Titac North (total of 8 holes drilled) and the first two vertical holes drilled did not intersect significant OUI units, intersected mainly the Partridge River Formation country rocks. Subsequent drillholes intersected the main intrusion, and oxide mineralization ranging from 5% to 60% total oxide mineralization (predominantly ilmenite and magnetite). Drill intersections indicate that the two OUI bodies on the property are steeply-dipping to the south. Drilling has demonstrated that the eastern contact of Titac North is a NE-SW-trending fault that is interpreted to have cut the intrusion and transposed it to the SSW (Titac South).

Due to the spring breakup, further drilling was halted on Titac North until the winter drilling season 2010-2011. Six drill holes were originally planned for Titac South but due to extensive mineralized oxide intersections an additional 17 holes were drilled for a total of 23 drill holes on TiTac South. The additional drillholes were targeted in consultation with representatives of SRK Consulting, with the goal to define a NI 43-101 compliant resource. All analytical results at Titac (North and South) are pending.

*Table 1: Drill hole list and total footage at the Longnose Property, MN.*

| Hole Number   | Azimuth/Dip | Total Depth       |
|---------------|-------------|-------------------|
| LNG001        | 315 / -45   | 794'              |
| LNG002        | 315 / -45   | 329.5'(abandoned) |
| LNG003        | 315 / -45   | 306'              |
| LNG004        | 315 / -45   | 517'              |
| LNG005        | 000 / -90   | 597'              |
| <b>Total:</b> |             | <b>3,111.5'</b>   |

*Table 2: Drill hole list and total footage at the Titac Property, MN.*

| Hole Number   | Azimuth/Dip | Total Depth (ft) |
|---------------|-------------|------------------|
| TTC001        | 000 / -90   | 756'             |
| TTC002        | 000 / -90   | 685'             |
| TTC003        | 130 / -60   | 1196'            |
| TTC004        | 073 / -60   | 1137'            |
| TTC005        | 005 / -60   | 1707'            |
| TTC006        | 025 / -75   | 867'             |
| TTC007        | 306 / -60   | 1256'            |
| TTC008        | 355 / -60   | 1206'            |
| TTC009        | 055 / -45   | 1235'            |
| TTC010        | 085 / -60   | 1286'            |
| TTC011        | 095 / -45   | 894'             |
| TTC012        | 130 / -60   | 1276'            |
| TTC013        | 125 / -45   | 830'             |
| TTC014        | 165 / -45   | 1986'            |
| TTC015        | 165 / -45   | 855'             |
| TTC016        | 195 / -45   | 108' (abandoned) |
| TTC016N       | 195 / -45   | 895'             |
| TTC017        | 340 / -85   | 1047'            |
| TTC018        | 219 / -45   | 865'             |
| TTC019        | 000 / -90   | 1607'            |
| TTC020        | 005 / -45   | 1015'            |
| TTC021        | 082 / -75   | 1223'            |
| TTC022        | 015 / -65   | 1148'            |
| TTC023        | 125 / -75   | 1157'            |
| TTC024        | 085 / -65   | 1258'            |
| TTC025        | 225 / -75   | 1258'            |
| TTC026        | 112 / -65   | 1258'            |
| TTC027        | 308 / -75   | 1258'            |
| TTC028        | 201 / -65   | 1207'            |
| TTC029        | 249 / -65   | 1097'            |
| TTC030        | 310 / -50   | 1057'            |
| <b>Total:</b> |             | <b>34,630'</b>   |

Drillhole sampling is underway and assay results will be reported when available. The Company has sufficient funds to complete the proposed program.

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

EurGeol Keith Henderson, Cardero's Vice President-Exploration and a qualified person as defined by National Instrument 43-101, has supervised the preparation of the scientific and technical information that forms the basis for the mineral property disclosure in this MD&A other than with respect to the test work on the Pampa el Toro concentrate and the mineral resource estimate for Pampa el Toro. Mr. Glen Hoffman MMSA QP, the President and CEO of Cardero Iron Ore Company Ltd. and a qualified person as defined by National Instrument 43-101, has reviewed the scientific and technical information with respect to the test work on the Pampa el Toro concentrate. Neither Mr. Henderson nor Mr. Hoffman is

independent of the Company, as both are employees and hold common shares and incentive stock options. Mr. Mark Wanless, Pr. Sci. Nat., of SRK Consulting (South Africa) (Pty.) Ltd., and a qualified person as defined by National Instrument 43-101, is responsible for all aspects of the mineral resource estimate for Pampa el Toro as outlined in this MD&A.

The work programs at Pampa el Toro are designed by, and are supervised by, Dr. S. Jayson Ripke MMSA QP, Cardero Iron Ore Management (USA) Inc.'s Vice President - Technical, who is responsible for all aspects of the work, including the quality control/quality assurance program. The metallurgical test work is designed and directly observed on site by Dr. Ripke, who is responsible for all on-site aspects of metallurgical testing and the quality control/quality assurance.

The work programs on the Company's properties other than Pampa el Toro are designed and are supervised by Mr. Henderson, either alone or in conjunction with independent consultants. Mr. Henderson and such consultants, as applicable, are responsible for all aspects of the work, including the quality control/quality assurance program. On-site personnel at the various project rigorously collect and track samples which are then sealed and shipped to ALS Chemex for assay. ALS Chemex's quality system complies with the requirements for the International Standards ISO 9001:2000 and ISO 17025:1999. Analytical accuracy and precision are monitored by the analysis of reagent blanks, reference material and replicate samples. Quality control is further assured by the use of international and in-house standards. Blind certified reference material is inserted at regular intervals into the sample sequence by Cardero personnel in order to independently assess analytical accuracy. Finally, representative blind duplicate samples are forwarded to ALS Chemex and an ISO compliant third party laboratory for additional quality control.

### **Risk Factors**

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

***There are no known reserves and, other than at the Pampa el Toro Iron Sands project in Peru, there are no known resources, on any of the Company's properties. The majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.*** Substantial expenditures are required to establish ore reserves through drilling and metallurgical and other testing techniques, determine metal content and metallurgical recovery processes to extract metal from the ore, and construct, renovate or expand mining and processing facilities. No assurance can be given that any level of recovery of ore reserves will be realized or that any identified mineral deposit, even it is established to contain an estimated resource, will ever qualify as a commercial mineable ore body which can be legally and economically exploited. **Mineral resources are not mineral reserves and there is no assurance that any mineral resources will ultimately be reclassified as proven or probable reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability.**

***Resource Exploration and Development is Generally a Speculative Business:*** Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting both from the failure to discover mineral deposits and from finding mineral deposits which, though present, are insufficient in size and grade at the then prevailing market conditions to return a profit from production. The marketability of natural resources which may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company.

These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

***Fluctuation of Metal Prices:*** Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced. The Company's long-term viability and profitability depend, in large part, upon the market price of metals which have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The current dramatic downturn in the price of all commodities (other than gold) for which the Company is presently exploring is an example of a situation over which the Company has no control and materially adversely affects the Company in a manner that it may not be able to compensate for. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions, and any slackening of the demand in high demand countries, such as China and India, will materially adversely affect the prices of such commodities. There can be no assurance that the price of any minerals produced from the Company's properties will be such that any such deposits can be mined at a profit.

***Difficulties in Raising Development Capital:*** Recent market events and conditions, including disruptions in the Canadian, United States and international credit markets and other financial systems and the deterioration of the Canadian, United States and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its capital requirements to pursue the acquisition of any significant mineral projects or to secure its share of development financing following a decision to place any of its current or future mineral properties into production (whether on its own or on a joint venture basis). In 2007 and into 2008, the U.S. credit markets began to experience serious disruption due to a deterioration in residential property values, defaults and delinquencies in the residential mortgage market (particularly, sub-prime and non-prime mortgages) and a decline in the credit quality of mortgage backed securities. These problems led to a slow-down in residential housing market transactions, declining housing prices, delinquencies in non-mortgage consumer credit and a general decline in consumer confidence. These conditions continued and worsened in 2008, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings.

These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, particularly junior resource exploration companies such as the Company. Despite the apparent beginning of a general economic recovery in 2009, the strength of such recovery is uncertain, and any reversal of or disruption in such a recovery could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its operations. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

**General Economic Conditions:** The recent unprecedented events in global financial markets have had a profound impact on the global economy. Many industries, including the gold and base metal mining industry, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's growth and profitability. Specifically:

- The global credit/liquidity crisis could impact the cost and availability of financing and the Company's overall liquidity
- the volatility of gold and other base metal prices may impact the Company's future revenues, profits and cash flow
- volatile energy prices, commodity and consumables prices and currency exchange rates impact potential production costs
- the devaluation and volatility of global stock markets impacts the valuation of the Common Shares, which may impact the Company's ability to raise funds through the issuance of Common Shares

These factors could have a material adverse effect on the Company's financial condition and results of operations.

**Share Price Volatility:** In 2008 and 2009, worldwide securities markets, particularly those in the United States and Canada, have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced unprecedented fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Most significantly, the share prices of junior natural resource companies have experienced an unprecedented decline in value and there has been a significant decline in the number of buyers willing to purchase such securities. In addition, significantly higher redemptions by holders of mutual funds has forced many of such funds (including those holding the Company's securities) to sell such securities at any price. **As a consequence, despite the Company's past success in securing significant equity financing, market forces may render it difficult or impossible for the Company to secure places to purchase new share issues at a price which will not lead to severe dilution to existing shareholders, or at all.** Therefore, there can be no assurance that significant fluctuations in the trading price of the Company's common shares will not occur, or that such fluctuations will not materially adversely impact on the Company's ability to raise equity funding without significant dilution to its existing shareholders, or at all.

**Permits and Licenses:** The operations of the Company will require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects, on reasonable terms or at all. Delays or a failure to obtain such licenses and permits or a failure to comply with the terms of any such licenses and permits that the Company does obtain, could have a material adverse effect on the Company.

**Acquisition of Mineral Concessions under Agreements:** The agreements pursuant to which the Company has the right to acquire a number of its properties provide that the Company must make a series

of cash payments and/or share issuances over certain time periods, expend certain minimum amounts on the exploration of the properties or contribute its share of ongoing expenditures. Failure by the Company to make such payments, issue such shares or make such expenditures in a timely fashion may result in the Company losing its interest in such properties. There can be no assurance that the Company will have, or be able to obtain, the necessary financial resources to be able to maintain all of its property agreements in good standing, or to be able to comply with all of its obligations thereunder, with the result that the Company could forfeit its interest in one or more of its mineral properties.

**Title Matters:** The acquisition of title to mineral concessions in Mexico, Peru and Argentina is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. While the Company has diligently investigated title to all mineral concessions in which it has an interest and, to the best of its knowledge, title to all such concessions is in good standing or, where not yet granted, the application process appears to be proceeding normally in all the circumstances, this should not be construed as a guarantee of title or that any such applications for concessions will be granted. Title to the concessions may be affected by undetected defects such as aboriginal or indigenous peoples' land claims, or unregistered agreements or transfers. The Company has not obtained title opinions for the majority of its mineral properties. Not all the mineral properties in which the Company has an interest have been surveyed, and their actual extent and location may be in doubt.

**Surface Rights and Access:** Although the Company acquires the rights to some or all of the minerals in the ground subject to the mineral tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights through the courts can be costly and time consuming. It is necessary to negotiate surface access or to purchase the surface rights if long-term access is required. There can be no guarantee that, despite having the right at law to access the surface and carry on mining activities, the Company will be able to negotiate satisfactory agreements with any such existing landowners/occupiers for such access or purchase of such surface rights, and therefore it may be unable to carry out planned mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in the applicable jurisdiction, the outcomes of which cannot be predicted with any certainty. The inability of the Company to secure surface access or purchase required surface rights could materially and adversely affect the timing, cost or overall ability of the Company to develop any mineral deposits it may locate. This is a particular problem in many areas of Mexico, Argentina and Peru, where blockades of access to the Company's properties, hostile actions by local communities and the potential unwillingness of local police or governmental officials to assist a foreign company against its own citizens can result in the Company being unable to carry out any exploration activities despite being legally authorized to do so and having complied with all applicable local laws and requirements.

**No Assurance of Profitability:** The Company has no history of production or earnings and due to the nature of its business there can be no assurance that the Company will be profitable. The Company has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. All of the Company's properties are in the exploration stage and the Company has not defined or delineated any proven or probable reserves on any of its properties. None of the Company's properties are currently under development. Continued exploration of its existing properties and the future development of any properties found to be economically feasible, will require significant funds. The only present source of funds available to the Company is through the sale of its equity shares, short-term, high-cost borrowing or the sale or optioning of a portion of its interest in its mineral properties. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through further equity offerings, short-term

borrowing or through the sale or possible syndication of its properties, there is no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

***Uninsured or Uninsurable Risks:*** Exploration, development and mining operations involve various hazards, including environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structural cave-ins or slides, flooding, fires, metal losses and periodic interruptions due to inclement or hazardous weather conditions. These risks could result in damage to or destruction of mineral properties, facilities or other property, personal injury, environmental damage, delays in operations, increased cost of operations, monetary losses and possible legal liability. The Company may not be able to obtain insurance to cover these risks at economically feasible premiums or at all. The Company may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

***Government Regulation:*** Any exploration, development or mining operations carried on by the Company will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. The Company cannot predict whether or not such legislation, policies or controls, as presently in effect, will remain so, and any changes therein (for example, significant new royalties or taxes), which are completely outside the control of the Company, may materially adversely affect to ability of the Company to continue its planned business within any such jurisdictions.

***Foreign Countries and Political Risk:*** The Company's material mineral property is located in Peru, and it has additional mineral properties located in Peru, Argentina, Mexico and the United States where mineral exploration and mining activities may be affected in varying degrees by political or economic instability, expropriation of property and changes in government regulations such as tax laws, business laws, environmental laws and mining laws. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may materially adversely affect it business, or if significant enough, may make it impossible to continue to operate in certain countries. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, foreign exchange restrictions, export controls, income taxes, expropriation of property, environmental legislation and mine safety.

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

***Exploration and Mining Risks:*** Fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks

involved in the operation of mines and the conduct of exploration programs. Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing mineral properties is affected by many factors including the cost of operations, variations of the grade of ore mined, fluctuations in the price of gold or other minerals produced, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Short term factors, such as the need for orderly development of ore bodies or the processing of new or different grades, may have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in geological resources, grades, stripping ratios or recovery rates may affect the economic viability of projects.

***Currency Fluctuations:*** The Company presently maintains its accounts in Canadian dollars. Due to the nature of its operations in such countries, the Company also maintains accounts in U.S. dollars, Mexican and Argentine pesos and Peruvian nuevo soles. The Company's operations in the United States, Mexico, Argentina and Peru and its proposed payment commitments and exploration expenditures under many of the agreements pursuant to which it holds, or has a right to acquire, an interest in its mineral properties are denominated in U.S. dollars, making it subject to foreign currency fluctuations. Such fluctuations are out of its control and may materially adversely affect the Company's financial position and results. The Company does not engage in any hedging programs with respect to currencies.

***Environmental Restrictions:*** The activities of the Company are subject to environmental regulations promulgated by government agencies in different countries from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

***Regulatory Requirements:*** The activities of the Company are subject to extensive regulations governing various matters, including environmental protection, management and use of toxic substances and explosives, management of natural resources, exploration, development of mines, production and post-closure reclamation, exports, price controls, taxation, regulations concerning business dealings with indigenous peoples, labour standards on occupational health and safety, including mine safety, and historic and cultural preservation. Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties, enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions, any of which could result in the Company incurring significant expenditures. The Company may also be required to compensate those suffering loss or damage by reason of a breach of such laws, regulations or permitting requirements. It is also possible that future laws and regulations, or more stringent enforcement of current

laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspension of the Company's operations and delays in the exploration and development of the Company's properties.

**Limited Experience with Development-Stage Mining Operations:** The Company has limited experience in placing mineral resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if it places its resource properties into production.

**Estimates of Mineral Reserves and Resources and Production Risks:** The mineral resource estimates presented in the Company's filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by Company personnel and independent geologists, and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified reserve or resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. The estimating of mineral resources and mineral reserves is a subjective process and the accuracy of mineral resource and mineral reserve estimates is a function of the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpreting available engineering and geological information. There is significant uncertainty in any mineral resource or mineral reserve estimate and the actual deposits encountered and the economic viability of a deposit may differ materially from the Company's estimates. Accordingly, there can be no assurance that:

- these estimates will be accurate;
- reserves, resource or other mineralization figures will be accurate; or
- this mineralization could be mined or processed profitably.

Because the Company has not commenced production at any of its properties, and has not defined or delineated any proven or probable reserves on any of its properties, mineralization estimates for the Company's properties may require adjustments or downward revisions based upon further exploration or development work or actual production experience. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. There can be no assurance that minerals recovered in small-scale tests will be duplicated in large-scale tests under on-site conditions or in production scale. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. Short term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have a material adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in reserves or resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. The estimated resources described in the Company's filings with securities regulatory authorities, press releases and other public statements that may be made from time to time should not be interpreted as assurances of mine life or of the profitability of future operations. Estimated mineral resources and mineral reserves may have to be re-estimated based on changes in applicable commodity prices, further exploration or development activity or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence mineral resource or mineral reserve estimates. Market price fluctuations for gold, silver or base metals, increased production costs or reduced recovery rates or other factors may render any particular reserves uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated reserves could require

material write downs in investment in the affected mining property and increased amortization, reclamation and closure charges.

**Mineral resources are not mineral reserves and there is no assurance that any mineral resources will ultimately be reclassified as proven or probable reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability. The failure to establish proven and probable reserves could restrict the Company's ability to successfully implement its strategies for long-term growth.**

**Enforcement of Civil Liabilities:** As substantially all of the assets of the Company and its subsidiaries are located outside of Canada and the United States, and certain of the directors and officers of the Company are resident outside of Canada and/or the United States, it may be difficult or impossible to enforce judgements granted by a court in Canada or the United States against the assets of the Company and its subsidiaries or the directors and officers of the Company residing outside of such country.

**Mining Industry is Intensely Competitive:** The Company's business of the acquisition, exploration and development of mineral properties is intensely competitive. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. The Company may also encounter increasing competition from other mining companies in efforts to hire experienced mining professionals. Competition for exploration resources at all levels is currently very intense, particularly affecting the availability of manpower, drill rigs and helicopters. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

**The Company believes that it has been a "passive foreign investment company" under the U.S. Internal Revenue Code, which may result in material adverse U.S. federal income tax consequences to investors in Common Shares that are U.S. taxpayers:** Investors in Common Shares that are U.S. taxpayers should be aware that the Company believes that it has been, in one or more prior tax years, and may, in the current and future tax years, be, a "passive foreign investment company" under Section 1297(a) of the U.S. Internal Revenue Code (a "PFIC"). However, no determination has been made regarding the Company's PFIC status for any particular tax year. If the Company is or becomes a PFIC, generally any gain recognized on the sale of the Common Shares and any "excess distributions" (as specifically defined) paid on the Common Shares must be ratably allocated to each day in a U.S. taxpayer's holding period for the Common Shares. The amount of any such gain or excess distribution allocated to prior years of such U.S. taxpayer's holding period for the Common Shares generally will be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such prior year, and the U.S. taxpayer will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year.

Alternatively, a U.S. taxpayer that makes a "qualified electing fund" (a "QEF") election with respect to the Company generally will be subject to U.S. federal income tax on such U.S. taxpayer's pro rata share of the Company's "net capital gain" and "ordinary earnings" (as specifically defined and calculated under U.S. federal income tax rules), regardless of whether such amounts are actually distributed by the Company. U.S. taxpayers should be aware, however, that there can be no assurance that the Company will satisfy record keeping requirements under the QEF rules or that the Company will supply U.S. taxpayers with required information under the QEF rules, in event that the Company is a PFIC and a U.S. taxpayer wishes to make a QEF election. As a second alternative, a U.S. taxpayer may make a "mark-to-market election" if the Company is a PFIC and the Common Shares are "marketable stock" (as specifically defined). A U.S. taxpayer that makes a mark-to-market election generally will include in

gross income, for each taxable year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the Common Shares as of the close of such taxable year over (b) such U.S. taxpayer's adjusted tax basis in the Common Shares.

The above paragraphs contain only a brief summary of certain U.S. federal income tax considerations. Investors should consult their own tax advisor regarding the PFIC rules and other U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

## **Investments**

### *International Tower Hill Mines Ltd.*

At April 30, 2010, the quoted market value of ITH common shares was \$7.12 (October 31, 2009 - \$5.07) per share, or a total market value for the Company's ITH common shares of \$32,689,508 (2009 - \$17,657,796). Fair value adjustments for the period ended April 30, 2010 amounted to unrealized gains of \$7,048,575 (October 31, 2009 - unrealized gain of \$11,217,746) on the shares, net of tax, as other comprehensive income. At April 30, 2010, the Company held 4,591,223 common shares, or approximately 6.98% of the issued and outstanding ITH common shares.

### *Trevali Resources Corp.*

At April 30, 2010, the quoted market value of the Trevali common shares was \$1.25 per share, or a total market value for the Company's shares of \$5,168,235 (October 31, 2009 - \$2,908,212). Fair value adjustments for the period ended April 30, 2010 amounted to unrealized gain of \$1,950,762 (October 31, 2009 - an unrealized gain of \$294,185), net of tax, recorded as other comprehensive income. The Company held 4,134,588 common shares, or 7.81% of the issued and outstanding common shares of Trevali as of April 30, 2010.

### *Wealth Minerals Ltd.*

At April 30, 2010, the quoted market value of Wealth common shares was \$0.58 per share, or a total market value for the Company's shares of \$1,532,275. Fair value adjustments for the period ended April 30, 2010 amounted to unrealized gain of \$247,013, net of tax, recorded as other comprehensive loss. The Company held 2,641,853 shares, or 6.95% of the issued and outstanding common shares of Wealth as of April 30, 2010. At April 30, 2010, the total market value of 2,380,953 Wealth warrants (purchased on October 23, 2009) was \$738,095. Fair value adjustments for the period ended April 30, 2010 amounted to an unrealized gain of \$71,428 (October 31, 2009 - \$285,715).

### *Dorato Resources Inc.*

At April 30, 2010, the Company held 2,231,000 common shares, or 3.24% of issued and outstanding common shares of Dorato. The quoted market value of Dorato common shares was \$0.96, or a total market value for the Company's shares of \$2,141,760. Fair value adjustment at the period ended April 30, 2010 amounted to an unrealized gain, net of tax, of \$379,319 (October 31, 2009 - \$3,447).

### *Indico Resources Ltd.*

At April 30, 2010, the quoted market value of Indico common shares was \$0.46, or a total market value for the Company's shares of \$23,000. Fair value adjustment at the period ended April 30, 2010 amounted to an unrealized loss, net of tax, of \$5,911. The Company held 50,000 common shares, or 0.39% of issued and outstanding common shares of Indico as of April 30, 2010.

*Ethos Capital Corp.*

During the year ended October 31, 2009, the Company received 100,000 common shares of Ethos, valued at \$17,000, pursuant to a property option agreement. This investment is classified as held-for-trading. Fair value adjustments for the period ended April 30, 2010 amounted to an unrealized gain of \$15,000 (October 31, 2009 - \$11,000).

*Abzu Resources Ltd.*

During the period ended April 30, 2010, the Company acquired 4,333,334 shares of Abzu Resources Ltd., a private British Columbia company with Ghanaian mineral properties, at a gross cost of \$650,000. The Company accounts for its investment in Abzu using the equity method. No changes to the carrying value of the investment have been recorded as the necessary financial information is not currently available. As at April 30, 2010, the Company held approximately 21.57% of the outstanding common shares of Abzu.

The Company does not have any present plans to dispose of any of the foregoing investments. However, the Company will consider dispositions of shares which it holds in public companies as an option to be considered should it become necessary to raise additional funding for the Company's operations and other sources of financing are not available or are felt by the directors to be less advantageous or more costly. The Company may add to its holdings of the foregoing investments. Although the Company's primary focus remains the acquisition, exploration and development or sale of mineral properties, Cardero will continue to consider and evaluate potential direct investments in other natural resource companies in appropriate circumstances (principally early-stage investments). All investments by the Company in the foregoing companies are, and any investments in other companies will be, for investment purposes only, and Cardero does not presently plan to exercise any control over, or seek to affect or influence, the management or policies of any such companies.

**Six months ended April 30, 2010 compared to six months ended April 30, 2009**

In the six months ended April 30, 2010, the Company had a net income of \$48,208,480 compared to a net loss of \$3,060,282 for the six months period ended April 30, 2009. The following discussion explains the variations in key components of these numbers.

During the period ended April 30, 2010, payments received of \$93,607,400 (USD 88,000,000) from the sale of Pampa de Pongo property have been recognized in other income, net of related property costs of \$635,895 and transaction costs of \$4,345,904 and before applicable income taxes.

The Company's general and administrative costs were \$3,623,237, compared to \$3,790,090 in 2009. The major expense categories involved in this decrease were consulting fees of \$732,436 (2009 - \$944,417), salaries of \$1,049,278 (2009 - \$1,300,370) and property investigation costs of \$80,832 (2009 - \$272,521). The decrease in the consulting fees is primarily due to reduced stock based compensation ("SBC") of \$54,558 to consultants (2009 - \$249,477), \$255,155 consulting fees paid particularly related to the sale of Pampa de Pongo property in 2009 whereas similar expenditures in 2010 have been classified as transaction costs, and a change in the manner in which personnel costs in Peru have been classified as consulting in 2010 versus salary expense in 2009.

The decrease in salary costs has also been principally affected by the above reclassification of salary expense in Peru for 2009 to consulting expense in 2010. Office costs of \$429,091 (2009 - \$287,137) have increased generally in 2010 on a period over period basis, and has included bank transaction charges relating to the funds on deposit in Peru in 2010 that has no comparative impact for 2009.

As the equity market slowly recovered, the Company saw higher volume of the investor relation activities. As a result of this and the allocation of \$209,390 (2009 - \$Nil) of stock based compensation charges, the Company had a 60% increase in investor relations expense (2010 - \$580,298, 2009 - \$362,611). The Company also wrote off \$104,835 unrecoverable value added tax in the current period (2009 - \$Nil).

During the period, the Company wrote off the expenses related to the Baja IOCG project, Mexico, in the amount of \$8,180,742 (2009 - \$2,596,492 for Chingolo and Huachi, Argentina) as a result of disappointing exploration results to date.

As significant portion (92%) of the cash the Company held at April 30, 2010 was in US dollars. Due to the substantial volatility of currency values during the quarter, the Company recognized a \$4,198,449 foreign exchange loss (2009 – a gain of \$290,985), of which \$2,976,096 was unrealized (2009 - \$6,139).

During the six month period, the Company realized \$298,609 of investment income from sales of ITH (24,000 shares), Trevail (155,000 shares) and Dorato (60,000 shares) common shares, versus an investment income of \$2,382,459 on the sale of 1,413,800 ITH common shares in 2009.

#### **Three months ended April 30, 2010 compared to three months ended April 30, 2009**

During the three months ended April 30, 2010, the Company incurred a net loss of \$14,053,095 compared to a net loss of \$62,461 for the three months ended April 30, 2009. The net loss of \$14,053,095 was primarily due to the write-off of \$8,180,742 for the Baja IOCG property in Mexico and the recognition of \$3,957,437 of foreign exchange loss. Meanwhile, only \$162,517 was realized as investment income in the current three month period from sales of 155,000 Trevali and 60,000 Dorato common shares, whereas \$1,722,356 investment income was realized from sale of 781,000 ITH common shares in the comparative period in 2009.

The Company's general and administrative costs for the period totalled \$2,005,904, compared to \$1,946,107 in 2009. As a result of recording SBC for its investor relation consultant (\$209,390) and employees (\$139,594), investor relations (2010 - \$409,560; 2009 - \$161,985) and salaries expense (2010 - \$492,499; 2009 - \$385,103) increased 153% and 28% respectively. Consulting fees decreased to \$494,071 in 2010 year from \$760,002 in 2009, mainly due to \$206,063 consulting fees paid particularly related to the sale of Pampa de Pongo property in 2009 whereas similar expenditures in 2010 have been classified as transaction costs.

During the quarter, Company also incurred a total of \$780,415 in trailing transaction costs and field expenditures on Pampa de Pongo property, therefore reducing the gain on sale of the property.

**SUMMARY OF QUARTERLY RESULTS**

The table below sets out the quarterly results, expressed in Canadian dollars, for the past 8 quarters:

**Fiscal 2010**

|                             | <b>First Quarter</b> | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
|-----------------------------|----------------------|-----------------------|----------------------|-----------------------|
| Total revenue               | \$ 411               | (993)                 |                      |                       |
| Gain(loss) on resource      |                      |                       |                      |                       |
| property transactions       | 89,406,016           | (780,415)             |                      |                       |
| Gain on sale of investments | 136,092              | 162,517               |                      |                       |
| Net income (loss)           | 62,261,575           | (14,053,095)          |                      |                       |
| Net income per share        | 1.06                 | (0.24)                |                      |                       |
| Comprehensive income (loss) | 69,081,221           | (11,456,150)          |                      |                       |

**Fiscal 2009**

|                             | <b>First Quarter</b> | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
|-----------------------------|----------------------|-----------------------|----------------------|-----------------------|
| Total revenue               | \$ 7,131             | \$ 5,446              | \$ (135)             | 12,133                |
| Gain(loss) on resource      |                      |                       |                      |                       |
| property transactions       | -                    | -                     | 8,731,350            | (133,695)             |
| Gain on sale of investment  | 660,103              | 1,722,356             | -                    | 335,795               |
| Net income (loss)           | (2,997,821)          | (62,461)              | 4,391,076            | (1,585,422)           |
| Net loss per share          | (0.05)               | 0.00                  | 0.08                 | (0.03)                |
| Comprehensive income (loss) | 1,400,502            | (671,416)             | 6,506,293            | 2,895,749             |

**Fiscal 2008**

|                             | <b>First Quarter</b> | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
|-----------------------------|----------------------|-----------------------|----------------------|-----------------------|
| Total revenue               | \$ 3,593             | \$ 17,427             | \$ 14,721            | \$ 56,760             |
| Gain on sale of investment  | -                    | 66,963                | 81,014               | 110,943               |
| Net income (loss)           | (1,788,629)          | (3,834,843)           | (3,744,818)          | (6,461,372)           |
| Net loss per share          | (0.04)               | (0.07)                | (0.07)               | (0.11)                |
| Comprehensive income (loss) | (1,058,629)          | (7,285,919)           | (2,259,782)          | (7,299,592)           |

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

The variation seen over such quarters is primarily dependent upon the success of the Company's ongoing property evaluation and acquisition program and the timing and results of the Company's exploration activities on its current properties, none of which are possible to predict with any accuracy. The variation in income is related to the interest earned on funds held by the Company, which is dependent upon the success of the Company in raising the required financing for its activities, and the sale of investments the timing of which will vary with overall market conditions, and is therefore also difficult to predict. In addition, results in fiscal 2009 and the current quarter were significantly influenced by the one-time sale of the Pampa de Pongo property. While the Company may seek, in the future, to sell some or all of the interests in other of its mineral properties, the timing and potential effect of any such sale is impossible to predict.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company has no revenue generating operations from which it can internally generate funds. To date, the Company's ongoing operations have been predominantly financed by the sale of its equity securities by way of private placements and the subsequent exercise of share purchase warrants and broker options issued in connection with such private placements. However, the exercise of warrants/options is dependent primarily on the market price and overall market liquidity of the Company's securities at or near the expiry date of such warrants/options (over which the Company has no control) and therefore there can be no guarantee that any existing warrants/options will be exercised. In addition, the Company can raise funds through the sale of interests in its mineral properties (as, for example, with the sale of the Pampa de Pongo project). The Company has completed the sale of Pampa de Pongo, and received the final payment of USD 88 million on account of the USD 100 million purchase price in the fiscal year ending October 31, 2010. When acquiring an interest in mineral properties through purchase or option the Company will sometimes issue common shares to the vendor or optionee of the property as partial or full consideration for the property interest in order to conserve its cash.

The Company expects that it will operate at a loss for the foreseeable future, notwithstanding the income recognized on the Pampa de Pongo transaction in the third quarter of fiscal 2009 and in the first quarter of fiscal 2010. The Company currently has no funding commitments or arrangements for additional financing at this time (other than the potential exercise of outstanding options or warrants or the sale of some or all of its investments) and there is no assurance that the Company will be able to obtain additional financing on acceptable terms, if at all. There is significant uncertainty that the Company will be able to secure any additional financing required for the development of any of its mineral properties, or to develop any advanced properties that it may acquire. The quantity of funds to be raised and the terms of any proposed equity financing that may be undertaken will be negotiated by management as opportunities to raise funds arise. Specific plans related to the use of proceeds will be devised once financing has been completed and management knows what funds will be available for these purposes.

As at April 30, 2010, the Company reported cash and cash equivalents of \$73,677,911 compared to \$5,823,196 as at October 31, 2009. The change in cash is comprised of funds provided from investing activities of \$76,518,122 (principally from the proceeds of the Pampa de Pongo transaction) and \$90,619 from financing activities, less \$5,777,930 used in operations. As at April 30, 2010, the Company had working capital of \$46,751,935, compared to working capital of \$3,803,620 at October 31, 2009.

The Company has no exposure to any asset-backed commercial paper. Other than cash held by its subsidiaries for their immediate operating needs in the United States, Mexico, Peru and Argentina, all of the Company's cash reserves are on deposit with major financial institutions or invested in Government of Canada Treasury Bills or Banker's Acceptances issued by major Canadian chartered banks. The Company does not believe that the credit, liquidity or market risks with respect thereto have increased as a result of the current market conditions. However, in order to achieve greater security for the preservation of its capital, the Company has, of necessity, been required to accept lower rates of interest which has also lowered its potential interest income.

## **OFF BALANCE-SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

**TRANSACTIONS WITH RELATED PARTIES**

|                   | <b>April 30,<br/>2010</b> | <b>April 30,<br/>2009</b> |
|-------------------|---------------------------|---------------------------|
| Professional fees | \$ 44,363                 | \$ 44,138                 |
| Consulting fees   | \$ 45,000                 | \$ 45,000                 |

At April 30, 2010, there was \$7,700 (October 31, 2009 - \$18,900) included in accounts payable and accrued liabilities, and \$451,598 (October 31, 2009 - \$587,956) included in due from related parties. Professional fees include amounts paid to a law firm of which a director is a shareholder.

Amounts due from related parties are comprised as follows:

|  | <b>April 30,<br/>2010</b> | <b>October 31,<br/>2009<br/>(audited)</b> |
|--|---------------------------|---|
| Unsecured promissory notes, 1% per annum,<br>due the earlier of 30 days after demand or the<br>due date, if applicable |                           |   |
| Trevali Resource Corp.   | \$ 41,397                 | \$ 290,003                                |
| Wealth Minerals Ltd.   | 170,454                   | 121,393                                   |
| Dorato Resources Inc.  | 52,330                    | 25,490                                    |
| Director/Officer/Others  | 184,417                   | 151,070                                   |
|  | <b>\$ 451,598</b>         | <b>\$ 587,956</b>                         |

The Company recovered \$393,286 during the period ended April 30, 2010 (April 30, 2009 - \$301,670) in rent and administration costs from Wealth, ITH, Dorato, Indico, Trevali and Lawrence W. Talbot Law Corporation (“LWTLC”), companies with common officers or directors.

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

Mr. Stephan Fitch, a director of the Company, is a director and significant shareholder of a private company which is the major shareholder (67%) of IMM. The Company has a 15% interest in IMM (a subsidiary of IMM) which was purchased from IMM. This transaction was approved by the Company’s audit committee and board of directors (other than Mr. Fitch, who abstained from voting in each case). The Company has determined that it has an obligation to issue an additional 214,843 common shares to IMM pursuant to the acquisition of its initial 15% investment in IMM, the final issuance of which is currently the subject of on-going negotiations with IMM. The Company determined not to acquire an additional 15% interest in IMM and did not therefore issue the additional 1,000,000 common shares on or before December 31, 2009.

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. (“Koripampa”), for a fee of USD 10,000 per month (reduced to USD 7,500 per month starting from March 2007), which has been expensed to consulting fees. Mr. Ballon became President of Cardero Peru in April 2006. Accordingly, Mr. Ballon is 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 with either Koripampa 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, the Pampa de Pongo Property, the Katanga Property and the Corongo Property.

The presidents of MMC and Cardero Argentina provide management services for USD 3,750 each per month, which is expensed to consulting fees or capitalized to property costs, depending upon the nature of the services.

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

### **PROPOSED TRANSACTIONS**

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

### **CRITICAL ACCOUNTING ESTIMATES**

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

### **CHANGES IN ACCOUNTING POLICIES**

There have been no changes in the Company's accounting policies since November 1, 2009, being the start of the Company's most recently completed fiscal year.

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

The Company's cash and resource related investments in common shares of public companies are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Company's resource related investments in warrants and accounts payable, are classified at Level 2 of the fair value hierarchy because they are derived directly from the prices of services provided by these parties; however, this is not readily measurable in an active market. The Company does not believe that it is exposed to any material risk with respect thereto.

The Company's cash at April 30, 2010 was \$73,677,911 of which \$69,157,703 was held in US, Mexican, Argentinean and Peruvian currencies.

The Company's receivables and payables at April 30, 2010 were normal course business items that are settled on a regular basis. The Company's investments in ITH, Trevali, Wealth, Indico and Dorato are carried at quoted market value or an estimate thereof, and are classified as "available-for-sale" for accounting purposes. The Company's investment in Ethos is classified as "held-for-trading" for

accounting purposes. All resource related investments in warrants are classified as held-for-trading and are considered derivative financial instruments where changes to the fair value are included in net income. The Company has no current plans to dispose of any significant portion of its resource-related investments, but may determine to do so if necessary to raise funds for its ongoing operations.

## **MATERIAL PROCEEDINGS**

The Company is not a party to any material proceedings.

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

Disclosure controls and procedures are controls and other procedures that are designed to provide reasonable assurance that all relevant information required to be disclosed in the Company's reports filed or submitted as part of the Company's continuous disclosure requirements is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure and such information can be recorded, processed, summarized and reported within the time periods specified by applicable regulatory authorities.

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at April 30, 2010 as required by Canadian and US securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of April 30, 2010, the disclosure controls and procedures were effective.

## **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

Internal control over financial reporting means a process designed by, or under the supervision of, the Company's certifying officers, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP and includes those policies and procedures that:

- (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the Company's GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

The Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in the Company's internal control over financial reporting during the period beginning on November 1, 2009 and ended on April 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

### ***General***

The Canadian Accounting Standards Board has confirmed that effective on January 1, 2011, IFRS will replace Canadian Generally Accepted Accounting Policies (GAAP) as the basis for accounting for publicly accountable enterprises. The first period reported under IFRS by the Company will be the three month period ended January 31, 2011 and the Company's first fiscal year end date under IFRS will be the fiscal year ending October 31, 2011.

The change from Canadian GAAP to IFRS will be a significant undertaking and may have significant effects on the Company's accounting, internal controls, disclosure controls and financial statement presentation.

The Company commenced transition plan development in November 2009. The Company has determined its preliminary IFRS policy decisions and significant expected accounting differences, based on an analysis of the current IFRS standards, and the following section outlines each of these. As the conversion work continues, additional differences between Canadian GAAP and IFRS may be identified. As a result, these accounting policy choices may change prior to the adoption of IFRS on January 1, 2011. Although the Company has identified key accounting policy differences, the impact of these differences to its financial statements has not been determined at this time. Decisions with respect to accounting policy changes, outlined below, may change once management has quantified and thoroughly analyzed the effects of such changes and has presented them for final review and approval by the Company's Audit Committee.

### ***First-time Adoption of IFRS (IFRS 1)***

In the first year of transition to IFRS, a company is allowed to elect certain exceptions from IFRS in order not to apply each IFRS on a retrospective basis. IFRS 1 has certain mandatory exemptions as well as limited optional exemptions. Based on analysis to date, the Company expects to apply the following optional exemptions under IFRS 1 that will be significant in preparing the financial statements under IFRS:

- *Business Combinations* – A company may elect, on transition to IFRS, to either restate all past business combinations in accordance with IFRS 3 “Business Combinations” or to apply an optional exemption from applying IFRS 3 to past business combinations. The Company will elect, on transition to IFRS, to apply the optional exemption such that transactions entered into prior to the transition date of January 1, 2010 will not be restated.
- *Share-Based Payments* – A company may elect not to apply IFRS 2 “Share-Based Payments” to equity instruments which vested before the transition date to IFRS. The Company will elect, on transition to IFRS, to apply the optional exemption such that equity instruments which vested prior to the transition date of January 1, 2010, will not be restated.

### ***IFRS to Canadian GAAP differences***

The following are preliminary differences between the Company's Canadian GAAP accounting policies and the policy choices available under IFRS. Based on analysis to date, management believes they are material:

*Share-based payments* – Canadian GAAP allows certain policy choices in the calculation of stock based compensation. The Company currently amortizes grants in their entirety on a straight-line basis over the vesting term. IFRS standards require each tranche in the grant to be amortized over its respective vesting period. As a result of these changes, share-based compensation expense will be accelerated under IFRS. In addition, unvested options at January 1, 2010 will be revalued under IFRS, with consequent adjustments to opening retained earnings.

Additional Impacts of Adopting IFRS:

The Company has determined that the main impact of IFRS on the Company will involve a significant increase in note disclosure as well as certain presentation differences.

***Current IFRS Transition Work***

- The Company is now quantifying the known differences between IFRS and Canadian GAAP.
- The Company’s finance group is continuing its education program to increase its understanding of IFRS.
- The Company will continue to review all proposed and continuing IFRS amendments by the various regulatory bodies and update or revise the project plan accordingly to ensure it accomplishes a timely and efficient transition to IFRS.
- The Company’s IFRS conversion project is currently on target to meet the changeover date of January 1, 2011.

**DISCLOSURE OF OUTSTANDING SHARE DATA**

1. Authorized and Issued capital stock:

As at April 30 and June 10, 2010:

| <b>Authorized</b>                                      | <b>Issued</b> | <b>Book Value</b> |
|--|---------------|-------------------|
| An unlimited number of common shares without par value | 58,685,602    | \$70,265,707      |

2. Options Outstanding:

As at April 30 and June 10, 2010:

| <b>Number</b>    | <b>Exercise Price</b> | <b>Expiry Date</b> |
|------------------|-----------------------|--------------------|
| 2,000,000        | \$2.04                | July 21, 2010      |
| 1,200,000        | \$2.18                | August 8, 2010     |
| 575,000          | \$1.16                | December 9, 2010   |
| 225,000          | \$1.39                | April 9, 2011      |
| 1,000,000        | \$1.30                | September 11, 2011 |
| 360,000          | \$1.31                | December 11, 2011  |
| 500,000          | \$1.41                | February 1, 2012   |
| <b>5,860,000</b> |                       |                    |

3. As at April 30 and June 10, 2010, there were no warrants/agent’s warrants outstanding.

## **NYSE AMEX CORPORATE GOVERNANCE**

The Company's common shares are listed on the NYSE Amex LLC ("NYSE Amex"). Section 110 of the NYSE Amex Company Guide permits NYSE Amex to consider the laws, customs and practices of foreign issuers in relaxing certain NYSE Amex listing criteria, and to grant exemptions from NYSE Amex listing criteria based on these considerations. A company seeking relief under these provisions is required to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A description of the significant ways in which the Company's governance practices differ from those followed by domestic companies pursuant to NYSE Amex standards is posted on the Company's website at [www.cardero.com](http://www.cardero.com) and a copy of such description is available by written request made to the Company.

## **ADDITIONAL SOURCES OF INFORMATION**

Additional disclosures pertaining to the Company, including its most recent Annual Information Form, financial statements, management information circular, material change reports, press releases and other information, are available on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.cardero.com](http://www.cardero.com). Readers are urged to review these materials, including the technical reports filed with respect to the Company's mineral properties.