



CARDERO RESOURCE CORP.

2004 Annual Report



CARDERO RESOURCE CORP.

1901 - 1177 W. Hastings St., Vancouver, BC, Canada V6E 2K3
Tel: (604) 408-7488 Fax: (604) 408-7499 Website: www.cardero.com

President's Report

In 2004, our corporate and technical successes have positioned us for an explosive year in 2005. We are looking forward to aggressive exploration and drilling programs, our cash position has never been stronger, our market capitalization remains near all-time highs and we have successfully listed on the American Stock Exchange.

Since its founding in 1999, Cardero has focused on identifying and acquiring world-class mineral projects in the Americas. During the past five years the Company has built an impressive portfolio of properties that span three countries, encompass hundreds of thousands of hectares and have the potential for the discovery of significant tonnages of high-grade mineralization.

During 2004 Anglo American continued to aggressively explore several of the highest priority, large, IOCG targets as outlined by their 2003 Baja IOCG work program. Anglo's exploration efforts were focussed on the large Main Alisitos Block and designed to take the top three to four targets to drill-ready stage. Anglo plans to commence drill testing in the first quarter of 2005.

At the 100% owned Pampa de Pongo Iron Property in Peru, Cardero's initial drill program has been highly successful. Initial exploration by Rio Tinto suggested a potential resource of 1,000Mt comprising approximately 75% magnetite. We anticipate that the final drill results will be announced imminently and an in-house project scoping study is scheduled to be completed during the 2nd quarter of 2005.

In Argentina we have acquired three new projects and are excited by the strategic location of the Cerro Atajo Porphyry property. Finally our Project Generation team continues to relentlessly seek high profile, world-class potential, advanced and grass-roots district scale properties and plays on your behalf.

Cardero's financial strength has continued to grow each year. On December 31, 2004, Cardero had almost \$20 million (\$0.48 per share) in the treasury, a dramatic increase from \$2.5 million (\$0.08 per share) the previous year. Cardero's market capitalization closed 2004 at \$134.5 million, up from \$83.8 million the prior year. The average share price in 2004 increased to \$3.03 from \$1.61 the prior year. The most significant increase has been the total value of securities traded which increased to \$61.9 million in 2004 from \$6.6 million two years ago.

It has been an exciting year for all of us, and on behalf of the Board of Directors, its Officers and Management, I would like to thank all our shareholders for your continued loyalty and support. We sincerely hope that the coming year will be a headline year for your Company.

On behalf of the Board of Directors of
CARDERO RESOURCE CORP.

"Henk Van Alphen"
President & CEO

March 15, 2005



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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

"Henk Van Alphen"
President & Chief Executive Officer

"G. Ross McDonald"
Chief Financial Officer

March 15, 2005
Vancouver, Canada

**CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Financial Statements
October 31, 2004 and 2003**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Cardero Resource Corp. (An Exploration Stage Company) as of October 31, 2004 and 2003 and the related consolidated statements of operations and deficit and cash flows for each of the years ended October 31, 2004, 2003 and 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada, and in accordance with auditing standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred above present fairly, in all material respects, the financial position of the Company as at October 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years ended October 31, 2004, 2003 and 2002 in conformity with Canadian generally accepted accounting principles. Accounting principles generally accepted in Canada differ in certain significant respects from accounting principles generally accepted in the United States of America and are discussed in Note 11 to these consolidated financial statements.

"Smythe Ratcliffe"
Chartered Accountants

Vancouver, Canada
March 14, 2005

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

	2004	2003
Assets		
Current		
Cash and cash equivalents	\$ 16,920,909	\$ 3,752,305
Accounts receivable	500,361	246,434
Prepaid expenses	172,133	107,535
Total Current Assets	17,593,403	4,106,274
Equipment (note 4)	47,785	19,036
Resource Properties (notes 5 and 6)	6,590,392	4,752,575
Total Assets	\$ 24,231,580	\$ 8,877,885
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 804,112	\$ 420,061
Stockholders' Equity		
Capital Stock (note 6)	34,012,690	13,153,944
Contributed Surplus	4,174,308	740,408
Deficit	(14,759,530)	(5,436,528)
Total Stockholders' Equity	23,427,468	8,457,824
Total Liabilities and Stockholders' Equity	\$ 24,231,580	\$ 8,877,885

Contingent Liabilities (note 9)

Approved on behalf of the Board:

“Henk Van Alphen”
..... Director
Henk Van Alphen

“Ken M. Carter”
..... Director
Ken M. Carter

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

	2004	2003	2002
Administrative Expenses			
Stock-based compensation (note 6)	\$ 3,433,900	\$ 740,408	\$ -
Professional fees (note 7)	388,900	238,946	156,998
Travel and promotion	640,197	230,817	82,361
Management charges (note 7)	152,000	129,000	70,000
Property evaluations	101,903	-	-
Office costs	281,201	105,260	38,860
Filing fees	39,835	34,138	10,586
Transfer agent fees	15,509	13,129	6,567
Amortization	20,477	6,818	3,240
Loss Before Other Items	(5,073,922)	(1,498,516)	(368,612)
Other Items			
Gain on sale of subsidiaries (note 7(b))	-	-	71,409
Interest income	284,858	52,997	3,131
Write-off of resource properties (note 5)	(4,521,367)	-	(902,943)
Foreign exchange loss	(12,571)	(267,733)	-
	(4,249,080)	(214,736)	(828,403)
Net Loss for Year	(9,323,002)	(1,713,252)	(1,197,015)
Deficit, Beginning of Year	(5,436,528)	(3,723,276)	(2,526,261)
Deficit, End of Year	\$ (14,759,530)	\$ (5,436,528)	\$ (3,723,276)
Loss Per Share (note 2)	\$ (0.26)	\$ (0.08)	\$ (0.09)
Weighted Average Number of Shares Outstanding	35,198,762	22,349,311	12,993,633

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

	2004	2003	2002
Operating Activities			
Net loss for the year	\$ (9,323,002)	\$ (1,713,252)	\$ (1,197,015)
Items not involving cash			
Amortization	20,477	6,818	3,240
Stock based compensation	3,433,900	740,408	-
Write-off resource properties	4,521,367	-	902,943
Gain on sale of subsidiaries	-	-	(71,409)
Changes in Non-Cash Working Capital Items			
Accounts receivable	(253,927)	(233,145)	(11,791)
Prepaid expenses	(64,598)	(99,547)	(7,988)
Accounts payable and accrued liabilities	384,051	373,507	7,965
Due to shareholder	-	-	(16,030)
Cash Used in Operating Activities	(1,281,732)	(925,211)	(390,085)
Investing Activities			
Investment in and expenditures on resource properties	(4,605,684)	(2,567,847)	(1,007,861)
Purchase of equipment	(49,227)	(11,405)	(13,101)
Cash Used in Investing Activities	(4,654,911)	(2,579,252)	(1,020,962)
Financing Activities			
Proceeds from shares issued	19,473,309	6,434,902	2,500,725
Proceeds from sale of subsidiaries	-	-	1
Share issue costs	(368,062)	(241,613)	(32,952)
Cash Provided by Financing Activities	19,105,247	6,193,288	2,467,774
Increase in Cash	13,168,604	2,688,826	1,056,727
Cash and Cash Equivalents, Beginning of Year	3,752,305	1,063,479	6,752
Cash and Cash Equivalents, End of Year	\$ 16,920,909	\$ 3,752,305	\$ 1,063,479
Supplemental Cash Flow Information			
Shares issued for property option payments	\$ 1,555,500	\$ 1,461,000	\$ 117,500
Shares issued for data acquisition	\$ 198,000	\$ 53,000	\$ -
Shares issued for brokers commission	\$ 545,430	\$ -	\$ -
Income tax paid	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

1. NATURE OF OPERATIONS

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

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

Although the Company has taken steps to verify the title to mineral properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements include the accounts of Cardero Resource Corp. and its wholly-owned subsidiaries, Cardero Argentina, S.A. ("Cardero Argentina") and Minerales Y Metales California, S.A. de C.V. ("MMC") (collectively, the "Company"). All intercompany transactions and balances have been eliminated.

These financial statements are under Canadian generally accepted accounting principles and are stated in Canadian dollars.

(b) Cash and cash equivalents

Securities with original maturities of three months or less are considered to be cash equivalents.

(c) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

(d) Amortization

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

Computer equipment	- 30%
Office equipment	- 30%

Additions to property and equipment are amortized at one-half the above rates in the year of acquisition.

(e) Resource properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

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

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

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

Although the Company has taken steps to verify the title to mineral properties in which it has, or has a right to acquire an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

(f) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) The functional currency of the Company and all its subsidiaries is the Canadian dollar;
- (ii) Monetary assets and liabilities at the rate of exchange in effect as at the balance sheet date;
- (iii) 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
- (iv) Interest income and expenses (excluding amortization, which is translated at the same rate as the related asset) at the average rate of exchange for the year.

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

(g) Stock-based compensation

During the year ended October 31, 2003, the Company applied the settlement method in accounting for its employee stock option plan. No compensation expense is recorded when options are granted to employees. Options granted to non-employees were accounted for using the fair value method.

Effective November 1, 2003, the Company adopted the amended recommendations of the Canadian Institute of Chartered Accountants ("CICA") for stock-based compensation and other stock-based payments. Under the amended recommendations, the Company accounts for stock options granted to directors, employees and consultants using the fair value method. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and charged to earnings over

CARDERO RESOURCE CORP.
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Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

the vesting period with a corresponding increase in contributed surplus. Upon exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to capital stock.

The Company previously disclosed the pro-forma effects of accounting for stock options granted to directors and employees in the notes to financial statements as if the fair value based method had been used. The amended recommendations have been applied prospectively; accordingly, results from prior years have not been restated.

(h) Loss per share

Loss per share computations are based on the weighted average number of common shares outstanding during the year. Diluted loss per share has not been presented separately as the outstanding options and warrants are anti-dilutive for each of the years presented. Shares held in escrow at year-end that are held based on a contingency other than the passage of time have not been included in the calculation of the weighted average number of common shares outstanding.

3. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the short maturity of these financial instruments.

(b) Interest rate risk

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

(c) Credit risk

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

(d) Translation risk

The Company translates the results of its foreign operations into Canadian currency using rates approximating the average exchange rate for the year. The exchange rates may vary from time to time. At October 31, 2004, the Company held foreign currencies of USD 91,268, MXN 121,391 (Mexican pesos) and ARS 182,808 (Argentine pesos) for the purposes of financing operations and capital expenditures in those currencies.

4. EQUIPMENT

		2004		2003
	Cost	Accumulated Amortization	Net	Net
Computer equipment	\$57,724	\$24,409	\$33,315	\$14,636
Office equipment	21,788	7,318	14,470	4,400
	\$79,512	\$31,727	\$47,785	\$19,036

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

5. RESOURCE PROPERTIES

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

	Mexico (note 5(a))	Argentina (note 5(b))	Peru (note 5(c))	Total
Opening balance, October 31, 2001	\$ -	\$ 448,310	\$ -	\$ 448,310
Acquisition costs				
Cash payments	142,579	280,030	-	422,609
Common shares issued	28,000	89,500	-	117,500
	170,579	369,530	-	540,109
Deferred exploration costs				
Camp costs	108,268	82,155	-	190,423
Drilling and analysis	-	221,193	-	221,193
Personnel	145,536	28,100	-	173,636
	253,804	331,448	-	585,252
Total expenditures for year	424,383	700,978	-	1,125,361
Write-downs	-	(902,943)	-	(902,943)
Balance, October 31, 2002	424,383	246,345	-	670,728
Acquisition costs				
Cash payments	100,126	328,800	105,000	533,926
Common shares issued	490,500	573,000	397,500	1,461,000
	590,626	901,800	502,500	1,994,926
Deferred exploration costs				
Camp costs	317,920	728,841	45,860	1,092,621
Drilling and analysis	-	733,420	1,833	735,253
Personnel	132,000	118,547	8,500	259,047
	449,920	1,580,808	56,193	2,086,921
Total expenditures for year	1,040,546	2,482,608	558,693	4,081,847
Balance, October 31, 2003	1,464,929	2,728,953	558,693	4,752,575
Acquisition costs				
Cash payments	184,384	464,186	766,125	1,414,695
Common shares issued	680,000	547,500	328,000	1,555,500
	864,384	1,011,686	1,094,125	2,970,195
Deferred exploration costs				
Camp costs	521,594	498,095	447,696	1,467,385
Drilling and analysis	47,757	507,686	866,807	1,422,250
Personnel	192,645	215,975	90,734	499,354
	761,966	1,221,756	1,405,237	3,388,989
Total expenditures for the year	1,626,380	2,233,442	2,499,362	6,359,184
Write-offs	-	(4,521,367)	-	(4,521,367)
Balance, October 31, 2004	\$ 3,091,309	\$ 441,028	\$ 3,058,055	\$ 6,590,392

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

5. RESOURCE PROPERTIES (Continued)

(a) Mexico

The properties in Mexico consist of the following:

i. Sirena Project, Baja California State, Mexico

Pursuant to an agreement dated December 12, 2001 between the Company and a private Mexican company, the Company acquired a 100% interest in 6 mineral concessions located in Baja California State, Mexico in consideration of the issuance of an aggregate of 400,000 common shares of the Company.

ii. Acquisition of MMC

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

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

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

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

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

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

- 100,000 common shares on January 20, 2004 (issued);
- 100,000 common shares on or before the day which is ten (10) business days from the earliest of the following to occur:
 - Anglo American Mexico S.A. de C.V. ("Anglo") having earned an interest in certain mineral concessions situated in Baja California State in accordance with and pursuant to the agreement between Anglo and the Company (the "Anglo Agreement" as described in note 6(a)(v));
 - The Company having been advised by Anglo that Anglo has incurred aggregate Exploration Expenditures (as defined in the Anglo Agreement) of not less than USD 2,000,000; and,
 - If the Anglo Agreement is terminated prior to Anglo having incurred USD 2,000,000 in Exploration Expenditures, then upon Anglo, the Company or any third party which subsequently enters into an agreement with the Company to earn an interest in the Company's IOCG properties in Baja California State collectively having incurred Exploration Expenditures of not less than USD 2,000,000.

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

5. RESOURCE PROPERTIES (Continued)

v. Baja IOCG Project, Baja California State, Mexico

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

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

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

vi. Franco Project, San Luis Potosi State, Mexico

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

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

- USD 15,000 on signing (September 3, 2003) (paid);
- USD 20,000 on or before March 24, 2004 (paid);
- USD 60,000 on or before September 3, 2004;
- USD 100,000 on or before September 3, 2005;
- USD 150,000 on or before September 3, 2006; and
- USD 800,000 on or before September 3, 2007.

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

- USD 50,000 on or before September 3, 2004;
- USD 200,000 on or before September 3, 2005;
- USD 300,000 on or before September 3, 2006; and
- USD 500,000 on or before September 3, 2007.

If the Company has not obtained both all required permits to carry out the exploration activities and work program proposed for the property and unrestricted safe access to the surface areas of the Property as necessary in order to carry out such program (the “Access Conditions”) on or before September 3, 2004 then the dates of the payments above, and the deadlines for the exploration expenditures, will each be extended for a period of four (4) months plus one (1) additional month for every complete calendar month after August 2004 during which the Access Conditions have not been satisfied. If the Access Conditions have not been satisfied on or before January 3, 2005 then the Company will pay USD 30,000 to the vendor on or before January 13, 2005 (paid) representing one-half of the USD 60,000 payment required above, with the balance being paid on

CARDERO RESOURCE CORP.
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Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

5. RESOURCE PROPERTIES (Continued)

or before the date calculated as provided above. As at the date of these statements, the Access Conditions had not been satisfied. The obligation to incur not less than USD 250,000 in exploration expenditures is a firm commitment of the Company, and if the Company terminates the agreement before doing so, then the Company is required to pay to the vendor the difference between USD 250,000 and the amount of exploration expenditures actually incurred.

The Company can buy one-half (being 1%) of the NSR retained by the vendor at any time for USD 2,000,000.

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

vii. La Zorra Project, Sonora State, Mexico

Pursuant to an agreement dated October 23, 2003, and accepted on October 30, 2003, between the Company and a private Mexican company, the Company can earn a 100% interest, subject to a 2% NSR retained by the vendor, in the La Zorra Project (formerly, the "Gachupines Project") in Sonora, Mexico, on completion of the following:

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

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

Exploration expenditures on the property aggregating \$85,000 before May 30, 2004 (completed);

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

- 5,000 common shares within 10 business days of TSXV acceptance (issued);
- 50,000 common shares on or before April 30, 2004 (issued);
- 50,000 common shares on or before October 30, 2004 (issued subsequent to year end);
- 50,000 common shares on or before October 30, 2005;
- 50,000 common shares on or before October 30, 2006; and
- 50,000 common shares on or before October 30, 2007.

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

CARDERO RESOURCE CORP.
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Years Ended October 31, 2004 and 2003

5. RESOURCE PROPERTIES (Continued)

(b) Argentina

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

- Providencia Norte Concession, Jujuy Province, Argentina

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

At October 31, 2004 the Providencia Norte Concession was abandoned and \$685,500 in acquisition and exploration expenditure was written off. The property was returned to the vendor subsequent to year end.

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

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

At October 31, 2004 the La Providencia Concession was abandoned and \$3,598,881 in acquisition and exploration expenditure was written off. The property was returned to the vendor subsequent to year end.

- Olaroz Chico and Tola Concessions, Jujuy Province, Argentina

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

At October 31, 2004, the Olaroz Chico and Tola Concessions were abandoned and \$97,370 in acquisition and exploration expenditure was written off. The property was returned to the vendor subsequent to year end.

- La Libertad Concession, Jujuy Province, Argentina

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

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

- Cavok Property, Jujuy Province, Argentina

Pursuant to an agreement dated May 22, 2002 between the Company and a private Argentinean company, the Company can 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.

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5. RESOURCE PROPERTIES (Continued)

Two of these concessions form part of the Olaroz Silver Project (Note 5b (i)(ii)(iii) and, as at October 31, 2004, these two concessions have been written down to a nominal value. The third concession forms part of the Chingolo Silver Project.

- Cozzi Property, Jujuy Province, Argentina

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

iii. Other Argentinean Properties

- Organullo Property, Salta Province, Argentina

Pursuant to an agreement dated October 1, 2004 between the Company and an Argentinean individual, the Company purchased a 100% interest in 8 mineral concessions in Salta Province, Argentina in consideration of the issuance of 70,000 common shares (issued subsequent to year end).

- Mina Angela Property, Chubut Province, Argentina

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

- USD 50,000 on or before April 25, 2005 (of which USD 24,000, representing the payment of overdue mineral concession taxes has been paid);
- USD 50,000 on or before April 25, 2006;
- USD 150,000 on or before April 25, 2007; and
- USD 150,000 on or before April 25, 2008.

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

- Condor Yacu and Relincho Concessions, Catamarca Province, Argentina

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

The Condor Yacu and Relincho concessions were returned to the original vendors on September 28, 2004 and \$139,666 in acquisition and exploration expenditure was written off.

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5. RESOURCE PROPERTIES (Continued)

(c) Peru

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

Pursuant to option agreements dated October 1, 2003 and October 23, 2003 between the Company and a private Peruvian company, the Company acquired mineral concessions covering approximately 30,000 hectares in Lucanas, Nazca and Caraveli Provinces, Peru. Approximately 10,500 hectares of these concessions are subject to an underlying agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto"). The private company holds the exclusive right and option to acquire a 100% interest from Rio Tinto, subject to a 0.5% NSR to Rio Tinto, by incurring USD 450,000 in exploration expenditures over three years ending August 22, 2006 and by paying Rio Tinto USD 500,000 on or before August 22, 2007. 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 subsequent to year end); and
- 200,000 common shares on or before November 28, 2005.

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

Pursuant to an option agreement dated February 2, 2004 between the Company and a private Peruvian company, the Company can acquire a 100% interest in mineral concessions covering approximately 8,000 hectares in Caraveli Province, Peru. The private Peruvian company holds the exclusive right and option to acquire a 100% interest in these concessions from Rio Tinto in consideration of the payment to Rio Tinto of aggregate payments of USD 500,000 over four years. The Company can earn a 100% interest in the property by assuming all of the obligations of the private company pursuant to the underlying agreement with Rio Tinto, and making the following payments and share issuances:

Payments aggregating USD 130,900 as follows:

- USD 65,900.00 on or before March 12, 2004 (for back taxes on the property) (paid);
- USD 65,000.00 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 subsequent to year end).

- iii. Katanga Property, Chumbivilcas Province, Peru

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

The private Peruvian company holds the exclusive right and option to acquire a 100% interest in these concessions from a group of vendors comprised of 3 private Peruvian companies and two Peruvian individuals ("Underlying Vendors"). The private Peruvian company has the right to acquire a 100% interest in the subject concessions in consideration of aggregate payments of USD

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5. RESOURCE PROPERTIES (Continued)

1,900,000 over 5 years. The Company can acquire a 100% interest in the concessions by assuming the obligations of the private Peruvian company to the Underlying Vendors and making aggregate payments to the private Peruvian company of USD 501,000, as follows:

- USD 261,000 on or before the execution of the agreement (paid); and
- USD 240,000, as to USD 10,000 on or before November 1, 2004 and as to the balance on or before the first day of each succeeding month (USD 40,000 paid to date).

6. CAPITAL STOCK

(a) Authorized

100,000,000 Common shares without par value

(b) Issued and outstanding

	2004		2003		2002	
	Number Of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	26,611,796	\$13,153,943	17,189,974	\$5,446,655	11,026,474	\$2,861,382
Issued during the year:						
For cash:						
Pursuant to private placements (net of share issue costs)	6,439,427	12,274,188	2,238,461	2,668,386	4,386,500	1,817,223
On exercise of share purchase warrants	2,724,235	3,815,934	5,133,361	2,772,403	1,040,000	431,400
On exercise of share options	1,837,500	3,015,125	1,250,000	752,500	487,000	219,150
	11,001,162	19,105,247	8,621,822	6,193,289	5,913,500	2,467,773
Pursuant to resource property options	535,000	1,555,500	780,000	1,461,000	250,000	117,500
Pursuant to data purchases	100,000	198,000	20,000	53,000	-	-
	11,636,162	20,858,747	9,421,822	7,707,289	6,163,500	2,585,273
Balance, end of year	38,247,958	\$34,012,690	26,611,796	\$13,153,944	17,189,974	\$5,446,655

i. Private Placements

During the year ended October 31, 2004, the Company completed two brokered private placements. On December 11, 2003 the Company completed a private placement of 3,565,000 units at \$1.65 per unit. Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole warrant was exercisable at a price of \$2.25 to purchase one common share to December 10, 2004. Share issue costs related to the private placement were \$437,016 which included an agents commission of \$352,933 of which \$61,004 was paid in cash and \$291,924 was paid through the issuance of 176,927 units having the same terms and conditions as the units issued pursuant to the original private placement. The Company also issued agent's option units related to the private placement to purchase 356,500 units at a price of \$1.70

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6. CAPITAL STOCK (Continued)

per unit. Each agent's unit consisted of one common share and one-half of a common share purchase warrant, with each full warrant being exercisable to acquire an additional common share at a price of \$2.30 until December 10, 2004. All of the warrants and agents' warrants were exercised prior to their respective expiry dates.

On March 18, 2004 the Company completed a private placement of 2,600,000 units at a price of \$2.60 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for a period of 18 months to acquire one additional share at a price of \$3.25 per warrant share until March 17, 2005 and \$3.50 per warrant share until September 17, 2005. Share issue costs related to the private placement were \$476,476 which included an agent's commission of \$405,600 of which \$152,100 was paid in cash and \$253,500 was paid through the issuance of 97,500 units, having the same terms and conditions as the units issued pursuant to the original placement. The Company also issued agent's option units entitling the agent to purchase up to 260,000 units of the Company at a price of \$2.65 per unit until March 17, 2005. Each unit consists of one common share and one common share purchase warrant, each warrant is exercisable to purchase one common share at a price of \$3.30 per share until March 17, 2005 and \$3.55 per share until September 17, 2005.

During the year ended October 31, 2003 and 2002, the Company completed the following private placements:

- On December 24, 2002, a private placement of 2,238,461 units for \$1.30 per unit. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant was exercisable at a price of \$1.60 to purchase one common share to December 27, 2003. Share issue costs related to this private placement were \$241,613.
- On February 19, 2002, a non-brokered private placement of 1,508,000 units for \$0.25 per unit. Each unit consisted of one common share and one share purchase warrant. Each warrant was exercisable at a price of \$0.35 to purchase one common share to February 19, 2004. Share issue costs related to this private placement were \$4,232.
- On July 12, 2002, a non-brokered private placement of 1,100,000 units for \$0.45 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant was exercisable at a price of \$0.55 to purchase one common share to July 12, 2003.
- A non-brokered private placement of 1,778,500 units for \$0.55 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant was exercisable at a price of \$0.65 to purchase one common share to July 22, 2003. Share issue costs related to these two July private placements were \$28,720.

Total share issue costs related to the above private placements total \$274,565, including finder's fees of \$255,900 paid in cash.

ii. Escrow

At October 31, 2004 there were no shares in escrow. At October 31, 2002, 328,125 common shares were held in escrow by the Company's transfer agent. These shares were released during the October 31, 2003 year-end upon consent of the regulatory authorities.

iii. Stock options

The Company has a stock option plan whereby the Company may grant options to directors, officers, employees and consultants of up to 10% of the common shares outstanding at the time of grant. The exercise price of each option is equal to or higher than the market price of the Company's common shares at the date of the grant. The option term and vesting period is determined by the board of directors within regulatory guidelines.

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6. CAPITAL STOCK (Continued)

A summary of the status of the stock option plan as of October 31, 2004, 2003 and 2002, and changes during the years ending on those dates is presented below:

	2004		2003		2002	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding and exercisable, beginning of year	2,150,000	\$1.66	1,250,000	\$0.60	600,000	\$0.45
Expired/Forfeited	(100,000)	\$1.83	(175,000)	\$1.73	(113,000)	\$0.45
Exercised	(1,837,500)	\$1.64	(1,250,000)	\$0.60	(487,000)	\$0.45
Granted	3,265,000	\$2.63	2,325,000	\$1.66	1,250,000	\$0.60
Options outstanding and exercisable, end of year	3,477,500	\$2.60	2,150,000	\$1.66	1,250,000	\$0.60

Stock options outstanding are as follows:

Expiry Date	Exercise Price	Number of Shares
November 29, 2004	\$ 1.48	50,000
October 24, 2005	\$ 1.90	200,000
January 27, 2006	\$2.35	862,500
April 16, 2006	\$3.25	350,000
June 11, 2006	\$2.50	1,615,000
October 6, 2006	\$3.25	400,000
		3,477,500

In fiscal 2004 the Company used the fair value method for determining compensation expense for all options granted during the year. The fair value was determined using the Black-Scholes options pricing model based on the following assumptions.

Expected life (years)	2.0
Interest rate	2.96%
Volatility	79.1% - 94.6%
Dividend yield	0.00%

During 2004, 2,815,000 options vested which resulted in a stock-based compensation charge of \$3,433,900.

In fiscal 2003, the Company applied the settlement method in accounting for its stock options granted to directors and employees, and accordingly, no compensation expense is recorded in these financial statements for those options granted. Had compensation expense been determined as provided in the fair value method using the Black-Scholes options pricing model, the pro-forma effect on the Company's net loss and per share amounts for the year ended October 31, 2003 would have been as follows:

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6. CAPITAL STOCK (Continued)

Net loss, as reported	\$(1,713,252)
Net loss, pro-forma	\$(2,693,847)
Loss per share, as reported	\$(0.08)
Loss per share, pro-forma	\$(0.12)

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for options granted to non-employees, during the year ended October 31, 2003. 100,000 options were granted to non-employees, which resulted in a stock based compensation expense totalling \$740,408.

The fair value of each option grant was calculated using the following weighted average assumption:

Expected life (years)	1.5
Interest rate	3.00%
Volatility	100.1%
Dividend yield	0.00%

In fiscal 2002, the Company applied the settlement method in accounting for all stock options granted, and accordingly, no compensation expense is recorded in these financial statements for those options granted. Had compensation expense been determined as provided in the fair value method using the Black-Scholes options pricing model, the pro-forma effect on the Company's net loss and per share amounts for the year ended October 31, 2002 would have been as follows:

Net loss, as reported	\$(1,197,015)
Net loss, pro-forma	\$(1,518,225)
Loss per share, as reported	\$(0.09)
Loss per share, pro-forma	\$(0.12)

(iv) Share purchase warrants

At October 31, 2004, the following common share purchase warrants were outstanding entitling the holders thereof the right to purchase one common share for each warrant held as follows:

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6. CAPITAL STOCK (Continued)

	2004		2003		2002	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants exercisable, beginning of year	2,102,971	\$1.16	5,846,500	\$0.49	6,133,383	\$0.52
Expired	(2,609)	\$(1.60)	(20,000)	\$(0.45)	(3,633,383)	\$(0.60)
Exercised	(2,724,235)	\$(1.40)	(5,133,361)	\$(0.54)	(1,040,000)	\$(0.41)
Granted	5,623,213	\$2.76	1,409,832	\$1.66	(4,386,500)	\$0.52
Warrants exercisable, end of year	4,999,340	\$2.53	2,102,971	\$1.16	5,846,500	\$0.49

Expiry Date	Type	Exercise Price Per Share	Number of Shares
December 10, 2004	Agent option units	\$1.70	126,451
December 10, 2004	Private Placement warrants	\$2.25	1,769,416
December 10, 2004	Agent option warrants	\$2.30	63,293
March/September 17, 2005	Private placement warrants	\$3.25/\$3.50	2,686,580
March/September 17, 2005	Agent option warrants	\$3.30/\$3.55	241,800
March/September 17, 2005	Agent option units	\$2.65	111,800
			4,999,340

7. RELATED PARTY TRANSACTIONS

- (a) During the years ended October 31, 2004, 2003 and 2002, the Company incurred the following expenses paid to directors of the Company or companies with common directors:

	2004	2003	2002
Management fees	\$152,000	\$129,000	\$70,000
Professional fees	\$221,420	95,145	17,175
Rent and secretarial	-	23,600	13,000
Fees charged to investment in and expenditures on resource properties	-	49,000	-
	\$373,420	\$296,745	\$100,175

At October 31, 2004 \$Nil (2003 - \$43,000) was included in accounts payable and accrued liabilities which relate to management fees payable to a director of the Company. Professional fees include \$207,045 (2003 - \$79,845) paid to a law firm of which a director is a partner.

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

- (b) During the year ended October 31, 2002, the Company sold its formerly wholly-owned subsidiaries Koripampa del Peru, S.A. and 2696959 Canada Inc. to a director of the Company and recorded a gain on sale of \$71,409.

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8. INCOME TAX LOSSES

The components of future income tax assets are as follows:

	2004	2003	2002
Future income tax assets			
Non-capital loss carry-forwards for			
Canadian income tax purposes	\$ 2,924,900	\$ 1,605,900	\$ 851,814
Excess of undepreciated capital cost			
over net book value of property and equipment	31,727	11,249	11,485
Cumulative eligible capital deduction	58,830	58,830	58,830
Unused cumulative foreign exploration and			
development expenditures	1,175,416	1,175,416	1,175,416
	4,190,873	2,851,395	2,097,545
Tax rate	38%	38%	38%
	1,529,532	1,083,530	797,067
Less: Valuation allowance	(1,529,532)	(1,083,530)	(797,067)
	\$ -	\$ -	\$ -

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 which may be carried forward to apply against future years' income for Canadian income tax purposes. The losses expire as follows:

Available to	Amount
2005	\$ 49,100
2006	52,300
2007	115,500
2008	145,300
2009	362,200
2010	817,500
2014	1,383,000
	\$ 2,924,900

The Company also has approximately \$5,619,000 of capital losses which can be applied against future capital gains taxable in Canada, which carry-forward indefinitely. The benefit of these losses has not been recorded in these financial statements.

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9. CONTINGENT LIABILITIES

On May 20, 2004 Western Telluric Resources Inc. ("Western Telluric") and Minera Olympic, S. de R.L. de C.V. ("Minera") (collectively, the "Plaintiffs") commenced an action in the British Columbia Supreme Court (Vancouver Registry, No. S042795) against the Company and James Dawson, Murray McClaren and their respective companies, Dawson Geological Consultants Ltd. and 529197 B.C. Ltd. (carrying on business as Crockite Resources).

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

10. SUBSEQUENT EVENTS

Subsequent to October 31, 2004, the Company entered into the following agreements to acquire interests in mineral properties:

(a) Cerro Juncal Property, Salta Province, Argentina

Pursuant to an agreement dated November 12, 2004 between the Company and a private Argentinean company, the Company has the right to acquire a 100% interest, subject to a 0.5% NSR to the vendor, in 2 mineral concessions (approximately 2600 hectares) in Salta Province, Argentina in consideration of payment to the Vendor of the sum of USD 2,000,000 on or before the date that is 3 years after the Company commences exploration on the property. Prior to the exercise of the purchase option, the Company is required to pay the vendor an aggregate of USD 360,000 in order to keep the purchase option in good standing, as follows:

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

If the Company exercises the option to purchase the property prior to May 12, 2007, the requirement to make the remaining USD 335,000 payments above ceases. Commencing with the 5th year after execution of the agreement if, in such year or any subsequent year prior to the exercise of the purchase option, the vendor has not received at least the sum of USD 100,000 pursuant to the NSR in such year, the Company is required to pay to the vendor the difference between USD 100,000 and the amount received by the vendor pursuant to the NSR.

The Company has the option to purchase the 0.5% NSR at any time for the sum of USD 1,000,000.

(b) Cerro Atajo Project, Catamarca Province, Argentina

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

Pursuant to the first agreement, dated August 24, 2004 (as amended by an agreement dated December 10, 2004), among the Company and the Shareholders, the Company has the option to acquire the 49% of the issued share capital of Somicadem from the Shareholders, together with all of the interest of the

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10. SUBSEQUENT EVENTS (Continued)

Shareholders in their existing Exploration, Exploitation and Mining Lease Agreements dated September 10, and 13, 1991 (collectively, the "Existing Lease") with Somicadem relating to the Cerro Atajo property. In order to exercise the option, the Company is required to pay the Shareholders an aggregate of USD 11,650,000, and issue 1,750,000 common shares to the Shareholders, as follows:

Payments

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

Share Issuances

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

At the election of the Company, it can settle the obligation to issue some or all of the foregoing common shares by making payments to the Shareholders equal to USD 5.00 per share (up to USD 8,750,000 in total).

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

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

- USD 50,000 on execution of the modification agreement (not yet paid);
- USD 100,000 on or before January 12, 2007;
- USD 100,000 on or before January 12, 2008;
- USD 100,000 on or before January 12, 2009;
- USD 100,000 on or before January 12, 2010; and
- USD 100,000 on or before January 12, 2011;

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

The Company has the right to conduct due diligence on Somicadem and the Cerro Atajo property for a period ending on April 12, 2005, and may terminate the agreement without obligation during such period. If the Company determines to proceed with the mining lease option (which must be exercised on or before March 12, 2011) then the Company will be required to make aggregate payments of USD 27,000,000 to the Province of Catamarca, as follows:

- USD 10,000,000 following a production decision and prior to the commencement of production; and
- USD 17,000,000 during the first 2 years of production.

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10. SUBSEQUENT EVENTS (Continued)

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

(c) Exercise of Warrants

Subsequent to the year end, 1,959,160 warrants with an expiry date of December 10, 2004, as disclosed in Note 6b(iv) were exercised, at prices ranging from \$1.70 to \$2.30 resulting in the issuance 1,959,160 shares.

Subsequent to the year end, 256,900 warrants with an expiry date of March 17, 2005 or September 17, 2005, as disclosed in Note 6b(iv) were exercised at prices ranging from \$2.65 to \$3.50, resulting in the issuance of 256,900 shares.

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

(a) Differences in accounting policies

i. Exploration expenditures

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

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

Under US GAAP, mining projects and properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

If estimated future cash flows expected to result from the use of the mining project or property, an impairment is recognized based upon the estimated fair value of the mining project or property. Fair value generally is based on the present value of estimated future net cash flows for each mining project or property, calculated using estimated mineable reserves and mineral resources based on engineering reports, projected rates of production over the estimated mine life, recovery rates, capital requirements, remediation costs and future prices considering the Company's hedging and marketing plans.

ii. Stock based compensation

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

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

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

Reconciliation of total assets, liabilities and shareholder's equity:

	2004	2003
Total assets per Canadian GAAP	\$24,231,580	\$ 8,877,885
Expenditures on resource properties expensed under US GAAP	(6,590,392)	(4,752,575)
Total assets per US GAAP	\$17,641,188	\$ 4,125,310
Total liabilities per Canadian GAAP	\$ 804,112	\$ 420,061
Adjustments to US GAAP	-	-
Total liabilities per US GAAP	804,112	420,061
Total equity per Canadian GAAP	23,427,468	8,457,824
Expenditures on resource properties expensed under US GAAP	(6,590,392)	(4,752,575)
Total equity per US GAAP	16,837,076	3,705,249
Total equity and liabilities per US GAAP	\$ 17,641,188	\$ 4,125,310

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

Statement of operations for the year ended October 31

	2004	2003	2002
Reconciliation of net loss from Canadian GAAP to US GAAP			
Net loss per Canadian GAAP	\$ (9,323,002)	\$ (1,713,252)	\$ (1,197,015)
Acquisition of mineral properties	(2,970,195)	(1,994,926)	(103,587)
Exploration and development costs, net	(3,388,989)	(2,086,921)	(100,968)
Reverse amounts written-off	4,521,367	-	902,943
Stock based compensation using intrinsic method	-	(30,500)	(23,000)
Net loss per US GAAP	\$ (11,160,819)	\$ (5,825,599)	\$ (521,627)
Net loss per share in accordance with Canadian GAAP	\$(0.26)	\$(0.08)	\$(0.09)
Total differences	\$(0.06)	(0.18)	0.05
Net loss per share in accordance with US GAAP	\$(0.32)	\$(0.26)	\$(0.04)
Weighted average number of shares outstanding	35,198,762	22,349,311	12,993,633

(b) Stock based compensation

In 2003 and 2002 had compensation expense for employee stock options been determined in accordance with the fair value method using the Black-Scholes option – pricing model, the pro-forma effect on the Company's net loss and per share amounts would have been as follows:

CARDERO RESOURCE CORP.
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Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

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

	2003	2002
Net loss per US GAAP	\$ (5,825,599)	\$ (521,627)
Add: Total compensation expense under intrinsic method	30,500	23,000
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(980,595)	(321,210)
Net loss, pro-forma	\$ (6,775,694)	\$ (819,837)
Net loss per share per US GAAP	\$ (0.26)	\$ (0.04)
Deduct: Total compensation expense under intrinsic method	-	-
Add: Total stock-based compensation Expense determined under fair value based Method for all awards, net of related tax effects	(0.04)	(0.02)
Net loss per share, pro-forma	\$ (0.30)	\$ (0.06)

The fair value of each option grant is calculated using the following weighted average assumptions:

	2003	2002
Expected life (years)	1.5	1.0
Interest rate	3.0%	3.5%
Volatility	100.1%	107.5%
Dividend yield	0%	0%

(c) Recent US accounting pronouncements

- i. In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements. Interpretation 46 establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. Interpretation 46 applies to any business enterprise both public and private that has a controlling interest, contractual relationship or other business relationship with a variable interest entity. The Company has no investment in or contractual relationship or other business relationship with a variable interest entity and therefore the adoption did not have any impact on the Company's consolidated financial position, results of operations or cash flows.
- ii. On April 30, 2003, the FASB issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. Statement 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirety, or as hybrid instruments with debt host contracts and embedded derivative features. In addition, Statement 149 clarifies the definition of a derivative by providing guidance on the meaning of initial net investments related to derivatives. Statement 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of Statement 149 did not have any effect on its consolidated financial position, results of operations or cash flows.

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
Years Ended October 31, 2004 and 2003

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

- iii. In May 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or asset in some circumstances). These requirements of SFAS No. 150 apply to issuers’ classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of non-public entities. The adoption of Statement 150 did not have any effect on its consolidated financial position, results of operations or cash flows.
- iv. FAS 151, Inventory Costs. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 24, 2004. The provisions of this Statement should be applied prospectively. There is no impact on the Company’s financial statements.
- v. FAS 152, Accounting for Real Estate Time-Sharing Transactions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Restatement of previously issued financial statements is not permitted. There is no impact on the Company’s financial statements.
- vi. FAS 153, Exchanges of non monetary Assets. The provisions of this Statement are effective for non monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non monetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The provisions of this Statement should be applied prospectively. There is no impact on the Company’s financial statements.
- vii. FIN 46(R), Consolidation of Variable Interest Entities, applies at different dates to different types of enterprises and entities, and special provisions apply to enterprises that have fully or partially applied Interpretation 46 prior to issuance of Interpretation 46(R). Application of Interpretation 46 or Interpretation 46(R) is required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. Application by small business issuers to entities other than special-purpose entities and by nonpublic entities to all types of entities is required at various dates in 2004 and 2005. In some instances, enterprises have the option of applying or continuing to apply Interpretation 46 for a short period of time before applying Interpretation 46(R). There is no impact on the Company’s financial statements.
- vii. In 2004, FASB issued a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This revised pronouncement requires that all stock options and warrants be accounted for using the Fair Value Method. This pronouncement will have no impact on the Company, as the Company accounts for all options and warrants using the Fair Value Method, under Canadian GAAP.

CARDERO RESOURCE CORP.
Form 51-102F1
Management's Discussion and Analysis
For the year ended October 31, 2004

INTRODUCTION

This Management Discussion and Analysis ("MD&A") provides a detailed analysis of the business of Cardero Resource Corp. ("Cardero" or the "Company") and compares its financial results for the year ended October 31, 2004 to the previous year. This MD&A should be read in conjunction with the Company's audited financial statements for the year ended October 31, 2004 and 2003. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The Company reports its financial position, results of operations and cash-flows in accordance with Canadian generally accepted accounting principles. This MD&A is made as of February 28, 2005.

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

Additional information relating to the Company can be located on the SEDAR website at www.sedar.com.

BACKGROUND

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

- 1) The chance of finding an economic ore body is extremely small, the vast majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.
- 2) The junior resource market, where the Company raises funds, is extremely volatile. Even though the Company has sufficient funds on hand to meet its current requirements, there is no guarantee that it will be able to raise additional funds as it requires them.
- 3) The establishment of undisputed title to mineral properties is often a time consuming process and even though the Company has diligently investigated title to all its mineral properties there is no guarantee of title.
- 4) Currency fluctuations may affect the Company as its transactions are often conducted in US dollars and Mexican and Argentinean pesos.
- 5) The Company's properties are located in Mexico, Argentina and Peru and will be effected by the political stability and laws of those countries.
- 6) There is no guarantee that the Company can obtain the necessary governmental permits and licenses when required.
- 7) Environmental concerns and the fluctuation of metal prices, both of which are beyond the Company's control, may significantly alter the economics of mineral deposits.

HIGHLIGHTS

Exploration Activities

Mexico

Baja IOCG Project, Mexico

The Company entered into an agreement with Anglo American Mexico, S.A. DE C.V ("Anglo") on April 9, 2003, to explore and develop Iron Oxide Copper-Gold (IOCG) projects in Baja California, Mexico. The target area is defined as an Area of Interest encompassing approximately 50,000 square kilometres.

The principal target is the lower Cretaceous Alisitos Arc, a belt of rocks which shows geological similarities to the central Andean coastal iron belts of Chile and Peru, host to several producing iron-oxide-copper-gold (IOCG) deposits.

In 2003 Anglo completed initial targeting using regional geophysical, geological and geochemical datasets in conjunction with remote sensing (Landsat/Aster), and structural analyses. The program highlighted 31 target areas for follow-up. Targets were screened using stream sediment geochemistry (884 samples), geological prospecting and mapping, a gravity survey (430 stations) and a 7,500 line kilometre airborne magnetics and radiometrics survey. The combination of these studies identified several large, zoned hydrothermal systems with associated IOCG style mineralization.

During 2004 Anglo continued to explore the highest priority IOCG targets outlined by the above work program. Exploration efforts were designed to focus within the Main Alisitos Block and take the following targets to the drill-ready stage:

San Fernando

Detailed mapping, petrography, and geophysics (comprising 158 line kilometres of ground magnetic survey, additional gravity surveys, and 17.5 line kilometres of Induced Polarization survey), together with geochemistry (500 station surficial sampling program), outlined a large, coherent anomaly associated with, and extending to the east, west and south of the Mina San Fernando occurrence.

The core of the magnetic and gravity anomaly is interpreted to have dimensions of 2.4 kilometres east west by 600 metres north south and is modelled to extend for several hundred metres at depth. The Induced Polarization (IP) survey, used to detect the presence of disseminated sulphide mineralization, defined two chargeability anomalies located immediately adjacent to the known mineralization and the magnetic and gravity anomaly described above.

- The West Anomaly, located on the western flanks of the magnetic anomaly, has modelled chargeabilities of 30 to 40 milliseconds (ms), extends over an area of approximately 500 metres east-west by 500 metres north-south and remains open to the west and at depth.
- The Eastern Anomaly, located on eastern flank of the magnetic anomaly and spatially associated with Mina San Fernando, has modelled chargeabilities of 40 to 70ms, extends approximately 600 metres east-west by 700 metres north-south and remains partially open to the west and open to the east and at depth.

Amargosa

Located 35 kilometres south of the San Fernando occurrence, the Amargosa area is one of the initial 31 high priority targets generated by Anglo's 2003 belt scale targeting initiative.

First pass geological reconnaissance identified significant alteration associated with numerous undocumented IOCG style mineral occurrences. Subsequent stream sediment geochemistry and geological follow-up resulted in the discovery of hematite–chalcopyrite–pyrite mineralization outcropping over 350 meters in Amargosa Creek. Sampling of the Amargosa Creek exposures returned grades of 1.45% copper over 10 metres. Detailed mapping, geochemistry and airborne magnetic and radiometrics surveys indicated that the Amargosa IOCG occurrence forms part of a large (approximately 40 square km), multiphase, copper bearing, and hydrothermal system.

A permeable volcanoclastic unit hosts the majority of the showings at Amargosa with estimated thicknesses in the order of 10 to 100 metres. The mineralization is interpreted to be controlled by a complex interplay of the regional Catarina fault zone (+30 kilometre strike) and the second-order Amargosa and Specularite Creek faults.

On March 2, 2005, Cardero reported results of a recently completed 14-line kilometre Induced Polarization (IP) survey by Anglo over the Amargosa target. The IP survey defined four high chargeability anomalies, one of which is associated with the outcropping alteration and mineralization at Amargosa Creek.

The Amargosa IP Anomaly is interpreted to extend over an area measuring 900 metres north south by 350 metres east west. This anomaly is centered on the outcropping Amargosa Creek mineralization and the mapped structural intersection of the Catarina and Amargosa fault zones. The anomaly has chargeabilities

ranging from 28 to 42 milliseconds (ms) and appears to extend from subcrop to depths in excess of 200 metres.

The Central IP Anomaly at Amargosa occurs at the intersection of the Catarina and Specularite Creek faults zones and occurs over a 600 by 400 metre area. The anomaly is modeled to occur at depths of approximately 200 metres to 470 metres, remains open at depth, and has chargeabilities ranging from 30 to 40 ms.

The Amargosa NW IP anomalies are associated with the regional scale Catarina fault zone. They are comprised of two large chargeability anomalies (30 – 40 ms) which range from 1000 to 1200 metres strike length and 400 to 500 metres in width. The IP anomalies are modeled to occur at depths, which vary from subcrop to approximately 500 meters below surface and are open to the NW.

Anglo is presently in the process of obtaining permitting for a 3,000 m diamond drill hole program of 10 to 12 boreholes scheduled to start in early 2005.

Franco Property, Mexico

The Franco property consists of two concessions aggregating 983 hectares and is located 60 kilometres southeast of the city of San Luis Potosi.

The project covers a partially exposed, high level, epithermal precious metal system hosted by Tertiary rhyolitic volcanics. Mineralization consists of a north-northwest trending swarm of quartz veins and stockwork exposed in an area measuring about 1 kilometre north south by about 500 metres east west.

The planned work program, delayed due to unforeseen land access problems, now resolved, will test several coincident structural-mineralization-alteration-geochemical anomalies, and is expected to begin in the second quarter or early in the third quarter of 2005.

La Zorra Property, Mexico

The Gachupines mineral concession is located 100 km southeast of Hermosillo in the state of Sonora, Mexico.

The property covers multiple gold occurrences, one of which, Bonacita, was interpreted to have potential to host a bulk tonnage type gold deposit. Geological mapping of the property also identified two porphyry copper targets, Gachupines and Batamote West respectively.

The three targets were drill tested with a total of 15 RC holes. The Company is currently awaiting results.

Argentina

Olaroz Project, Argentina

The Company acquired the properties comprising the Olaroz Project in 2002. The Olaroz Project consists of two projects, the Providencia Project, which includes the Providencia Norte, La Providencia, Olaroz Chico and Tola and Libertad properties, and, the Chingolo Project, which includes the Cavok and Cozzi properties.

While initial detailed mapping and geochemical sampling were encouraging subsequent drill campaigns, three at Providencia and two at Chingolo, failed to intersect significant silver mineralization. Internal economic modeling indicated that the deposits as presently defined are sub-economic. This coupled with increasingly onerous property payments at Providencia resulted in the decision to return the Providencia property to the owners.

The status of the Chingolo property is presently being reviewed in light of this decision.

Organullo, Argentina

In a news release dated October 1, 2004, the Company announced an agreement to acquire a 100% interest in the Organullo property by issuance of 70,000 shares in the treasury stock of the Company to a private vendor.

The Organullo property is located in northwestern Argentina approximately 100 km northwest of Jujuy, in the Province of Salta.

The total area of the Organullo property is approximately 5,000 hectares, and displays areas of anomalous copper, lead, molybdenum, gold and bismuth. An intrusive body that is elongated in a north-south direction is located in the northern sector covering an area of 4 km by 1 km.

A report on the property completed in 1994 concluded that a zone of alteration extends semi-continuously for about 4000 metres (north-south) and between 200 metres and 1000 metres (east-west), and consists of colour anomalies encompassing areas of argillic alteration, fracturing, brecciation, silicification, quartz veining and locally intense pyritization.

The old Julio Verne mine located near the south end of the alteration zone consists of narrow quartz veins containing pyrite, chalcopyrite, arsenopyrite and bismuthenite. Extensive rock chip sampling of the areas of alteration have delineated widespread areas of anomalous indicator metals as well as larger areas with anomalous gold and silver values. Sampling of veins in the Julio Verne area reportedly returned an average gold grade of 7.03 grams per tonne.

The geological setting, alteration pattern and metal signatures indicate that this could be a high sulphidation or acid sulphate, epithermal gold-bearing system.

Cardero geologists believe that given the size of the system there is a good opportunity to delineate areas having potential to host low-grade bulk mineable gold targets. The Company is presently compiling previous exploration data and, contingent on the results; a suitable work program will be designed to take the property to a decision point.

Mina Angela, Argentina

In a news release dated December 15, 2004, the Company announced an agreement with Stenfield Minera S.A., an arm's length private Argentinean company, ("Stenfield") pursuant to which the Company has the right to explore, and an option to purchase, the Mina Angela property. The Mina Angela property consists of 44 individual claims totalling 2706 hectares, and is located in the province of Chubut at an altitude of approximately 1400 metres above sea level.

Information available from previous work indicates that mineralization at Mina Angela consists of low sulphidation epithermal vein systems hosted by Jurassic andesitic volcanics. The major veins are confined

to a north-easterly trending alteration corridor bounded by felsic dyke swarms and were deposited in right lateral strike slip faults.

Production took place at Mina Angela on selected veins between 1978 and 1992. From 1983, when accurate mining records begin, until closure in 1992, Mina Angela produced 1,037,360 tons at an average grade of 4.0g/t Au, 48.4g/t Ag, 2.0% Pb, 0.4% Cu and 4.6% Zn.

In 1997 and 1998 Lonrho Mining South Africa carried out exploration including geological mapping, regional soil sampling and ground geophysics. The program also included 3443 metres of diamond drilling in 16 holes drilled within a 4 by 5 kilometre area. The best values were obtained on the Sahuel vein system, where one hole intersected 1.36 metres grading 40.65 g/t Au, 1773 g/t Ag, 1.79% Pb, 0.23% Cu and 10.06% Zn at a vertical depth of 65 metres below surface. Another hole drilled on the same system intersected a second vein approximately 65 metres to the west with 2.02 metres averaging 6.69 g/t Au, 240g/t Ag, 0.52% Pb, 0.04% Cu and 2.19% Zn.

Geophysics indicates the Sahuel vein system has a potential strike length of 1.6 kilometres. The other holes indicate gold values ranging from trace to 2.25 g/t over varying widths. At the end of 1998 Lonrho decided to concentrate on mining activities in Africa and withdrew from other regions, including South America.

The Company's interest in the property is focused on the precious metal bulk tonnage potential associated with and adjacent to those areas of the high-grade veins. Extensive areas of structurally controlled clay epithermal alteration were mapped and sampled by a previous owner in the early 1990's but have had only limited follow-up.

The Company is presently compiling previous exploration data and, contingent on the results, a suitable work program designed to take the property to a decision point will be implemented.

In order to carry out exploration, and to exercise the option to purchase the property, the Company is required to pay the outstanding taxes on the property in the amount of 72,720 pesos (approximately US \$24,000 - paid), to make all necessary payments to maintain the property in good standing and to pay an aggregate of US\$400,000 to Stenfield, as follows:

- April 25, 2005 US\$ 50,000
- April 25, 2006 US\$ 50,000
- April 25, 2007 US\$150,000
- April 25, 2008 US\$150,000

Stenfield will retain a 1% NSR royalty, which may be purchased by Cardero for the sum of US\$500,000. The Company and Stenfield are to agree on an exploration program for the property to be carried out by the Company. The Company has also agreed to pay a finder's fee to an arm's length party in connection with this acquisition, to be settled by the issuance of shares in accordance with TSX Venture Exchange policies. This transaction, and the applicable finder's fee, is subject to acceptance for filing on behalf of the Company by the TSX Venture Exchange.

Condor Yacu Project, Argentina

The Condor Yacu Project has been relinquished and returned to the Vendors.

Cerro Juncal, Argentina

In a news release dated November 26, 2004, the Company announced an option agreement with Minera Cerro Juncal S.A, a private Argentinean company, to explore the Cerro Juncal copper-gold project in the province of Salta, northwestern.

The project covers a total of 2600 hectares and is located 75 kilometres southwest of the town of San Antonio de los Cobres, 160 kilometres by road to the west of Salta, the capital city of the province, at a maximum altitude of 4400 metres above sea level. The main railway to the port of Antofagasta and a high-tension power line are 60 kilometres to the northwest of the project.

The project lies near the intersection of the regional north-south trending Cerro Galan - Tuzgle fault zone and northwest - southeast trending Cerro Ratonés Lineament which contains several significant deposits and mineral occurrences such as Diablillos (inferred resource of 46 Mt @ 69.5 g/t Ag and 1 g/t Au), Inca Viejo and Centenario.

Geologically, Cerro Juncal is comprised of Ordovician aged, interbedded marine arenites, wackes and shales intruded by Miocene calc-alkaline porphyritic intrusions.

The main part of the property is dominated by a colour anomaly, which covers an area of approximately 4.5 square kilometres and reflects the exposed alteration zone. Within this zone the Ordovician sediments are intensely altered by quartz sericite and associated limonite-quartz veins after pyrite. Alteration in the poorly exposed porphyritic intrusions is broadly zoned from propylitic in the west to phyllic and potassic towards the east. Additionally, the porphyry has some well-developed stockworks with A- and B- type quartz veins, indicative of porphyry style mineralization, and associated leached iron-oxide box-works (jarosite, goethite and hematite) and copper-oxides after pyrite-chalcopyrite.

Gencor originally staked Cerro Juncal on the basis of the known alteration and limited rock chip sampling, which yielded gold values of up to 1.86 g/t in the capping sediments. In 1995, following a corporate amalgamation, the property passed to Goldfields who completed two, small Mobile Metal Ion (MMI) soil grids, the results of which confirmed the pervious alteration mapping and lithochemical sampling. Goldfields relinquished the property following a corporate restructuring. No previous geophysical surveying or drill testing has occurred.

The Company is presently compiling previous exploration data and contingent on the results a suitable work program designed to take the property to decision point will be implemented.

The terms of the agreement require that Cardero, in order to acquire 100% interest, make an initial payment of US\$25,000, with an additional US\$335,000 to be paid incrementally over the following thirty months. After thirty-six months from the date of the initial payment, a final payment of US\$2,000,000 is required to exercise the option for a total of payment of US\$2.36M. The property is subject to a NSR of 0.5%.

Cerro Atajo, Argentina

In a news release dated January 28, 2005, the Company announced the acquisition of the 2,800-hectare Cerro Atajo property. The property lies 10 kilometres east of the Baja de la Alumbreira copper-gold porphyry mine (reported resources of approximately 600 Mt @ 0.53% copper and 0.61 g/t gold) and 25 kilometres west of the Agua Rica porphyry deposit (reported resources of approximately 700 Mt @ 0.66% copper, 0.23 g/t gold and 0.037% molybdenum) within Argentina's pre-eminent mining district.

Cerro Atajo is prospective for both high-grade gold-copper-silver veins and large tonnage copper-gold porphyry mineralization.

Geologically, the Cerro Atajo property is composed of a granitic basement and volcanic rocks that have been intruded by a minimum of two porphyry bodies. Two major fault zones bound the area: the east-west striking Cerro Atajo Fault Zone to the north and the northeast-southwest striking Lavadera Fault Zone to the south. Reconnaissance geological mapping by previous operators has identified advanced argillic alteration associated with the vein systems immediately adjacent to the property, whereas the dacitic intrusives have an outer halo of propylitic, and an inner core of phyllic, alteration. Previous exploration and exploitation in the district dates from the late 17th Century to the early 1990s and focused on several of the high-grade vein systems adjacent to the Cerro Atajo property. To date, two vein types have been identified adjacent to the northernmost property boundary. The first type is comprised of quartz-pyrite-gold with reported values in the order of 20 g/t, and up to 250 g/t, gold, whereas the second type is polymetallic comprised of quartz, chalcopyrite, bornite, sphalerite, galena and pyrite. In 1995, exploration drilling by Placer Dome, on these vein systems, intersected values up to 7.44 g/t gold and 2.91% copper within gold rich stockworks. Little exploration work has been carried out on the vein systems located within the Cerro Atajo property itself and identified through past mapping and geophysics.

In 1973, the Argentinean geological survey, La Secretaria de Minería de la Nación (SMN), targeted porphyry style mineralization, and carried out a drill program at Cerro Atajo in which several holes were completed within the propylitic alteration zone. The drill holes indicated the presence of a secondary enrichment blanket with pyrite and chalcocite mineralization encountered over widths of up to 60 meters, which averaged 0.2% copper. A magnetic survey in 1995 highlighted a large magnetic anomaly, indicative of magnetite destruction, which was interpreted to be related to the presence of a hidden porphyry system. The copper geochemistry in soil and rock over this anomaly suggests the presence of a leached cap. The coincident geophysical-geochemical anomaly was never drill tested, despite the highly encouraging 1973 drill results resulting from the work by SMN on the margin of the anomaly.

The foregoing information is derived from information previously prepared by former operators of the Cerro Atajo property and surrounding district, and is believed to be reliable. However, at this time the Company has not independently verified or confirmed any of the foregoing information.

Cardero intends to commence an aggressive exploration program at Cerro Atajo, anticipated to consist of detailed mapping, geochemical sampling and, contingent on results, geophysics followed by drilling. Work is schedule to commence early March 2005.

In order to acquire its interest in Cerro Atajo, Cardero has entered into two agreements involving Sociedad Minera Catamarquena de Economía Mixta (Somicadem), a governmental corporation owned as to 51% by the Province of Catamarca and 49% by two private Argentinean companies (Shareholders). Somicadem is the holder of the Cerro Atajo property. The first of these agreements is with respect to the acquisition by Cardero of the interest of the Shareholders in Somicadem and the second is with respect to the acquisition by Cardero from Somicadem of the rights to explore and exploit the Cerro Atajo property.

Pursuant to the first agreement, Cardero has the option to acquire to acquire the 49% of the issued share capital of Somicadem from the Shareholders (both of whom are at arm's length to Cardero), together with all of the interest of the Shareholders in their existing Exploration, Exploitation and Mining Lease Agreement (Existing Lease) with Somicadem relating to the Cerro Atajo property. In order to exercise the option, Cardero is required to pay the Shareholders an aggregate of US \$11,650,000, and issue 1,750,000 common shares to the Shareholders, over 5 years. The initial payment of US \$300,000 is due once

Cardero has completed its due diligence (as provided for below) following Cardero having entered into a new Contract of Prospecting, Exploration and Mining Lease with Somicadem concerning Cerro Atajo to replace the Existing Lease. At the election of Cardero, it can settle the obligation to issue some or all of the foregoing common shares by making payments to the Vendors equal to US \$5.00 per share (up to US \$8,250,000 in total).

Pursuant to the second agreement, which is a new Contract of Prospecting, Exploration and Mining Lease (New Lease) between Somicadem and Cardero concerning Cerro Atajo (replacing the Existing Lease), Cardero has an initial 90 day due diligence period to review the Cerro Atajo property attributes and title. If, following completion of its due diligence investigations, Cardero elects to proceed with the New Lease, then Cardero will have the right, for 40 years, to carry out prospecting, exploration, development and exploitation activities at Cerro Atajo for consideration consisting of cash payments to Somicadem, work commitments on Cerro Atajo and an NPI royalty payable to Somicadem. Full details of the agreement will be announced upon Cardero's decision to proceed with the New Lease following the completion of its due diligence.

A finder's fee is payable by Cardero in connection with the Somicadem and Cerro Atajo transactions.

Peru

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

The Marcona mining district forms the northernmost known extension of the Coastal IOCG belt of Chile and Peru. This region hosts several producing iron and copper IOCG deposits including the Marcona iron mine (approximate resource of 1.4Bt @ 54% iron) in Peru and the Mantoverde, Candelaria and Punta Del Cobre copper deposits in Chile. The recent discovery of Mina Justa (approximate 200 Mt @ 0.8% Cu) near Marcona underscores the exploration potential of the region.

The Carbonara and Daniella mineral concessions total approximately 30,000 hectares were acquired from Minera Koripampa del Peru S.A. Approximately 10,000 of the 30,000 hectares are subject to an underlying agreement with Rio Tinto Mining and Exploration Ltd.

Rio Tinto discovered Pampa de Pongo in the mid-1990s as part of a regional exploration program targeting the IOCG potential peripheral to the Marcona mine. Wide-spaced reconnaissance drilling by Rio Tinto (total of 15 boreholes) identified widespread magnetite +/- copper-gold mineralization along a structural corridor approximately 1 kilometer wide and in excess of 6 kilometers long. Two main deposits have been identified to date, referred to as the Central and South Zones. Highlights of the Rio Tinto drill campaign include:

- Hole PPD001 intersected 403m of massive magnetite mineralization averaging 45% Fe from 360 – 763 m within which a 169m interval returned an average of 52.9% Fe.
- Hole PPD009 intersected 8m @ 1.72%Cu and 0.35 g/t Au within an 82.6m thick interval from 259.4 - 342.0m which ran 56% Fe, 0.24% Cu & 0.35 g/t Au.

Following the drill program Rio Tinto postulated, "*Wide-spaced drilling suggests a potential resource of 1,000Mt comprising approximately 75% magnetite.*"

Cardero's 2004 Program:

Exploration work by Cardero in 2004 included surface mapping, an electromagnetic survey (TEM), detailed high-resolution ground magnetic surveys (117 line km), magnetic data processing (3D inversion modeling) and diamond drilling.

A portion of the drilling was designed to evaluate and refine the iron resource potential in the Central deposit. A 3D modeling of the magnetic data interprets a pear-shaped highly magnetic body (as defined by the 0.8 SI unit shell - that is, corresponding to high susceptibility magnetic material) 1.0 to 1.2 kilometers in diameter and locally extending to a depth of more than 1.0 kilometer, which corresponds with the Central Magnetite deposit as, identified by Rio Tinto.

Holes DDH04-20 and 21 tested the central part of the Central Zone 3D inversion magnetic model. Hole 20 drilled slightly south of the center of anomaly, intersected a continuous interval of semi-massive to massive magnetite mineralization starting at a depth of 314.75 m and continuing to a depth of 626.0 m (total intercept 311.25 m). A 102 m interval above this zone contains variably sheared hypabyssal intrusive with veins of massive magnetite ± sulphide. Assay results are pending for the hole.

Hole 21 (drilled prior to hole 20) is located 255 m north of hole 20 and 84 m east of Rio Tinto hole PPD 001. The hole intersected massive magnetite-calcite between 53.15 – 77.3 m, coarse breccia (volcanic clasts with a magnetite-sulphide-calcite matrix) between 77.3 – 167.0 m and a mixture of hypabyssal intrusive, mineralized hydrothermal breccias and semi-massive to massive magnetite between 167.0 – 482.8 m. Starting at a depth of 482.8 m the hole intersected a continuous interval of semi-massive-massive magnetite that continued to a depth of 784.8 m (bottom of the hole). Assays received from the bottom interval (continuous 302 m section) returned a weight average of 51.6% iron (73.8% Fe₂O₃)

The total drill program for Pampa de Pongo included 13 HQ core hole totalling 3942.18 m.

Samples from the final borehole are presently being assayed and contingent on continued encouraging results an in-house deposit scoping study would be completed in Q2-Q3 2005.

A general summary of the holes completed to date is tabulated below:

Hole	Target	Results
DDH04-10	EM Conductor along the W flank of the South Zone	220.8-270.0 m (49.2 m) @ 41.5% Fe, 0.35% Cu, 0.37 g/t Au (excludes post mineral dykes between 222.5-223.7 m and 229.5-231.8 m).
DDH04-11	Extension of EM conductor, 500 m S of DDH04-10	Intersected post-mineral dyke. Terminated due to bad ground conditions.
DDH04-12	Satellite conductor W of South Zone	No significant mineralization.
DDH04-13	South edge of the South Zone	Strong sodic-potassic alteration with abundant pyrite minor Cu-Au.
DDH04-14	EM conductor along the western flank of the Central Zone	Semi-massive, low-grade (<30% Fe) magnetite-pyrite mineralization between 98.5-102.5 m and 133.4-160.0 m.
DDH04-15	Overburden covered basin at a major structural intersection associated with a broad, weak magnetic anomaly	No significant mineralization.
DDH04-16	Series of surface copper showings along a NNE-trending structure.	154.3-187.5 m: fault breccia with disseminated to semi-massive pyrite magnetite and hematite. The interval 154.3 – 173.6 m (19.3 m) assayed 0.88 g/t Au.
DDH04-17	East edge of South Zone	Hole abandoned in overburden.
DDH04-18	Central part of South Zone	Hole abandoned in overburden.

Hole	Target	Results
DDH04-19	Central part of South Zone	212.45-400.0 m (187.55 m) @ 36.2 % Fe, 0.167% Cu, 0.276 g/t Au
DDH04-20	Central Zone. Test of 3D inversion model.	314.75-626.0 m (311.25 m): semimassive-massive magnetite mineralization. <i>Assays Pending.</i>
DDH04-21	Central Zone. Test of 3D inversion model. Loc 255 m north of DDH04-20	482.8-784.8 m (302.0 m): @ 51.6% Fe, 0.1% Cu, 0.058 g/t Au.
KA-001	Kampana Target Circular magnetic anomaly about 800 m in diameter centered about 4 km E of the Central Zone	154.0-425.85 m (251.85 m) of continuous stockwork magnetite mineralization.

Note: Borehole numeric sequence contiguous after previous RT drilling.

Katanga Property, Peru

Cardero entered into an option agreement dated October 1, 2004, with a private Peruvian company to acquire the Katanga property, located approximately 200 km south of the city of Cusco, in the province of Livitaca, Peru.

The Katanga property covers approximately 9,500 hectares and contains extensive surface exposures of magnetite mineralization. The geological setting and nature of the mineralization suggest a potential for large tonnages of magnetite (iron ore) and copper skarn deposits. Within a 100 km radius there are four copper deposits including BHP's Tintaga copper Xtrata's newly acquired Las Bambas and mine copper project.

The terms of the option agreement to acquire a 100% interest in the Katanga property require the payment of US\$261,000 on or before execution of the agreement (paid) and additional payments aggregating US\$240,000 (payable as to the sum of US\$10,000 on or before November 1, 2004 and the balance in monthly instalments of US\$10,000 until an aggregate US\$240,000 has been received by the private Peruvian company). In addition, the Company is required to take over the obligations of the private Peruvian company under the underlying option agreement with the landowner, which require aggregate payments of US\$1,900,000 over 5 years, with an initial payment of US \$50,000 in year 1 and a subsequent payment of US \$100,000 in year two, and payment of all required taxes in order to keep the property in good standing. There are no work commitments.

The Company has recently commenced a property scale reconnaissance program, and, contingent on the results, a suitable work program designed to take the property to a decision point will be implemented.

OVERALL PERFORMANCE

Success in the junior mining business is measured by a company's ability to raise funds, secure properties of merit and, in a few rare cases, identify an economic ore body on one of its properties.

Over the past three years, the Company has been very successful at raising funds. It raised \$2.5 million in fiscal 2002, \$6.4 million in fiscal 2003 and \$19.5 million in fiscal 2004. As of February 28, 2005, the Company has approximately \$18 million on hand.

Over the past three years the Company has demonstrated an ability to obtain properties of merit and has concentrated its efforts on IOCG (Iron-Ore Copper Gold) deposits in Mexico, Peru and Argentina. The

Company now has a substantial inventory of properties, which are discussed in detail under the “Highlights” section.

Selected Annual Information

The Company’s results of operations for the years ended December 31 are summarized below:

	2004	2003	2002
Interest income	\$ 284,858	\$ 52,997	\$ 3,131
Net loss	9,323,002	1,713,252	1,197,015
Net loss per share	0.26	0.08	0.09
Total assets	24,231,580	8,877,885	1,038,202
Working capital	17,094,291	3,686,213	1,769,933

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

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

Results of Operations

	2004	2003
Net loss	\$ 9,323,002	\$ 1,713,252
Interest income	284,858	52,997
General and administrative costs	1,640,022	758,108
Stock-based compensation	3,433,900	740,408
Write-down of resource properties	4,521,367	0

In fiscal 2004 the Company had a net loss of \$9,323,002 or \$0.26 per share as compared to a net loss of \$1,713,252 or \$0.08 per share in fiscal 2003. The following discussion explains the variations in the key components of these numbers, but as with most junior exploration companies the results of operations are not the main factor in establishing the financial health of the company. Of far greater significance are the properties the company has, its working capital and how many shares it has outstanding.

The Company’s interest income was up substantially in 2004 as compared to 2003 because throughout the 2004 year, the Company had significant cash balances on hand. These surplus funds were invested in term deposits and bankers’ acceptance.

The Company’s general and administrative costs were higher in 2004 in all categories and, it is expected that these costs will rise again in 2005. The major increase was in corporate promotion, which increased from \$230,817 in 2003 to \$640,197 in 2004. The Company’s philosophy is to keep a high profile for the investing public. The Company has a full-time, in-house investor relations manager as well as several investor relations contracts with outside consultants. The Company is a regular attendee at industry conferences and management frequently travels to major cities in North America and Europe to tell the Company’s story. The Company has benefited substantially from these activities and has been able to complete two private placements in the year as well as raising additional funds through the exercise of

warrants and stock options. Another area of significant increase in general and administrative expenses was office costs. In 2004 the Company moved in to larger offices and hired a full time office manager. Professional fees also rose substantially in 2004, mainly as a result of increased legal fees, particularly in reference to the lawsuit surrounding certain of the Company's Mexican properties (see Note 9 to the audited financial statements). In 2004 the Company spent \$101,903 on property evaluations, looking for potential property acquisitions. There was no comparative expenditure in 2003.

Stock-based compensation is a non-cash item that puts a dollar value on the benefit being given on the granting of stock options. In 2004 the Company adopted the fair value method of accounting for stock-based compensation for all grants of stock options. Prior thereto the fair value method was used to account only for grants of options to non-employees. The fair value method is based on statistical models, taking into account the volatility of the stock, the risk free interest rate and the weighted average life of the options. Where the market is highly volatile and not perfectly liquid, the results may not be very meaningful. In 2004 the Company granted 3,265,000 options, which resulted in a stock-based compensation charge of \$3,433,900.

The Company writes off its resource property costs at such time as it either abandons the property or determines that there has been a permanent impairment in its value. In fiscal 2004 the Company wrote off a substantial portion of its Argentinean properties in the amount of \$4,521,367 (see "Highlights" section). There were no write-offs in 2003.

Summary of Quarterly Results

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

Fiscal 2004

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

Fiscal 2003

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	5,845	11,474	14,464	21,214
Net income (loss)	(153,385)	(283,743)	(274,317)	(1,001,807)
Net income (loss) per share	(0.01)	(0.01)	(0.01)	(0.05)

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

When acquiring mineral properties, the Company will sometimes issue its own stock to the vendor of the property as partial or full consideration for the property.

In the past two fiscal years the Company has completed three private placements. In December 2002, \$2.9 million was raised from the sale of 2.24 million units at \$1.30 per unit. In December 2003, \$5.9 million was raised from the sale of 3.57 million units at \$1.65 per unit. In March 2004, \$6.8 million was raised from the sale of 2.6 million units at \$2.60 per unit. The exercise of warrants and options brought in a further \$6.8 million in fiscal 2004 and \$3.5 million in fiscal 2003. At October 31, 2004 the Company had 38.2 million shares outstanding, 3.48 million stock options outstanding at a weighted average exercise price of \$2.60 and 5.0 million warrants outstanding, exercisable at various prices between \$1.70 and \$3.55. Since October 31, 2004, 1.96 million warrants that were due to expire on December 10, 2004 were exercised, netting the Company \$4.3 million. At February 28, 2005 the Company had 40.8 million shares outstanding.

In 2004 the Company spent \$4.6 million on property acquisitions and exploration and, \$1.3 million on general and administration. The comparative figures for 2003 were \$2.8 million and \$1.0 million, respectively. This increasing level of expenditure can be expected to continue as the Company grows.

At October 31, 2004 the Company had working capital of \$17.1 million (2003 - \$3.7 million). At February 28, 2005 the Company's working capital was approximately \$18 million. This working capital is sufficient to take the Company through the next two years. However, if the Company substantially increases its expenditure levels on property acquisitions or exploration expenditures, additional funding may be required within the next two years.

OFF BALANCE-SHEET ARRANGMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

In 2004, Ken Carter, a director of the Company was paid \$14,375 (2003 - \$15,300) for geological consulting. In 2004, a law firm, in which Lawrence Talbot, a director of the Company, is a partner, was paid legal fees of \$207,045 (2003 - \$79,845). In 2003 the Company's president Henk Van Alphen received management fees of \$129,000. For the first four months of fiscal 2004 he received management fees of \$32,000. On March 1, 2004 Mr. Van Alphen became a full-time salaried employee of the Company.

In 2004, four directors of the Company exercised a total of 803,000 options realizing a benefit at the time of exercise of \$992,410 (2003 - three directors exercised 200,000 options, realizing a benefit of \$227,100).

FOURTH QUARTER

The major item affecting operations in the fourth quarter was the write-down of the Argentinean properties of \$4.8 million.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The only change in accounting policies during the 2004 year was the expansion of the fair market value method of accounting to cover all stock option grants. See note 2(g) to the audited financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

The Company's cash and cash and term deposit equivalents of \$16.9 million consists of cash on hand of \$1.1 million and banker's acceptance and term deposits of \$15.8 million. The bankers' acceptance and term deposits yield approximately 2% per annum.

Receivables and payables of \$500,361 and \$804,112 respectively are normal course business items that are usually settled within thirty days.

MATERIAL PROCEEDINGS

On May 20, 2004 Western Telluric Resources Inc. ("Western Telluric") and Minera Olympic, S. de R.L. de C.V. ("Minera") (collectively, the "Plaintiffs") commenced an action in the British Columbia Supreme Court (Vancouver Registry, No. S042795) against the Company and James Dawson, Murray McClaren and their respective companies, Dawson Geological Consultants Ltd. and 529197 B.C. Ltd. (carrying on business as Crockite Resources).

The relief claimed against the Company is the setting aside of an agreement dated December 12, 2001 between the Company and Minera (See Note 5(a)(i)) by which the Company acquired six mineral concessions in Baja California State, Mexico from Minera, a constructive trust over other mineral interests in Baja California State, Mexico held by the Company and damages for breach of contract, breach of duty of confidence and knowing participation in breach of fiduciary duty.

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

The pleadings are closed. Discovery of documents of all parties is at or near completion, and the discovery process has begun. A trial date of 20 days, commencing March 13, 2006, has been set.

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

AMEX CORPORATE GOVERNANCE

The Company's common shares are listed on The American Stock Exchange ("AMEX"). Section 110 of the AMEX company guide permits AMEX to consider the laws, customs and practices of foreign issuers in relaxing certain AMEX listing criteria, and to grant exemptions from 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 AMEX standards is posted on the Company's website at www.cardero.com and a copy of such description is available by written request made to the Company.

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

(a) Differences in accounting policies

i) Exploration expenditures

Under Canadian GAAP acquisition costs and exploration expenditures are capitalized (note 2(d)).

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

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

(ii) Stock based compensation

Under Canadian GAAP, the Company elected to use the settlement method for employee stock options where no compensation expense is required for options granted to employees. For US GAAP purposes the settlement method is not available, therefore, the Company elected to measure compensation costs using the intrinsic value-based method

for employee stock options. Had the compensation costs been determined based on the fair value of the options at the grant date using the Black-Scholes option pricing model, additional compensation expense would have been recorded in the statement of operations of the period, with pro-forma results as presented below.

(iii) Reconciliation of total assets, liabilities and shareholder's equity:

	October 31, 2004
Total assets per Canadian GAAP	\$ 24,231,580
Expenditures in resource properties expensed under US GAAP	(6,590,392)
Total assets per US GAAP	17,641,188
Total liabilities per Canadian GAAP	\$ 804,112
Adjustments to US GAAP	0
Total liabilities per US GAAP	804,112
Total equity per Canadian GAAP	23,427,468
Expenditures in resource properties expensed under US GAAP	(6,590,392)
Total equity per US GAAP	16,837,076
Total equity and liabilities per US GAAP	\$ 17,641,188

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

Statement of operations for the year ended October 31

	Year ended October 31 2004	Year Ended October 31 2003
Reconciliation of net loss from Canadian GAAP to U.S. GAAP		
Net loss per Canadian GAAP	\$ (9,323,002)	\$ (1,713,252)
Acquisition of mineral properties	(2,970,195)	(1,994,926)
Exploration and development costs, net	(3,388,989)	(2,086,921)
Reverse amounts written off	4,521,367	0
Stock based compensation using Intrinsic value	0	(30,500)
Net loss per US GAAP	\$ (11,160,819)	\$ (5,825,599)
Net loss per share in accordance with Canadian GAAP	\$(0.26)	\$(0.08)
Total differences	\$(0.06)	\$(0.18)
Net loss per share in accordance with US GAAP	\$(0.32)	\$(0.26)
Weighted average number of shares outstanding	35,198,762	22,349,311

(b) Accounting pronouncements

In December 2002, FASB issued SFAS 148, "Accounting for Stock-based Compensation – Transition and Disclosure, an amendment to SFAS 123", SFAS 148 provided two additional transition methods for entities that adopt the preferable method of accounting for stock-based compensation. Further, the statement requires disclosure of comparable information for all companies regardless of whether, when, or how an entity adopts the preferable, fair value method of accounting. These disclosures are now required for interim periods in addition to the traditional annual disclosure. The amendment to SFAS 123, which provides for additional methods, are effective for the periods beginning after December 15, 2002, although earlier application is permitted. The amendments to the disclosure requirements are required for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The Company adopted these requirements effective November 1, 2002.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. Interpretation 46 establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. Interpretation 46 applies to any business enterprise both public and private, that has a controlling interest, contractual relationship or other business relationship with a variable interest entity. The Company has no investment in or contractual relationship or other business relationship with a variable interest entity and therefore the adoption did not have any impact on the Company's consolidated financial position, results of operations or cash flows.

On April 30, 2003, the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. Statement 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirety, or as hybrid instruments with debt host contracts and embedded derivative features. In addition, Statement 149 clarifies the definition of a derivative by providing guidance on the meaning of initial net investments related to derivatives. Statement 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of Statement 149 will not have an effect on its consolidated financial position, results of operations or cash flows.

On May 15, 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Statement 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. Statement 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. Statement 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments as of September 1, 2003. The Company adopted Statement 150 on November 1, 2003 and believes the effect of adopting this statement will not have any impact on its consolidated financial position, results of operations or cash flows.



CARDERO RESOURCE CORP.

CORPORATE DATA

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Listing

TSX Venture Exchange
Symbol “CDU”
American Stock Exchange
Symbol “CDY”
Frankfurt Stock Exchange
Symbol “CR5”

Annual & Special General Meeting

Renaissance Vancouver Hotel Harbourside
Port of Hong Kong Suite – 3rd Floor
1133 West Hastings Street, Vancouver, B.C.
Friday, April 15, 2005 @ 2:00 p.m.