



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

**Financial Statements**

**January 31, 2005**  
**(Unaudited – Prepared by Management)**



## **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](http://www.cardero.com)

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

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

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

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

For further information, please contact:

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**CARDERO RESOURCE CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
**(An Exploration Stage Company)**  
**(Unaudited – Prepared by Management)**

	<b>January 31, 2005</b>	<b>October 31, 2004</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 18,678,625	\$ 16,920,909
Accounts receivable	554,169	500,361
Prepaid expenses	134,388	172,133
	19,367,182	17,593,403
<b>Equipment</b>	46,899	47,785
<b>Resource properties</b> (Note 4)	9,729,699	6,590,392
	\$ 29,143,780	\$ 24,231,580
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 838,089	\$ 804,112
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock</b> (Note 5)	39,829,530	34,012,690
<b>Contributed surplus</b>	4,725,308	4,174,308
<b>Deficit</b>	(16,249,147)	(14,759,530)
	28,305,691	23,427,468
	\$ 29,143,780	\$ 24,231,580

**APPROVED ON BEHALF OF THE BOARD:**

\_\_\_\_\_  
*"Henk Van Alphen"* (signed) Director  
 Henk Van Alphen

\_\_\_\_\_  
*"Lawrence W. Talbot"* Director  
 Lawrence W. Talbot

**CARDERO RESOURCE CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**(An Exploration Stage Company)**  
**(Unaudited – Prepared by Management)**

	<b>Three months ended January 31</b>	
	<b>2005</b>	<b>2004</b>
<b>EXPENSES</b>		
Stock-based compensation	\$ 551,000	\$ 900,000
Investor relations	549,471	112,489
Professional fees	129,320	82,715
Listing and stock exchange fees	65,160	4,517
Property evaluations	20,455	-
Salaries and benefits	151,070	39,825
Office costs	76,394	29,389
Transfer agent fees	8,256	4,331
Amortization	3,802	3,080
	1,554,928	1,176,346
<b>OTHER ITEMS</b>		
Interest income	(60,669)	(51,284)
Write-off of resource properties	5,600	-
Foreign exchange gain	(10,242)	-
	(65,311)	(51,284)
<b>NET LOSS FOR THE PERIOD</b>	1,489,617	1,125,062
<b>DEFICIT, BEGINNING OF PERIOD</b>	14,759,530	5,436,528
<b>DEFICIT, END OF PERIOD</b>	\$ 16,249,147	\$ 6,561,590
<b>LOSS PER SHARE</b>	\$ (0.04)	\$ (0.04)
<b>WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES</b>	40,226,448	30,350,340

**CARDERO RESOURCE CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(An Exploration Stage Company)**  
**(Unaudited – Prepared by Management)**

	<b>Three months ended</b>	
	<b>January 31</b>	
	<b>2005</b>	<b>2004</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (1,489,617)	\$ (1,125,062)
Deduct items not involving cash:		
Amortization	3,802	3,080
Stock-based compensation	551,000	900,000
Write-off of resource properties	5,600	-
Changes in non-cash working capital items related to operations		
Accounts receivable	(53,808)	(83,320)
Prepaid expenses	37,745	33,518
Accounts payable and accrued liabilities	33,977	(136,674)
Cash (used) by operating activities	(911,301)	(408,458)
<b>FINANCING ACTIVITIES</b>		
Proceeds from shares issued	4,561,390	8,648,413
Share issue costs	-	(437,016)
Cash provided by financing activities	4,561,390	8,211,397
<b>INVESTING ACTIVITIES</b>		
Resource property expenditures (net of option receipts)	(1,889,457)	(799,368)
Purchase of equipment	(2,916)	(28,938)
Cash (used) by investing activities	(1,892,373)	(828,306)
<b>INCREASE IN CASH DURING PERIOD</b>	<b>1,757,716</b>	<b>6,974,633</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>16,920,909</b>	<b>3,752,305</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 18,678,625</b>	<b>\$ 10,726,938</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Shares issued for property option	1,255,450	520,000
Shares Issued for data acquisition	-	198,000

**CARDERO RESOURCE CORP.**  
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**Notes to Consolidated Financial Statements**  
**For the three months ended January 31, 2005**  
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**1. NATURE OF OPERATIONS**

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

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

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. BASIS OF PRESENTATION**

The accompanying interim financial statements, stated in Canadian dollars, have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and accordingly do not include all disclosure required for annual financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered for a fair presentation have been included. Operating results for the three months ended January 31, 2005 are not necessarily indicative of the result that may be expected for the full year ending October 31, 2005.

These statements should be read in conjunction with the October 31, 2004 annual financial statements, including the accounting policies and notes thereto, included in the Annual Report for the year ended October 31, 2004. These financial statements reflect the same significant accounting policies as those described in the notes to the audited financial statements of Cardero Resource Corp. for the year ended October 31, 2004.

**3. 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.

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**4. RESOURCE PROPERTIES**

Expenditures incurred during the period on resource properties were as follows:

	<b>Mexico</b>	<b>Argentina</b>	<b>Peru</b>	<b>Total</b>
Balance - October 31, 2004	\$ 3,091,309	\$ 538,569	\$ 2,960,514	\$ 6,590,392
Acquisition and land costs				
Cash payments	90,255	380,055	350,600	820,910
Common share issue	169,000	256,900	829,550	1,255,450
	259,255	636,955	1,180,150	2,076,360
Deferred exploration costs				
Field	75,341	102,222	176,177	353,740
Drilling and analysis	159,300	-	342,809	502,109
Personnel	59,599	122,115	30,984	212,698
	294,240	224,337	549,970	1,068,547
Write offs	-	(5,600)	-	(5,600)
Balance - January 31, 2005	\$ 3,644,804	\$ 1,394,261	\$ 4,690,634	\$ 9,729,699

**(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.

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**4. RESOURCE PROPERTIES (Continued)**

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.

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.

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**4. RESOURCE PROPERTIES (Continued)**

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 30,000 paid)
- 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;(incurred)
- 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 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.

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**4. RESOURCE PROPERTIES (Continued)**

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);
- 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.

**(b) Argentina**

i. 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.

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**4. RESOURCE PROPERTIES (Continued)**

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 5<sup>th</sup> 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.

ii. 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 Economía Mixta (“Somicadem”), a governmental corporation owned as to 51% by the Province of Catamarca and 49% by two private Argentinean companies (the “Shareholders”). Somicadem is the holder of the Cerro Atajo property. The first of these agreements 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 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;

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**4. RESOURCE PROPERTIES (Continued)**

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.

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.

iii. 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:

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**4. RESOURCE PROPERTIES (Continued)**

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

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.

iv. 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.

- 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

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**4. RESOURCE PROPERTIES (Continued)**

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.

**(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); 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).

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**4. RESOURCE PROPERTIES (Continued)**

iii. Katanga Property, Chumbirilcas Province, Peru

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

The private Peruvian company holds the exclusive right and option to acquire a 100% interest in these concessions from a group of vendors comprised of 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 USD1,900,000 over five years. The Company can acquire a 100% interest in the concessions by assuming the obligations of the private Peruvian company to the Underlying Vendors and making aggregate payments to the private Peruvian company of USD 501,000, as follows:

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

**5. CAPITAL STOCK**

(a) **Authorized**

100,000,000 common shares without par value

a. **Issued and outstanding**

	<b>Number of Shares</b>	<b>Amount</b>
Balance – October 31, 2004	38,247,958	\$ 34,012,690
Exercise of warrants	1,997,381	4,444,890
Exercise of options	70,000	116,500
Issued for property	355,000	1,255,450
Balance – January 31, 2005	40,670,339	\$ 39,829,530

(c) **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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**5. CAPITAL STOCK (Continued)**

A summary of the status of the stock option plan as of January 31, 2005, and changes during the period is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance – October 31, 2004	3,477,500	\$2.60
Exercised	(70,000)	(1.66)
Granted	350,000	3.25
Balance – January 31, 2005	3,757,500	2.66

Expiry Date	Price	Number of Options
October 31, 2005	\$1.90	190,000
January 27, 2006	2.35	852,500
April 16, 2006	3.25	350,000
June 11, 2006	2.50	1,615,000
October 6, 2006	3.25	400,000
November 16, 2006	3.25	350,000
		3,757,500

In the period ended January 31, 2005 the Company used the fair value method for determining compensation expense for all options granted during the period. The fair value was determined using the Black-Scholes options pricing model based on the following assumptions.

Expected life (years)	2.0
Interest rate	3.30%
Volatility	84.0%
Dividend yield	0.00%

During the period options vested which resulted in a stock-based compensation charge of \$551,000.

**(d) Share purchase warrants**

During the period changes in share purchase warrants were as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance – October 31, 2004	5,000,661	\$2.53
Exercised	(1,997,381)	(2.23)
Balance – January 31, 2005	3,003,280	\$3.24

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**5. CAPITAL STOCK (Continued)**

At January 31, 2005, 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:

<b>Expiry Date</b>	<b>Price</b>	<b>Number of Warrants</b>
March/September 17, 2005	\$3.25/\$3.50	2,682,680
March/September 17, 2005	\$3.25/\$3.50	241,800
March 17, 2005	\$2.65	78,800
		<b>3,003,280</b>

**6. RELATED PARTY TRANSACTIONS**

- (a) During the three-month period ended January 31, 2005 the Company incurred the following expenses paid to directors of the Company or companies with common directors:

Professional fees	\$ 82,518
Fees charged to resource properties	\$ 2,612

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.

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

**Differences in accounting policies**

- (i) Exploration expenditures

Under Canadian GAAP acquisition costs and exploration expenditures are deferred.

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.

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

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

	<b>2005</b>
Total assets per Canadian GAAP	\$ 29,143,780
Expenditures on resource properties expensed under US GAAP	(9,729,699)
Total assets per US GAAP	19,414,081
Total liabilities per Canadian GAAP	838,089
Adjustments to US GAAP	-
Total liabilities per US GAAP	838,089
Total equity per Canadian GAAP	28,305,691
Expenditures on resource properties expensed under US GAAP	(9,729,699)
Total equity per US GAAP	18,575,992
Total equity and liabilities per US GAAP	\$ 19,414,081

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

	<b>2005</b>
Reconciliation of net loss from Canadian GAAP to US GAAP	
Net loss per Canadian GAAP	\$ (1,489,617)
Acquisition of mineral properties	(2,076,360)
Exploration and development costs, net	(1,068,547)
Reverse amounts written-off	5,600
Net loss per US GAAP	\$ (4,628,924)
Net loss per share in accordance with Canadian GAAP	\$(0.04)
Total Differences	\$(0.08)
Net loss per share in accordance with US GAAP	\$(0.12)
Weighted average number of shares outstanding	40,226,448

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**Form 51-102F1**  
**Management's Discussion and Analysis**  
**For the quarter ended January 31, 2005**

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## **INTRODUCTION**

This Management Discussion and Analysis (“MD&A”) provides a detailed analysis of the business of Cardero Resource Corp. (“Cardero” or the “Company”) and compares its financial results for the quarter ended January 31, 2005 to the corresponding quarter in the previous year. This MD&A should be read in conjunction with the Company’s unaudited financial statements for the quarter ended January 31, 2005. 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 March 28, 2005.

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

Additional information relating to the Company can be located on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **BACKGROUND**

Cardero Resource Corp. is a junior resource mineral exploration company. Its assets consist of mineral properties and cash. The Company funds its operations through the sale of its shares. 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.

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- 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 affected by the political stability and laws of those countries.
- 6) There is no guarantee that the Company can obtain the necessary governmental permits and licenses when required.
- 7) Environmental concerns and the fluctuation of metal prices, both of which are beyond the Company's control, may significantly alter the economics of mineral deposits.

## **EXPLORATION ACTIVITIES**

### **Mexico**

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

Pursuant to the Company's joint venture agreement with Anglo American Mexico, S.A. DE C.V ("Anglo"), Anglo continues to focus their exploration efforts within the Main Alisitos Block and take the San Fernando and Amargosa targets to the drill-ready stage. Anglo is presently in the process of obtaining permitting for a 3,000 metre diamond drill hole program of 10 to 12 holes that the Company has been advised is scheduled to start in the second quarter of 2005. However, the timing of all work is solely within the control of Anglo.

#### **Franco Property, Mexico**

The Company anticipates the planned work program on the Franco property will commence during the second quarter or early in the third quarter of 2005.

#### **La Zorra Property, Mexico**

**The Company had identified three drill targets on the Gachupines mineral concession, all of which were drill tested in December 2004 and January 2005 with a total of 15 reverse circulation (RC) holes. The results are currently being compiled and reviewed.**

### **Argentina**

#### **Olaroz and Chingolo Projects, Argentina**

Previous exploration by the Company failed to intersect sufficient economic silver mineralization and, consequently, the various properties comprising this project were returned to their respective owners in February 2005.

The status of the Chingolo project is presently being reviewed in light of this decision, although no further exploration work is proposed for this project at this time.

#### **Organullo Property, Argentina**

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The Company is currently planning a work program for the Organullo property, but there is, as yet, no proposed commencement date.

Mina Angela Property, Argentina

The Company continues to compile previous exploration data and, contingent on the results of such compilation, a suitable work program designed to take the property to a decision point will be implemented. The compilation is expected to be completed in the second quarter of 2005.

Cerro Juncal Project, Argentina

The Company continues to compile previous exploration data and, contingent on the results of such compilation, a suitable work program designed to take the property to a decision point will be implemented. The compilation is expected to be completed in the second quarter of 2005.

Cerro Atajo Project, Argentina

The Company has designed and 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. The property is presently being mapped by an experienced team of porphyry specialists. It is anticipated that the mapping and sampling will be completed in the second quarter of 2005.

**Peru**

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

The Company continues to await assay results from the final drill hole on the Pampa de Pongo property and, contingent on the results from the recently completed drilling program, an in-house deposit scoping study may be completed during the second quarter of 2005.

**OVERALL PERFORMANCE**

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

***Results of Operations***

	<b>Quarter ended January 31,</b>	
	<b>2005</b>	<b>2004</b>
Net loss	\$ 1,489,617	\$ 1,125,061
Interest income	60,669	51,284
General and administrative costs	1,003,928	290,346
Stock-based compensation	551,000	90,000
Write-down of resource properties	5,600	-

In the quarter ended January 31, 2005 the Company had a net loss of \$1,489,619 or \$0.04 per share as

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compared to a net loss of \$1,125,061 or \$0.04 per share for the quarter ended January 31, 2004. The following discussion explains the variations in the key components of these numbers but, as with most junior mineral exploration companies, the results of operations are not the main factor in establishing the financial health of the company. Of far greater significance are nature of the mineral properties in which the Company has, or may earn, an interest, its working capital and how many shares it has outstanding.

The Company's interest income increased from \$51,284 in the 2004 quarter to \$60,669 in 2005. This was because the Company had higher cash balances in 2005. Surplus cash is invested in banker's acceptance and term deposits that yield approximately 2% per annum.

The Company's general and administrative costs were substantially higher in 2005, \$1,003,928 as compared to \$296,346. Costs were up in all categories. The bulk of the increase was in corporate promotion that increased from \$112,489 to \$549,471. 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. Two new outside consultants were taken on in the quarter at a cost of \$304,954, including a one-time promotion costing approximately \$244,000. The Company has benefited substantially from these activities in the past and it continues to benefit through the exercise of warrants. Professional fees were up in the quarter, in large part due to legal costs of \$88,953. The majority of these costs relate to the lawsuit commenced against the Company and others in May 2004 (see "Material Proceedings"). Listing and stock exchange fees are up as a result of the listing of the Company's common shares on the American Stock Exchange. Office costs are up mainly as a result of increased salary costs. In December the Company paid staff bonuses for the first time and the Company now has a full time VP of exploration. The increasing acquisition and exploration activity by the Company has required an increase in staff, and the Company now has 4 full time employees.

Stock based compensation is a non cash item that puts a dollar value on the benefit being given on the vesting of stock options. The number is determined by the "fair value method" which is based on statistical models, taking into account the volatility of the stock, the risk free interest rate and the weighted average life of the options. Where the market is highly volatile and not perfectly liquid, the results may not be very meaningful. In the quarter 375,000 options vested, resulting in a stock based compensation charge of \$551,000 (2004 - 750,000 options, \$900,000 expense).

The Company writes off its resource property costs at such time as it either abandons the property or determines that there has been a permanent impairment in its value. In the quarter write offs were \$5,600. There were no write offs in the comparable period of 2004.

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*Summary of Quarterly Results*

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

Fiscal 2005

	<b>First Quarter</b>
Total revenue	60,669
Net income (loss)	(1,489,617)
Net income (loss) per share	(0.04)

Fiscal 2004

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

Fiscal 2003

	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Total revenue	11,474	14,464	21,214
Net income (loss)	(283,743)	(274,317)	(1,001,807)
Net income (loss) per share	(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**

In the quarter the Company raised \$4.5 million from the exercise of warrants and stock options. Subsequent to the end of the quarter the Company has raised a further \$801,520.

At January 31, 2005 the Company had 40.7 million shares outstanding, 3.8 million stock options outstanding with a weighted average exercise price of \$2.66 and 3.0 million warrants outstanding with a weighted average exercise price of \$3.24. At January 31, 2005 the Company had \$18.7 million in cash and cash equivalents and working capital of \$18.5 million.

In the quarter the Company spent \$1.9 million on property acquisitions and exploration and \$0.9 million on administration. This level of expenditure can be expected to increase as the Company grows.

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

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**SUMMARY OF OUTSTANDING SHARE DATA**

*Authorized and Issued Capital Stock*

Authorized - 100,000,000 common shares without par value

*Issued and Outstanding*

	<b>Number of Shares</b>	<b>Amount</b>
Balance – January 31, 2005	40,670,339	\$ 39,829,530
Exercise of warrants	124,400	259,520
Exercise of options	185,000	443,000
Issued for property	0	0
Balance – March 30, 2005	40,979,739	\$ 40,532,050

*Options and Warrants Outstanding at March 30, 2005*

A summary of the status of the stock option plan as of January 31, 2005, and changes during the period is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Balance – January 31, 2005	3,757,500	\$2.66
Exercised	(185,000)	(2.39)
Granted	0	-
Balance – March 30, 2005	3,572,500	\$2.67

During the period changes in share purchase warrants were as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance – January 31, 2005	3,003,280	\$3.24
Exercised	(124,400)	(2.88)
Balance – March 30, 2005	2,878,880	\$3.50

**OFF BALANCE-SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

**TRANSACTIONS WITH RELATED PARTIES**

In the quarter the Company paid Ken Carter, a director, geological consulting fees of \$2,612. The Company paid legal fees of \$82,518 to a law firm in which a director of the Company, Lawrence W. Talbot, is a partner.

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No stock options were exercised by directors in the quarter.

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

None during the quarter under review.

**FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

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

The Company's cash and cash and term deposit equivalents of \$18.7 million consists of cash on hand of \$1.9 million and banker's acceptance and term deposits of \$16.8 million. The bankers' acceptance and term deposits yield approximately 2% per annum.

Receivables and payables of \$554,169 and \$838,089 respectively are normal course business items that are usually settled within thirty days.

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

**MATERIAL PROCEEDINGS**

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

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

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

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

A reconciliation is included in the unaudited financial statements at January 31, 2005 as Note 7. There have been no changes in GAAP since the annual management discussion and analysis.