



CARDERO RESOURCE CORP.
(An Exploration Stage Company)

Consolidated Financial Statements

July 31, 2005
(Unaudited – Prepared by Management)



CARDERO RESOURCE CORP.

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

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

	July 31, 2005	October 31, 2004
	(Unaudited)	(Audited)
ASSETS		
Current		
Cash and cash equivalents	\$ 15,538,872	\$ 16,920,909
Accounts receivable	685,914	500,361
Prepaid expenses	171,314	172,133
	16,396,100	17,593,403
Equipment	52,385	47,785
Resource Properties (note 4)	11,278,118	6,590,392
	\$ 27,726,603	\$ 24,231,580
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 648,451	\$ 804,112
SHAREHOLDERS' EQUITY		
Capital Stock (note 5)	41,048,550	34,012,690
Contributed surplus	5,872,058	4,174,308
Deficit	(19,842,456)	(14,759,530)
	27,078,152	23,427,468
	\$ 27,726,603	\$ 24,231,580

APPROVED BY THE DIRECTORS:

“Henk Van Alphen” Director
Henk Van Alphen

“Michael W. Kinley” Director
Michael W. Kinley

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

	Three months ended July 31		Nine months ended July 31	
	2005	2004	2005	2004
EXPENSES				
Stock-based compensation	\$ 935,500	\$ 1,686,400	\$ 1,697,750	\$ 2,951,900
Investor relations	202,469	170,617	1,112,056	446,700
Professional fees	230,116	107,449	509,004	246,632
Salaries and benefits	128,259	47,957	405,115	142,132
Property evaluations	67,915	34,083	387,636	48,347
Office and miscellaneous	50,026	73,888	99,420	134,073
Listing and stock exchange fees	1,036	888	80,511	27,008
Transfer agent fees	-	-	18,549	12,331
Amortization	4,910	6,261	13,065	14,218
	1,620,231	2,127,543	4,323,106	4,023,341
LOSS BEFORE OTHER ITEMS	1,620,231	2,127,543	4,323,106	4,023,341
OTHER ITEMS				
Resource property write-off	72,375	68,895	1,044,542	68,895
Interest income	(95,604)	(76,241)	(284,480)	(188,669)
Foreign exchange	10,000	-	(242)	(16,000)
	(13,229)	(7,346)	759,820	(135,774)
NET LOSS FOR THE PERIOD	1,607,002	2,120,197	5,082,926	3,887,567
DEFICIT, BEGINNING OF PERIOD	18,235,454	7,203,898	14,759,530	5,436,528
DEFICIT, END OF PERIOD	\$ 19,842,456	\$ 9,324,095	\$ 19,842,456	\$ 9,324,095
LOSS PER SHARE	\$0.04	\$0.06	\$0.12	\$0.11
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	41,119,906	37,414,576	40,761,409	34,266,028

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

	Three months ended July 31		Nine months ended July 31	
	2005	2004	2005	2004
OPERATING ACTIVITIES				
Net loss for the period	\$ (1,607,002)	\$ (2,120,197)	\$ (5,082,926)	\$ (3,887,567)
Deduct items not involving cash:				
Stock-based compensation	935,500	1,686,400	1,697,750	2,951,900
Resource property write-off	72,375	68,895	1,044,542	68,895
Amortization	4,910	6,261	13,065	14,218
	(594,217)	(358,641)	(2,327,569)	(852,554)
Changes in non-cash working capital balances related to operations:				
Accounts receivable	(55,752)	(137,055)	(185,553)	(196,109)
Prepaid expenses	26,298	45,205	819	(88,353)
Accounts payable	(195,644)	66,349	(155,661)	(603)
Cash (used) by operating activities	(819,315)	(384,142)	(2,667,964)	(1,137,619)
FINANCING ACTIVITIES				
Proceeds from shares issued	170,750	2,267,560	5,780,410	18,299,334
Share issue costs	-	10,612	-	(368,062)
Cash provided by financing activities	170,750	2,278,172	5,780,410	17,931,272
INVESTING ACTIVITIES				
Resource property expenditures, net	(1,240,179)	(1,509,601)	(4,476,818)	(3,200,745)
Purchase of equipment	(7,407)	(8,318)	(17,665)	(53,196)
Cash (used) by investing activities	(1,247,586)	(1,517,919)	(4,494,483)	(3,253,941)
INCREASE (DECREASE) IN CASH	(1,896,151)	376,111	(1,382,037)	13,539,712
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,435,023	16,915,906	16,920,909	3,752,305
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 15,538,872	\$ 17,292,017	\$ 15,538,872	\$ 17,292,017
NON CASH TRANSACTIONS				
Issue of shares for property and data	-	223,000	1,255,450	1,753,500
Broker commission units	-	-	-	545,430

CARDERO RESOURCE CORP.
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
For the nine months ended July 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 nine months ended July 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:

	Mexico	Argentina	Peru	Total
Balance - October 31, 2004	\$ 3,091,309	\$ 538,569	\$ 2,960,514	\$ 6,590,392
Acquisition and land costs				
Cash payments	81,635	843,119	906,533	1,831,289
Common share issue	169,000	256,900	829,550	1,255,450
	250,635	1,100,019	1,736,083	3,086,739
Deferred exploration costs				
Field	360,472	488,597	724,596	1,573,665
Drilling and analysis	159,998	-	410,436	570,434
Personnel	102,213	303,877	95,340	501,430
	622,683	792,474	1,230,372	2,645,529
Write offs	(1,038,942)	(5,600)	-	(1,044,542)
Balance - July 31, 2005	\$ 2,925,685	\$ 2,425,462	\$ 5,926,971	\$ 11,278,118

(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.

CARDERO RESOURCE CORP.
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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”), Anglo has agreed to manage and fund exploration expenditures for the identification and acquisition of not less than one mineral concession within an area of interest measuring approximately 50,050 square kilometres in size. Anglo can earn a 70% interest in the mineral concession(s) so acquired, as well as in certain mineral concessions held by the Company, and a 70% interest in a new Mexican company to be formed to hold such concessions, by incurring aggregate exploration expenditures of not less than USD 3,700,000, as follows:

- USD 200,000 on or before December 1, 2003 (incurred);
- USD 800,000 on or before December 1, 2004 (incurred);
- USD 1,200,000 on or before December 1, 2005; 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)

Pursuant to a revised agreement dated June 30, 2005 between the Company and Anglo, the Company has assumed operatorship of the project. Under the terms of the revised agreement the Company must incur expenditures of not less than US\$500,000 within a 12 month period in order to earn an additional 10% interest, thereby increasing its total interest in the project to 40%. The Company may earn an additional one tenth of one percent (0.1%) interest for each additional US\$10,000 expended. On spending US\$500,000 Cardero may elect to terminate its expenditure period by delivering a resumption notice to Anglo. Anglo will then have the right to immediately resume incurring aggregate expenditures of US\$3,700,000 for a 60% interest in the project with corresponding expenditure dates adjusted to reflect the Company's operating period. Should Anglo decline to participate at this stage then upon dilution to 51% interest, Anglo must either elect to resume exploration expenditures or terminate the agreement whereby Cardero would attain 100% interest in the project.

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.

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4. RESOURCE PROPERTIES (Continued)

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. 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.

On June 22, 2005 the Company received access to the property and all subsequent payments and exploration expenditures are to be calculated from this date.

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 had the right to acquire 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 April 4, 2005, the La Zorra properties were returned to the original vendors and \$966,567 in acquisition and exploration expenditures were written off.

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4. RESOURCE PROPERTIES (Continued)

(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.

If the Company exercises the option to purchase the property prior to May 12, 2007, the requirement to make any remaining option payments outlined above ceases. Commencing with the 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.

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:

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4. RESOURCE PROPERTIES (Continued)

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 (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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4. RESOURCE PROPERTIES (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.

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:

- 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 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. Huachi Property, Argentina

Pursuant to an agreement dated June 13, 2005 between the Company and a private Argentinean company, the Company can acquire a 100% interest in 30 mining concessions referred to as the Huachi Property in the Province of San Juan, Argentina for the right of exploration and maintenance of the right to exercise the option to purchase, consideration of an aggregate of USD 5,500,000, as follows:

- USD 70,000 on signing (June 13, 2005 - paid);
- USD 70,000 on or before 10 months from signing (April 13, 2006);
- USD 200,000 on or before 24 months from signing (June 13, 2007);
- USD 600,000 on or before 36 months from signing (April 13, 2008);
- USD 1,000,000 on or before 48 months from signing (June 13, 2009);
- USD 3,560,000 on or before 60 months from the signing (June 13, 2010).

In addition to the sums mentioned above, the Company shall make the following minimum cumulative exploration expenditures:

- USD 750,000 on or before 30 months from signing (December 13, 2007);
- USD 1,250,000 on or before 60 months from signing (June 13, 2010).

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4. RESOURCE PROPERTIES (Continued)

v. 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 (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 had the right to acquire a 100% interest in certain mining concessions located in Catamarca Province by making aggregate payments of USD 1,050,000.

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

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4. 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); 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 Carvelli 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 USD130,900 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).

CARDERO RESOURCE CORP.
(An Exploration Stage Company)
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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 April 30, 2005).

iv. Iron Sands Project, Nazca Province, Peru

The Iron Sands Project consists of mineral concessions covering approximately 32,000 hectares of mineral sands near the city of Nazca in southern Peru. The 100% owned project was acquired by staking at a cost of USD 77,000.

v. Lircay Project, Huancavelica Province, Peru

Pursuant to an option agreement between the Company and a private Peruvian company, the Company acquired a 100% interest in this 60km² copper project for a payment totalling USD 60,000.

vi. Corongo Project, Huanuco Province, Peru

Pursuant to an option agreement between the Company and a private Peruvian Company, the Company acquired a 100% interest in this gold prospect for a payment totalling USD 40,000.

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5. CAPITAL STOCK

(a) **Authorized**
 Unlimited common shares without par value

(b) **Issued and outstanding**

	Number of Shares	Amount
Balance – October 31, 2004	38,247,958	\$ 34,012,690
Exercise of warrants	2,121,781	4,803,410
Exercise of options	435,500	977,000
Issued for property	355,000	1,255,450
Balance – July 31, 2005	41,160,239	\$ 41,048,550

(c) **Stock options**

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

A summary of the status of the stock option plan as of July 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	(435,500)	2.24
Expired	(50,000)	2.50
Granted	950,000	3.20
Balance – July 31, 2005	3,942,000	2.76

Expiry Date	Price	Number of Options
October 31, 2005	\$1.90	150,000
January 27, 2006	2.35	657,500
April 16, 2006	3.25	350,000
June 11, 2006	2.50	1,434,500
October 6, 2006	3.25	400,000
November 16, 2006	3.25	350,000
June 9, 2007	3.25	400,000
July 29, 2007	3.00	200,000
		3,942,000

CARDERO RESOURCE CORP.
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5. CAPITAL STOCK (Continued)

In the period ended July 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	2.86 – 3.30%
Volatility	63.3 - 84.0%
Dividend yield	0.00%

During the nine month period ended July 31 options vested which resulted in a stock-based compensation charge of \$1,697,750.

(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	(2,121,781)	(2.27)
Balance – July 31, 2005	2,878,880	\$3.50

At July 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:

Expiry Date	Price	Number of Warrants
September 17, 2005	\$3.50	2,667,080
September 17, 2005	\$3.55	211,800
		2,878,880

6. RELATED PARTY TRANSACTIONS

During the nine-month period ended July 31, 2005 the Company incurred the following expenses paid to directors and officers of the Company, companies with common directors or partnerships in which a director is a partner:

Professional fees	
- legal	\$320,466
- financial	\$8,770
- geological	\$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.

CARDERO RESOURCE CORP.
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(Unaudited – Prepared by Management)

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 the U.S. Securities and Exchange Commission Industry Guide 7, and 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 is less than the carrying value of the 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

	2005
Total assets per Canadian GAAP	\$ 27,726,603
Expenditures on resource properties expensed under US GAAP	(11,278,118)
Total assets per US GAAP	16,448,485
Total liabilities per Canadian GAAP	648,451
Adjustments to US GAAP	--
Total liabilities per US GAAP	648,451
Total equity per Canadian GAAP	27,078,152
Expenditures on resource properties expensed under US GAAP	(11,278,118)
Total equity per US GAAP	15,500,034
Total equity and liabilities per US GAAP	\$ 16,448,485

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

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

	2005
Reconciliation of net loss from Canadian GAAP to US GAAP	
Net loss per Canadian GAAP	\$ (5,082,926)
Acquisition of mineral properties	(2,873,939)
Exploration and development costs, net	(2,858,329)
Reverse amounts written-off	1,044,542
Net loss per US GAAP	\$ (9,770,652)
Net loss per share in accordance with Canadian GAAP	\$(0.12)
Total Differences	\$(0.12)
Net loss per share in accordance with US GAAP	\$(0.24)
Weighted average number of shares outstanding	40,761,409

8. SUBSEQUENT EVENTS

Stock Options

Subsequent to the period ended July 31, 2005, the following stock options were exercised:

- 20,000 options at a price of \$1.90
- 15,000 options at a price of \$2.35

On September 1, 2005 incentive stock options were granted to directors, officers, consultants and/or employees of the Company to purchase up to an aggregate 225,000 shares at a price of \$3.00 per share for 2 years expiring September 1, 2007.

Share Purchase Warrants

On September 1, 2005 the Company announced that, subject to TSX Venture Exchange acceptance, it was extending 2,600,000 warrants due to expire September 17, 2005 for six months to March 17, 2006. All terms and conditions remain the same.

CARDERO RESOURCE CORP.
(An Exploration Stage Company)
Form 51-102F1
Management's Discussion and Analysis
For the period ended July 31, 2005

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 July 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 July 31, 2004. 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 September 9, 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.

BACKGROUND

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

- 1) The chance of finding an economic ore body is extremely small and the vast majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.
- 2) The junior resource market, where the Company raises funds, is extremely volatile. Even though the Company has sufficient funds on hand to meet its current requirements, there is no guarantee that it will be able to raise additional funds as it requires them.
- 3) The establishment of undisputed title to mineral properties is often a time consuming and expensive process and even though the Company has diligently investigated title to all its mineral properties there is no guarantee of title.
- 4) Currency fluctuations may affect the Company as its transactions are often conducted in US dollars, Mexican and Argentinean pesos and Peruvian nuevo sols.
- 5) The Company's properties are located in Mexico, Argentina and Peru and will be affected by the political stability and laws of those countries.

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

EXPLORATION ACTIVITIES

Mexico

Baja IOCG Project, Mexico

The Company has negotiated an amendment to its agreement with Anglo American plc ("Anglo") with respect to the Baja California Norte, Mexico, IOCG joint venture. Cardero received necessary "power of attorney" documents on July 13th, to become operator of the project and assumed the lead in finalizing drilling permits.

Under terms of the revised agreement Cardero must incur expenditures of not less than US\$500,000 within a twelve month period drill testing existing targets defined by Anglo in order to earn an additional 10% interest, thereby increasing its total to 40%. Furthermore, Cardero may earn an additional one tenth of one percent (0.1%) interest for each additional US\$10,000 expended.

On spending US\$500,000, Cardero, may elect to terminate its expenditure period by delivering a resumption notice to Anglo. Anglo then has the right to immediately resume incurring aggregate expenditures of US\$3,700,000 for a 60% interest in the project with corresponding expenditure dates adjusted to reflect the Cardero operating period. Should Anglo decline to participate at this stage then upon dilution to 51% interest, Anglo must either elect to resume exploration expenditures or terminate the agreement whereby Cardero retains 100% interest in the project.

The Company assumed operatorship of the project on July 13, 2005 and has since successfully completed the "Land Use" report, lodged the drill permission application and taken officials on a site visit of San Fernando and Amargosa targets.

On September 1, 2005 the Company announced that it has received the drill permits from Mexican provincial authorities in Baja California Norte for its Phase I Alisitos Belt IOCG diamond drill campaign. Cardero is now in position to complete final site preparation at the first target, San Fernando, which includes camp set up, drill pad preparation and drill-rig mobilization.

The Company anticipates that the 1900m drilling campaign, designed by Anglo American to test the San Fernando and Amargosa IOCG targets, will begin in early- to mid-September. San Fernando, the highest priority target defined to date, will initially be tested with five diamond drill-holes for an approximately total of 1500m diamond drilling.

Franco Property, Mexico

On June 22, 2005 the Company received the necessary access permits to the property and, subject to drill-rig availability the Company plans to diamond drill test the Franco gold property with 4 to 5 boreholes for an aggregate total of approximately 1,200 metres commencing in late September 2005.

Argentina

Olaroz and Chingolo Projects, Argentina

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

Organullo Property, Argentina

The Company is currently compiling the previous exploration data, thus far examination of the previous efforts indicates that the property has been inadequately tested. A Joint Venture partner is presently being sought.

Mina Angela Property, Argentina

Following compilation and in light of the local operating challenges in Chubut Province, the Company is presently seeking a Joint Venture partner to progress exploration.

Cerro Juncal Project, Argentina

The Company has completed the compilation of the limited previous exploration. Commencing late in the third quarter or early in the fourth quarter of 2005, the initial work program will be comprised of logistic preparation (topographic survey, camp building, access upgrading), geological mapping and geochemical sampling.

Cerro Atajo Project, Argentina

Detailed mapping, at 1:2500 scale, of prospective alteration and associated copper oxide mineralization commenced in early the third quarter. A pole:dipole Induced Polarization (IP) survey will commence in mid- to late-August and initial drill testing, estimated to be approximately 1,500 metres, is scheduled for late September 2005.

Peru

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

On September 6, 2005 the Company announced the completion of an independent NI 43-101 compliant mineral resource estimate at its 100% owned Pampa de Pongo Iron Deposit, southern Peru.

Dr. Jan Helsen, P.Geol. an independent Qualified Person, concluded that the Pampa de Pongo deposit contains an Inferred Resource of approximately 953 million tonnes averaging 44.7% Fe, 0.12% Cu, 0.09 g/t Au based on the results of the 2004-2005 drill campaign, 3D magnetic modeling as well as prior drill results obtained by Rio Tinto plc.

The Inferred Resource is contained in two main zones referred to as the Central and South Zones respectively.

Inferred Mineral Resource, Pampa de Pongo Property

<i>Zone</i>	<i>Inferred (million tonnes)</i>	<i>Fe (%)</i>	<i>Cu (%)</i>	<i>Au (g/T)</i>
Central	848	44.9	0.12	0.07
South (East Block)	100	43.0	0.15	0.22
South (West Block)	5	43.8	0.27	0.26
Total	953	44.7	0.12	0.09

For the resource estimate the definitions and guidelines for Resource and Reserve estimates as set out and adopted by the CIM Council on August 20, 2000 (the "CIM Standards") were utilized. According to the CIM Standards, an Inferred Resource can be estimated on "geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity".

The following are some of the key characteristics of Pampa de Pongo that provide a high level confidence in the Inferred Resource estimate:

1. Simple replacement style of mineralization with good continuity of magnetite mineralization in drill intercepts and good apparent continuity from hole to hole.
2. Thick mineral intercepts that locally exceed 300 meters in length.
3. Simple shape with relatively sharp mineralization boundaries.
4. Type and style of the mineralization are similar to the subjacent operating Marcona Iron Mine.
5. High sensitivity 3D magnetic data that exhibits excellent correlation with magnetite mineralization and enables definition of mineralized boundaries with a high level of confidence.
6. Minor dyking or post mineral faults intersected to date.

Anamet Services undertook preliminary characterisation tests and determinations of magnetite content on behalf of Rio Tinto plc. The test work indicated that the samples varied between 68 and 92 weight percent magnetite with an average of 74.9%. Furthermore the results suggest that a very high degree of liberation could be achieved at a grind size that would be appropriate to yield a <150µm sized final product. The summary of the report indicates that the ore could be easily concentrated to a commercial level (66 to 69%) through a low intensity magnetic separation (LIMS) operation.

The size and characteristics of the deposit as well as the nature of the hanging wall units suggest that it could be amenable to underground block caving such as that successfully employed at LKAB's Kiruna Iron Mine, Sweden.

Although Cardero is encouraged by the results to date, it is important to realize that there has been insufficient drill testing to define any National Instrument 43-101 compliant mineral reserve. It is important to note the fact that mineral resources which are not mineral reserves, such as those discussed here, do not have demonstrated economic viability.

The Company is presently designing a suitable strategy to advance the project.

Iron Sands

The Company has acquired through staking a 32,000-hectare (320 km²) iron (magnetite) sand property near the city of Nazca in the desert coastal region of southern Peru. Geographically the property forms part of, and is adjacent to the Company's properties in the Marcona IOCG district (Carbonera, Daniella).

The area was originally highlighted in 1974 by the Peruvian Ministry of Energy and Mines as part of a nationwide iron inventory study and is comprised of magnetite (iron)-bearing sands consisting of active dune fields and a large Quaternary basin containing a thick sequence of friable sands with visible magnetite throughout many of the exposures.

Preliminary sampling by Cardero indicates that the magnetic fraction for active dune material ranges between 0.7% and 21.24 weight percent (wt. %) magnetite and averages approximately 11.0 wt. %. Samples of Quaternary sand returned magnetic fractions ranging between 1.62 and 13.59 wt. %, averaging about 7.7 wt. % magnetite. Assays of the magnetic concentrates showed fairly uniform values of approximately: 61.5% iron (Fe), 4.3-6.41% titanium oxide (TiO₂), 0.2-0.28% phosphate (P₂O₅), 2.41-4.34% silica (SiO₂), 1.22-1.82% alumina (Al₂O₃), 0.61-1.14% magnesium (MgO), 0.4-0.55% manganese (MnO) and 0.01% sulphur (S).

Elevated titanium values in iron, such as those obtained here, are considered deleterious and consequently two bulk samples, an initial 65 kg laboratory cleaned sample (twice dry magnetic separation) and a 100 kg rough sand sample (hand treated on site using large permanent magnets and containing significant amounts of silica) from the property were provided to Midrex Technologies, Inc.

Midrex Technologies, Inc., a fully owned subsidiary of the Kobe Steel Group, is an international process engineering and technology company based in Charlotte, NC USA, and has been a leading innovator and technology supplier for the direct reduction of iron ore. Midrex is principally known for the MIDREX® Direct Reduction Process that converts iron ore into high-purity direct reduced iron (DRI) for use in steelmaking, ironmaking, and foundry applications.

The Midrex process successfully produced a high quality low sulfur, low phosphorous and low titanium liquid iron and generated a desulfurizing titanium-rich fluid slag at melting temperatures of 1288°C. Midrex has characterized these initial test results as "very encouraging", concluding that a "liquid metal button containing ~ 94% iron, ~ 5% carbon and <0.05% sulphur can be produced with excellent separation of metal to slag."

A summary of the FASTMELT® test results is as follows:

Iron (Fe):	94 - 95% Metallic iron
Carbon (C):	3.5 - 4.5%
Silicon (Si):	<0.3%
Titanium (Ti):	<0.1%
Vanadium (V):	<0.1%
Sulphur (S):	<0.1%
Phosphorus (P):	<0.1%

The 'waste' slag resulting from the Midrex process assayed up to 21.48 % TiO₂ (titanium dioxide) and 3.18% V₂O₅ (vanadium pentoxide) by weight. Cardero engineering staff has consequently directed several laboratories to commence examining the feasibility of liberating titanium and vanadium from the

resultant slag, which if successful, could have a significant positive financial impact on any subsequent operation.

Meanwhile a regional geochemical sampling and mapping program of the large property designed, supervised and implemented in conjunction with a surface media sampling specialist commenced in early July. Results are anticipated in October-November 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

	Three months ended July 31		Nine months ended July 31	
	2005	2004	2005	2004
Net loss	\$ 1,607,002	\$ 2,120,197	\$ 5,082,926	\$ 3,887,567
Interest income	95,604	76,241	284,480	188,669
General and administrative costs	684,731	441,143	2,625,356	1,071,441
Stock-based compensation	935,500	1,686,400	1,697,750	2,951,900
Write-down of resource properties	72,375	68,895	1,044,542	68,895

Three months ended July 31, 2005 compared to three months ended July 31, 2004

In the quarter ended July 31, 2005 the Company had a net loss of \$1,607,002 or \$0.04 per share as compared to a net loss of \$2,120,197 or \$0.06 per share for the quarter ended July 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 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 \$76,241 in the 2004 quarter to \$95,604 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 2.4% per annum.

The Company's general and administrative costs were substantially higher in 2005, \$684,731 as compared to \$441,143. Costs were up in most categories. There was a major increase in property evaluation costs. The Company is actively looking for new properties and incurs substantial geological consulting and travel costs in the process. These costs for the quarter were \$67,915 as compared to \$34,088 for the comparative quarter in 2004. There was a significant increase in corporate promotion costs from \$107,449 to \$230,116. The Company's philosophy is to keep a high profile for the investing public and to disseminate information regarding the Company as widely as possible. The Company has a full time, in-house investor relations manager as well as several investor relations contracts with outside consultants. The Company has benefited substantially from these activities in the past and it continues to benefit through the exercise of warrants. Professional fees were up in the quarter, in large part due to legal costs of \$180,574. The majority of these costs relate to the lawsuit commenced against the Company and others in May 2004 (see "Material Proceedings"). The increasing acquisition and exploration activity by the Company has required an increase in staff, and the Company now has four full time employees, which accounts for the increase in salary and benefit costs.

Stock based compensation is a non cash item that attempts to put a dollar value on the benefit being given on the vesting of stock options. The number is determined by the “fair value method”, which is based on statistical models, taking into account the volatility of the stock, the risk free interest rate and the weighted average life of the options. Where the market is highly volatile and not perfectly liquid, the results may not be very meaningful. In the quarter 725,000 options vested, resulting in a stock based compensation charge of \$935,500 (2004 – 1,415,000 options, \$1,686,400 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 \$72,375 being the Company’s residual costs at La Zorra, Mexico which was returned to the property vendor. Write offs for the comparable period in 2004 were \$65,895.

Nine months ended July 31, 2005 compared to nine months ended July 31, 2004

In the nine months ended July 31, 2005 the Company had a net loss of \$5,082,926 or \$0.12 per share as compared to a net loss of \$3,887,567 or \$0.11 per share for the nine months ended July 31, 2004.

The Company’s interest income increased from \$188,669 in 2004 to \$284,480 in 2005. This was because the Company had higher cash balances in 2005. Surplus cash is invested in banker’s acceptances and term deposits that yield approximately 2.4% per annum.

The Company’s general and administrative costs were substantially higher in 2005, \$2,625,356 as compared to \$1,071,441. Costs were up in most categories. The bulk of the increase was in corporate promotion that increased from \$446,730 to \$1,112,056. The Company’s philosophy is to keep a high profile for the investing public and to disseminate information regarding the Company as widely as possible. The Company has a full time in-house investor relations manager as well as several investor relations contracts with outside consultants. Two new outside consultants were taken on in the first quarter and there was 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. The Company is actively looking for new properties and incurs substantial geological and travel costs in the process. These costs for the nine months were \$307,030 as compared to \$48,347 for the comparable period in 2004. Professional fees were up in the quarter, in large part due to legal costs of \$383,418. 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 in January 2004. The increasing acquisition and exploration activity by the Company has required an increase in staff, and the Company now has four full time employees which accounts for the increase in salaries and benefit costs.

Stock based compensation is a non cash item that attempts to put a dollar value on the benefit being given on the vesting of stock options. The number is determined by the “fair value method”, which is based on statistical models, taking into account the volatility of the stock, the risk free interest rate and the weighted average life of the options. Where the market is highly volatile and not perfectly liquid, the results may not be very meaningful. In the nine month period 1,250,000 options vested, resulting in a stock based compensation charge of \$1,697,750 (2004 – 2,515,000 options, \$2,951,900 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 nine months, write offs were \$1,044,542, the bulk of which resulted from the returning of the La Zorra project in Mexico to the original vendor. In the comparable period of 2004 write offs were \$65,895.

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

	First Quarter	Second Quarter	Third Quarter
Total revenue	60,669	128,207	95,604
Net income (loss)	(1,489,617)	(1,986,307)	(1,607,002)
Net income (loss) per share	(0.04)	(0.05)	(0.04)

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

	Fourth Quarter
Total revenue	21,214
Net income (loss)	(1,001,807)
Net income (loss) per share	(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 \$170,750 from the exercise of stock options.

At July 31, 2005 the Company had 41.2 million shares outstanding, 3.9 million stock options outstanding with a weighted average exercise price of \$2.76 and 2.9 million warrants outstanding with a weighted average exercise price of \$3.50. At July 31, 2005 the Company had \$15.5 million in cash and cash equivalents and working capital of \$15.7 million.

In the quarter the Company spent \$1.2 million on property acquisitions and exploration and \$0.8 million on administration. This level of expenditure can be expected to increase as the Company grows.

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

OFF BALANCE-SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

In the nine months and July 31, 2005 the Company paid Ken Carter, a former-director, geological consulting fees of \$2,612. The Company paid legal fees of \$320,466 to a law firm in which a director of the Company, Lawrence W. Talbot, is a partner. The Company paid financial consulting fees of \$8,770 to Ross McDonald, the Company's Chief Financial Officer.

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 \$15.5 million consists of cash on hand of \$0.7 million and banker's acceptance and term deposits of \$14.8 million. The bankers' acceptance and term deposits yield approximately 2.4% per annum.

Receivables and payables of \$685,914 and \$648,451 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 July 31, 2005 as Note 7. There have been no changes in GAAP since the annual management discussion and analysis.