



**CARDERO RESOURCE CORP.**

**(An Exploration Stage Company)**

**Condensed Interim Consolidated Financial Statements**

**(Unaudited – Prepared by Management)**

**(Expressed in Canadian Dollars)**

**Three Months Ended January 31, 2012 and 2011**

**Corporate Head Office**

Suite 2300 – 1177 West Hastings Street

Vancouver, British Columbia

V6E 2K3

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**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed interim consolidated 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 condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

For further information, please contact:

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**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Condensed Interim Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars)  
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	<b>January 31, 2012</b>	<b>October 31, 2011</b>	<b>November 1, 2010</b>
		(note 13)	(note 13)
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 20,910,488	\$ 5,985,634	\$ 52,264,003
Accounts receivable	1,404,279	1,434,077	267,431
Due from related parties (note 9)	1,330,781	1,239,043	1,361,550
Loan receivable (note 9)	-	8,580,096	-
Prepaid expenses	404,715	356,191	335,493
<b>Total Current Assets</b>	<b>24,050,263</b>	<b>17,595,041</b>	<b>54,228,477</b>
<b>Property, Plant and Equipment</b> (note 4)	<b>885,699</b>	<b>910,996</b>	<b>197,737</b>
<b>Resource Related Investments</b> (note 5)	<b>19,884,666</b>	<b>32,551,104</b>	<b>60,685,650</b>
<b>Equity Investments</b> (note 6)	<b>-</b>	<b>-</b>	<b>5,236,540</b>
<b>Exploration and Evaluation Advances</b>	<b>372,515</b>	<b>810,100</b>	<b>-</b>
<b>Exploration and Evaluation Assets</b> (notes 3 and 7)	<b>71,503,738</b>	<b>56,645,662</b>	<b>15,856,750</b>
<b>Reclamation Deposit</b>	<b>115,000</b>	<b>115,000</b>	<b>-</b>
<b>Total Assets</b>	<b>\$ 116,811,881</b>	<b>\$ 108,627,903</b>	<b>\$ 136,205,154</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities (note 9)	\$ 2,210,777	\$ 4,038,261	\$ 832,087
Income taxes payable	-	-	26,847,314
<b>Total Liabilities</b>	<b>2,210,777</b>	<b>4,038,261</b>	<b>27,679,401</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share Capital</b> (notes 3 and 8)	<b>114,819,304</b>	<b>107,237,122</b>	<b>69,890,947</b>
<b>Contributed Surplus</b>	<b>21,715,514</b>	<b>19,775,985</b>	<b>14,726,585</b>
<b>Accumulated Other Comprehensive Income</b>	<b>(786,057)</b>	<b>6,056,041</b>	<b>30,227,593</b>
<b>Deficit</b>	<b>(21,147,657)</b>	<b>(28,479,506)</b>	<b>(6,319,372)</b>
<b>Total Shareholders' Equity</b>	<b>114,601,104</b>	<b>104,589,642</b>	<b>108,525,753</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 116,811,881</b>	<b>\$ 108,627,903</b>	<b>\$ 136,205,154</b>

Approved on behalf of the Board:

"Hendrik Van Alphen"  
Hendrik Van Alphen, Director

"Lawrence W. Talbot"  
Lawrence W. Talbot, Director

**CARDERO RESOURCE CORP.**  
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**Condensed Interim Consolidated Statements of Comprehensive Income**  
(Expressed in Canadian Dollars)  
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**Three Months ended January 31**

	<b>2012</b>	<b>2011</b>
		(note 13)
<b>Administrative Expenses</b>		
Consulting fees (notes 8 and 9)	\$ 421,230	\$ 252,489
Corporate development	76,492	181,620
Depreciation	82,723	18,119
Insurance	27,135	28,133
Investor relations (note 8)	282,570	317,247
Office costs	307,050	241,100
Professional fees (notes 8 and 9)	429,005	110,281
Property evaluations	17,340	280,557
Regulatory and transfer agent fees	53,223	17,975
Salaries and benefits (note 8)	2,013,961	801,293
Travel	204,905	55,894
<b>Loss Before Other Items and Income Taxes</b>	<b>(3,915,634)</b>	<b>(2,304,708)</b>
<b>Other Items</b>		
Foreign exchange gain (loss)	157,953	(17,534)
Interest income, net of bank charges (note 9(d))	124,197	42,158
Realized gain on sale of available-for-sale investments (note 5)	10,388,310	2,196,898
Unrealized gain on derivative investments (note 5)	384,342	3,702,823
Unrealized gain on fair value through profit or loss investment (note 5)	57,500	23,000
Impairment losses on available-for-sale investments (note 5)	(26,344)	-
Gain on loan settlement (note 9(e))	1,368,953	-
Gain on the reclassification of investments from equity investments to resource related investments (note 6a)	-	3,019,523
Loss on equity investments (note 6)	-	(182,922)
	12,454,911	8,783,946
<b>Income Before Income Taxes</b>	<b>8,539,277</b>	<b>6,479,238</b>
<b>Income Taxes</b>		
Current expense	-	(2,127,060)
Deferred recovery (expense)	(1,207,428)	3,016,838
	(1,207,428)	889,778
<b>Net Income for the Period</b>	<b>\$ 7,331,849</b>	<b>\$ 7,369,016</b>
<b>Other Comprehensive Income (Loss) for the Period</b>	<b>(6,842,098)</b>	<b>14,075,895</b>
<b>Comprehensive Income for the Period</b>	<b>\$ 489,751</b>	<b>\$ 21,444,911</b>
<b>Basic and Diluted Income Per Common Share</b>	<b>\$ 0.08</b>	<b>\$ 0.13</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>88,874,669</b>	<b>58,547,215</b>

**CARDERO RESOURCE CORP.**  
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**Condensed Interim Consolidated Statements of Shareholders' Equity**  
(Expressed in Canadian Dollars)  
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	Share Capital		Deficit	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
<b>Balance, November 1, 2010</b>	<b>58,373,302</b>	<b>\$ 69,890,947</b>	<b>\$ (6,319,372)</b>	<b>\$ 14,726,585</b>	<b>\$ 30,227,593</b>	<b>\$ 108,525,753</b>
Net income for the period	-	-	7,369,016	-	-	7,369,016
Other comprehensive income						
Unrealized gain on available-for-sale investments	-	-	-	-	15,198,426	15,198,426
Transfer to income of realized gain on sale of resource related investments	-	-	-	-	(1,122,531)	(1,122,531)
Shares issued for cash						
Exercise options	575,000	667,000	-	-	-	667,000
Shares issued for non-cash						
Reclassification of contributed surplus on exercise of options	-	391,794	-	(391,794)	-	-
Share-based payments	-	-	-	605,383	-	605,383
<b>Balance, January 31, 2011</b>	<b>58,948,302</b>	<b>70,949,741</b>	<b>1,049,644</b>	<b>14,940,174</b>	<b>44,303,488</b>	<b>131,243,047</b>
Net loss for the period	-	-	(29,529,150)	-	-	(29,529,150)
Other comprehensive income						
Unrealized loss on available-for-sale investments	-	-	-	-	(31,257,706)	(31,257,706)
Transfer to income of realized gain on sale of resource related investments	-	-	-	-	(6,989,741)	(6,989,741)
Shares issued for cash						
Exercise options	265,000	359,150	-	-	-	359,150
Exercise warrants	443,800	171,718	-	-	-	171,718
Shares issued for non-cash						
Reclassification of contributed surplus on exercise of options	-	164,612	-	(164,612)	-	-
Reclassification of contributed surplus on exercise of warrants	-	496,398	-	(496,398)	-	-
Acquisition of Cardero Coal (note 3)	23,397,002	35,095,503	-	4,354,140	-	39,449,643
Share-based payments	-	-	-	1,142,681	-	1,142,681
<b>Balance, October 31, 2011</b>	<b>83,054,104</b>	<b>\$ 107,237,122</b>	<b>\$ (28,479,506)</b>	<b>\$ 19,775,985</b>	<b>\$ 6,056,041</b>	<b>\$ 104,589,642</b>

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	Share Capital		Deficit	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
<b>Balance, October 31, 2011 (carried forward)</b>	<b>83,054,104</b>	<b>\$ 107,237,122</b>	<b>\$ (28,479,506)</b>	<b>\$ 19,775,985</b>	<b>\$ 6,056,041</b>	<b>\$ 104,589,642</b>
Net loss for the period	-	-	7,331,849	-	-	7,331,849
Other comprehensive income						
Unrealized gain on available-for-sale investments	-	-	-	-	1,105,891	1,105,891
Transfer to income of realized gain on sale of resource related investments	-	-	-	-	(7,947,989)	(7,947,989)
Shares issued for cash						
Private placement	8,029,750	7,628,263	-	-	-	7,628,263
Allocation of proceeds to warrants	-	(699,257)	-	699,257	-	-
Exercise of warrants	434,000	268,625	-	-	-	268,625
Shares issued for non-cash						
Reclassification of contributed surplus on exercise of warrants	-	384,551	-	(384,551)	-	-
Share-based payments	-	-	-	1,624,823	-	1,624,823
<b>Balance, January 31, 2012</b>	<b>91,517,854</b>	<b>\$ 114,819,304</b>	<b>\$ (21,147,657)</b>	<b>\$ 21,715,514</b>	<b>\$ (786,057)</b>	<b>\$ 114,601,104</b>

**CARDERO RESOURCE CORP.**  
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**Condensed Interim Consolidated Statements of Cash Flows**  
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**Three Months ended January 31**

	<b>2012</b>	<b>2011</b>
		(note 13)
<b>Operating Activities</b>		
Net income for the period	\$ 7,331,849	\$ 7,369,016
Items not involving cash		
Depreciation	82,723	18,119
Share-based payments (note 8)	1,624,823	605,383
Realized gain on sale of available-for-sale investments (note 5)	(10,388,310)	(2,196,898)
Impairment losses on available-for-sale investments (note 5)	26,344	-
Unrealized gain on fair value through profit or loss investment (note 5)	(57,500)	(23,000)
Gain on loan settlement (note 9)	(1,368,953)	-
Gain on the reclassification of investments from equity investments to resource related investments (note 6a)	-	(3,019,523)
Loss on equity investments (note 6)	-	182,922
Unrealized gain on derivative investments (note 5)	(384,342)	(3,702,823)
Deferred income taxes (recovery) expense	1,207,428	(3,016,838)
Unrealized foreign exchange loss	60,770	27,040
Changes in non-cash working capital items		
Accounts receivable	(740,082)	(210,650)
Due from related parties	(91,738)	440,266
Loan receivable	4,886,633	(8,105,977)
Prepaid expenses	(48,524)	5,488
Accounts payable and accrued liabilities	(483,806)	(44,071)
Income taxes payable	-	(496,614)
<b>Cash Provided by (Used in) Operating Activities</b>	<b>1,657,315</b>	<b>(12,168,160)</b>
<b>Investing Activities</b>		
Investment in and expenditures on exploration and evaluation assets	(14,994,289)	(2,897,741)
Proceeds from sale of resource related investments	20,683,136	2,859,808
Purchase of resource related investments	(200,000)	(2,632,063)
Purchase of equity investments	-	(3,882,443)
Purchase of property, plant and equipment	(57,426)	(103,976)
<b>Cash Provided by (Used in) Investing Activities</b>	<b>5,431,421</b>	<b>(6,656,415)</b>
<b>Financing Activities</b>		
Proceeds from shares issued	7,896,888	667,000
<b>Cash Provided by Financing Activities</b>	<b>7,896,888</b>	<b>667,000</b>
<b>Effect of Foreign Exchange on Cash</b>	<b>(60,770)</b>	<b>(27,040)</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>14,924,854</b>	<b>(18,184,615)</b>
<b>Cash and Cash Equivalents, Beginning of the Period</b>	<b>5,985,634</b>	<b>52,264,004</b>
<b>Cash and Cash Equivalents, End of the Period</b>	<b>\$ 20,910,488</b>	<b>\$ 34,079,389</b>

**Supplemental cash flow information** (note 14)



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**Notes to the Condensed Interim Consolidated Financial Statements**  
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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, Argentina, Ghana, the United States and Canada. The Company considers itself to be an exploration stage company.

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to realize its assets, discharge its liabilities and continue in operation for the following twelve months.

The Company had net income of \$7,331,849 for the three months ended January 31, 2012 (2011 – \$7,369,016). The Company has working capital as at January 31, 2012 of \$21,839,486 (October 31, 2011 - \$13,556,780; November 1, 2010 - \$26,549,076), and a deficit of \$21,147,657 (October 31, 2011 - \$28,479,506; November 1, 2010 - \$6,319,372).

Management believes it has sufficient funding for operations for the ensuing year, which results in the going concern assumption being an appropriate underlying concept for the preparation of these condensed interim consolidated financial statements.

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of presentation**

The Canadian Institute of Chartered Accountants Handbook was revised in 2010 to incorporate International Financial Reporting Standards (“IFRS”) and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. The Company has commenced reporting on this basis in these condensed interim consolidated financial statements.

These are the Company’s first condensed interim consolidated financial statements for the three months ended January 31, 2012 covered by IFRS as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements. IFRS 1 *First-Time Adoption of International Financial Reporting Standards*, has been applied. Subject to certain transition elections disclosed in note 13, the Company has consistently applied the same accounting policies in its opening IFRS Statement of Financial Position as at November 1, 2010 and retroactively to all periods presented, as if the policies had always been in effect.

Note 13 discloses the impact of the transition from Canadian Generally Accepted Accounting Principles (“GAAP”) to IFRS on the Company’s reported financial position, operating results and cash flows, including the nature and effect of significant changes in accounting policies from those used in its consolidated financial statements for year ended October 31, 2011.

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

**(a) Basis of presentation (Continued)**

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening Statement of Financial Position on the Company's transition date of November 1, 2010 and allows certain exemptions on transition to IFRS. The elections adopted by the Company have been disclosed in note 13.

The accounting policies applied in these condensed interim consolidated financial statements are presented in note 2 and are based on IFRS issued and outstanding as of April 13, 2012, the date the Board of Directors approved the condensed interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending October 31, 2012 could result in restatement of these consolidated interim financial statements.

**(b) Basis of consolidation**

These condensed interim consolidated financial statements include the accounts of Cardero Resource Corp. ("Cardero") and its wholly-owned integrated subsidiaries, Cardero Argentina, S.A. ("Cardero Argentina"), Minerales Y Metales California, S.A. de C.V. ("MMC"), Cardero Iron Ore Company Ltd., Cardero Hierro Del Peru S.A.C. ("Cardero Iron Peru"), Cerro Colorado Development Ltd., Compania Minera Cardero Chile Limitada ("Cardero Chile"), Cardero Iron Ore (USA) Inc. ("Cardero Iron US"), Cardero Iron Ore Management (USA) Inc., Cardero Iron Ore Company (BVI) Ltd., Cardero Hierro Peru (BVI) Ltd., Cardero Coal Ltd. (formerly "Coalhunter Mining Corporation") ("Cardero Coal"), Cardero Ghana Ltd. ("Cardero Ghana") and Cardero Iron Ore Ghana (BVI) Ltd. (collectively, the "Company"). A wholly-owned subsidiary is an entity in which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All significant inter-company transactions and balances have been eliminated.

**(c) Significant accounting estimates and judgements**

The preparation of financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the carrying value and the recoverability of the exploration and evaluation assets, the recognition of deferred income tax assets and the impairment of long term assets included in the Condensed Consolidated Interim Statements of Financial Position, the assumptions used to determine the fair value of share-based payments in the Condensed Consolidated Interim Statements of Comprehensive Loss, and the estimated amounts of reclamation and environmental obligations.

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

**(c) Significant accounting estimates and judgements (Continued)**

Critical accounting judgements

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgements or assessments.

**(d) Cash and cash equivalents**

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

**(e) Property, plant and equipment**

**Recognition and measurement**

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**Depreciation**

Depreciation is recognized in profit or loss at the following annual rates:

Computer equipment	-	30% declining balance basis
Computer software	-	100% declining balance basis
Office equipment	-	20% to 30% declining balance basis
Vehicles	-	20% declining balance basis
Metallurgy lab	-	over 5 years on a straight-line basis
Leasehold improvements	-	over the term of the lease on a straight-line basis

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

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

**(e) Property, plant and equipment (Continued)**

**Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

**Major maintenance and repairs**

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

**Gains and losses**

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other items in profit or loss.

**(f) Investments**

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

The investments are reviewed, on an investment-by-investment basis, quarterly, to consider whether there are any conditions that may indicate that the impairments are other than temporary. When the impairments are other than temporary, in the Company's assessment, the accumulated unrealized gains or losses are reflected in operations rather than in other comprehensive income.

**(g) Exploration and evaluation assets**

All of the Company's projects are currently in the exploration and evaluation phase.

**Pre-exploration costs**

Pre-exploration costs are expensed in the period in which they are incurred.

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

**(g) Exploration and evaluation assets (Continued)**

**Exploration and evaluation assets**

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation assets are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, geological and geophysical evaluation, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects for the Company, exploration and evaluation assets in respect of that project are deemed to be impaired. As a result, those exploration and evaluation asset costs, in excess of estimated recoveries, are written off to the Statement of Comprehensive Income (Loss).

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and the capitalized costs associated with that mine are re-classified from exploration and evaluation assets as “mines under construction”. Exploration and evaluation assets are also tested for impairment before the assets are transferred to mines under construction.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Exploration and evaluation assets are classified as intangible assets.

**Impairment of non-current assets**

Non-current assets are evaluated at each reporting date by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a cash generating unit (“CGU”), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU’s fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent the carrying amount exceeds the recoverable amount.

In calculating the recoverable amount, if applicable, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social and legal, and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount.

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

**(g) Exploration and evaluation assets (Continued)**

**Impairment of non-current assets (Continued)**

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

**Reversal of impairment**

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

**Provisions for environmental rehabilitation**

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. The liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third-party industry specialists and/or internal expertise, and discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Additional disturbances and changes in closure and reclamation estimates are accounted for as incurred with a change in the corresponding capitalized cost. Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred at the end of the life of mine.

**(h) Foreign currency translation**

The Company's presentation currency and functional currency is the Canadian dollar. The functional currency of all the Company's wholly-owned subsidiaries is the Canadian dollar.

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense, denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the period-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the period-end date and the related translation differences are recognized in net loss. Exchange gains and losses on non-monetary available-for-sale assets form part of the overall gain or loss recognized in respect of that financial instrument.

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

**(h) Foreign currency translation (Continued)**

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently adjusted. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net loss or other comprehensive income (loss) consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

**(i) Share based payments**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the Consolidated Statement of Comprehensive Income (Loss) over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated Statement of Comprehensive Income (Loss) over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in the consolidated Statement of Comprehensive Income (Loss) over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the consolidated Statement of Comprehensive Income (Loss), unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

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

**(j) Share capital**

The proceeds from the exercise of stock options and warrants are recorded as share capital. The Company's shares are classified as equity instruments.

Commissions paid to agents, and other related share issue costs, such as legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

**(k) Valuation of equity units issued in private placements**

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the market trading price and the Black-Scholes option pricing model for the share and warrants, respectively.

**(l) Earnings (loss) per share**

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings (loss) per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**(m) Income taxes**

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income (loss).

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.



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

**(n) Financial instruments**

**Financial assets**

The Company classifies its financial assets in the following categories based on the purpose for which the asset was acquired. Management determines the classification of financial assets at recognition.

Fair value through profit or loss (“FVTPL”)

A financial asset is classified as FVTPL if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company’s documented risk management or investment strategy. Upon initial recognition material transaction costs are recognized in profit or loss as incurred. Financial assets designated as FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash and cash equivalents, and investments in warrants, which form part of resource related investments (note 5) are classified as FVTPL and are accounted for at the fair value.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Available-for-sale financial assets

Available-for-sale (“AFS”) financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. Investments in shares which form part of resource related investments (note 5) are classified as AFS financial assets.

Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are recognized in profit or loss. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments recognized in accumulated other comprehensive income are included in profit and loss.

Held-to-maturity

Held-to-maturity financial assets are measured at amortized cost. The Company does not have any financial assets classified as held-to-maturity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Loans and receivables are comprised of accounts receivable and due from related parties.

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

**(n) Financial instruments (Continued)**

**Financial assets (Continued)**

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit or loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from accumulated other comprehensive income (loss) to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

**Financial liabilities**

The Company classifies its financial liabilities in the following categories: other financial liabilities and FVTPL.

Other financial liabilities

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities are classified as other-financial-liabilities.

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

**(n) Financial instruments (Continued)**

**Financial liabilities (Continued)**

FVTPL

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the Consolidated Statement of Comprehensive Income (Loss). The Company has not classified any financial liabilities as FVTPL.

**(o) Non-monetary transactions**

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up and adjusted by the fair value of any monetary consideration received or given. When the asset received or the consideration given up is shares in an actively traded market, the market value of those shares will be considered fair value.

**(p) New accounting policies not yet adopted**

The following standards and interpretations have been issued but are not yet effective and have not been early adopted by the Company:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard will be effective for the Company for the year ended October 31, 2014. The Company has yet to assess the full impact of IFRS 9.

IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard will be effective for the Company for the year ended October 31, 2014. The Company has yet to assess the full impact of IFRS 10.

IFRS 11 Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The standard will be effective for the Company for the year ended October 31, 2014. The Company has yet to assess the full impact of IFRS 11.

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

**(p) New accounting policies not yet adopted (Continued)**

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard will be effective for the Company for the year ended October 31, 2014. The Company has yet to assess the full impact of IFRS 12.

IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The standard will be effective for the Company for the year ended October 31, 2014. The Company has yet to assess the full impact of IFRS 13.

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**3. ACQUISITION OF CARDERO COAL**

On June 1, 2011, the Company completed the acquisition of Cardero Coal through a Plan of Arrangement (the “Acquisition”) whereby one Cardero Coal common share was exchanged for 0.8 of a common share of the Company. The acquisition resulted in the Company issuing 23,397,002 common shares on the effective date, with a further 5,885,543 common shares reserved for issuance for the exercise of options held by former Cardero Coal optionees, the exercise of Cardero Coal warrants and pursuant to Cardero Coal property acquisition agreements. On completion of the transaction, Cardero Coal became a wholly-owned subsidiary of the Company. The Company accounted for the Acquisition using the asset acquisition method.

The fair value of the common shares of the Company issued in connection with the Acquisition has been determined at \$1.50 per share. The fair values of the Company’s share purchase options and warrants issued as replacement options and warrants granted were \$2,416,470 and \$4,354,140. The Company options vest on December 1, 2011 (25%), June 1, 2012 (25%), and December 1, 2012 (50%). The fair values were calculated using the Black-Scholes pricing model. The fair value of \$2,416,470 will be allocated to salaries and benefits over the vesting term. The assumptions used in the calculation are as follows:

	<b>Options</b>	<b>Warrants</b>
Expected life (years)	2.0	2.0
Interest rate	1.45%	1.45%
Volatility (average)	49.89%	52.61%
Dividend yield	0.00%	0.00%

The purchase consideration is comprised of the following:

<b>Total purchase price:</b>	
Initial investments in Cardero Coal to acquire a 45.5% interest	\$ 7,205,311
Issuance of 23,397,002 Cardero common shares for 54.5% interest	35,095,503
Fair value of 3,856,400 Cardero warrants as replacement warrants	4,354,140
Transaction costs	922,393
	<b>\$ 47,577,347</b>

The fair value of the Cardero Coal assets acquired and liabilities assumed as at the acquisition date were as follows:

<b>Purchase price allocation:</b>	
Cash	\$ 2,626,895
Accounts receivable	87,990
Due from Cardero	644,370
Prepaid expenses	5,166
Property, plant and equipment	187,166
Exploration and evaluation advances	166,788
Reclamation deposit	5,000
Exploration and evaluation assets (note 7)	44,320,558
Accounts payable and accrued liabilities	(466,586)
	<b>\$ 47,577,347</b>

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**4. PROPERTY, PLANT AND EQUIPMENT**

	<b>Computer Equipment and Software</b>	<b>Office Equipment</b>	<b>Vehicles</b>	<b>Metallurgy Lab</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Cost</b>						
<b>Balance, November 1, 2010</b>	\$ 171,624	\$ 99,853	\$ -	\$ -	\$ 210,530	\$ 482,007
Additions	207,174	109,084	20,874	508,651	134,538	980,321
<b>Balance, October 31, 2011</b>	378,798	208,937	20,874	508,651	345,068	1,462,328
Additions	9,255	-	31,233	16,937	-	57,425
<b>Balance, January 31, 2012</b>	\$ 388,053	\$ 208,937	\$ 52,107	\$ 525,588	\$ 345,068	\$ 1,519,753
<b>Accumulated depreciation</b>						
<b>Balance, November 1, 2010</b>	\$ 122,128	\$ 48,402	\$ -	\$ -	\$ 113,740	\$ 284,270
Depreciation for the year	87,351	20,428	1,740	102,359	55,184	267,062
<b>Balance, October 31, 2011</b>	209,479	68,830	1,740	102,359	168,924	551,332
Depreciation for the period	31,960	7,180	1,477	26,908	15,197	82,722
<b>Balance, January 31, 2012</b>	\$ 241,439	\$ 76,010	\$ 3,217	\$ 129,267	\$ 184,121	\$ 634,054
<b>Carrying amounts</b>						
At November 1, 2010	\$ 49,496	\$ 51,451	\$ -	\$ -	\$ 96,790	\$ 197,737
At October 31, 2011	\$ 169,319	\$ 140,107	\$ 19,134	\$ 406,292	\$ 176,144	\$ 910,996
At January 31, 2012	\$ 146,614	\$ 132,927	\$ 48,890	\$ 396,321	\$ 160,947	\$ 885,699

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**5. RESOURCE RELATED INVESTMENTS**

<b>January 31, 2012</b>	<b>Shares</b>		<b>Warrants</b>		<b>Total</b>
	<b>Number</b>	<b>Fair Value</b>	<b>Number</b>	<b>Fair Value</b>	
Trevali Mining Corporation ("Trevali")	11,133,953	\$ 13,249,405	5,328,333	\$ 1,634,216	\$ 14,883,621
Wealth Minerals Ltd. ("Wealth")	5,022,806	1,130,131	-	-	1,130,131
Dorato Resources Inc. ("Dorato")	2,536,000	177,520	-	-	177,520
Indico Resources Ltd. ("Indico")	50,000	12,500	-	-	12,500
Balmoral Resources Ltd. ("Balmoral")	240,000	235,200	-	-	235,200
Corvus Gold Inc. ("Corvus") (note 15)	900,711	648,512	-	-	648,512
Abzu Gold Inc. ("Abzu Gold")	8,934,007	2,412,182	-	-	2,412,182
Artha Resources Corporation ("Artha")	2,000,000	160,000	-	-	160,000
Ethos Capital Corp. ("Ethos")	250,000	225,000	-	-	225,000
		\$ 18,250,450		\$ 1,634,216	\$ 19,884,666

<b>October 31, 2011</b>	<b>Shares</b>		<b>Warrants</b>		<b>Total</b>
	<b>Number</b>	<b>Fair Value</b>	<b>Number</b>	<b>Fair Value</b>	
International Tower Hill Mines Ltd. ("ITH")	3,053,933	\$ 15,330,744	-	\$ -	\$ 15,330,744
Trevali	11,159,432	10,043,489	4,533,572	506,635	10,550,124
Wealth	5,022,806	1,029,675	-	-	1,029,675
Dorato	2,536,000	304,320	-	-	304,320
Indico	50,000	11,000	-	-	11,000
Balmoral	240,000	235,200	-	-	235,200
Corvus	1,655,711	1,043,098	-	-	1,043,098
Abzu Gold	8,934,007	3,841,623	3,782,000	37,820	3,879,443
Ethos	250,000	167,500	-	-	167,500
		\$ 32,006,649		\$ 544,455	\$ 32,551,104

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

November 1, 2010	Shares		Warrants		Total
	Number	Fair Value	Number	Fair Value	
ITH	4,591,223	\$ 34,847,383	-	\$ -	\$ 34,847,383
Trevali	7,032,432	9,986,053	2,855,866	1,243,942	11,229,995
Wealth	5,022,806	3,164,368	-	-	3,164,368
Dorato	2,416,000	3,020,000	-	-	3,020,000
Indico	50,000	31,000	-	-	31,000
Kria Resources Ltd. (“Kria”)	15,000,000	3,150,000	15,000,000	2,400,000	5,550,000
Corvus	880,711	871,904	-	-	871,904
Abzu Gold	3,782,000	1,891,000	-	-	1,891,000
Ethos	100,000	80,000	-	-	80,000
		\$ 57,041,708		\$ 3,643,942	\$ 60,685,650

All the resource related companies are considered to be related parties by virtue of having directors and/or officers in common. All investments in shares are classified as available-for-sale under the financial instruments classification except for the investment in Ethos, which is classified as fair value through profit or loss. As investments in warrants are considered to be derivative instruments, they are by definition classified as fair value through profit or loss.

During the period ended January 31, 2012, the Company acquired additional investments for a total cost of \$200,000 (2011 - \$2,632,063) and fair value of \$4,356,997 (2011 - \$nil) (note 9(d)). The Company sold investments for gross proceeds of \$20,683,136 (2011 - \$2,859,808) at a cost of \$10,294,826 (2010 - \$662,910) for net gains on sale of \$10,388,310 (2011 - \$2,196,898). Impairment losses on resource related investments amounted to \$26,344 (2011 - \$Nil).

Warrants	Expiry Date	January 31, 2012		October 31, 2011		November 1, 2010	
		Exercise Price	Number of Warrants	Exercise Price	Number of Warrants	Exercise Price	Number of Warrants
Trevali	May 11, 2011	\$ 1.30	-	\$ 1.30	-	\$ 1.30	625,000
	May 29, 2011	\$ 1.20	-	\$ 1.20	-	\$ 1.20	67,000
	October 9, 2011	\$ 1.00	-	\$ 1.00	-	\$ 1.00	735,294
	September 1, 2012	\$ 1.50	1,428,572	\$ 1.50	1,428,572	\$ 1.50	1,428,572
	July 29, 2012	\$ 1.00	1,825,000	\$ 1.00	1,825,000	\$ 1.00	-
	January 14, 2012	\$ 1.25	-	\$ 1.25	1,280,000	\$ 1.25	-
	January 16, 2014	\$ 1.10	2,074,761	\$ 1.10	-	\$ 1.10	-
			5,328,333		4,533,572		2,855,866
Kria	July 29, 2012	\$ 1.00	-	\$ 1.00	-	\$ 1.00	15,000,000
Abzu Gold	December 21, 2011	\$ 0.75	-	\$ 0.75	3,782,000	\$ 0.75	3,782,000

During the three months ended January 31, 2012, the Company recorded an unrealized gain on the fair value adjustment of derivatives of \$384,342 (2011 - \$3,702,823) and received additional share purchase warrants at a value of \$705,419 (2011 - \$718,580)



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**6. EQUITY INVESTMENTS**

	<b>January 31, 2012 and October 31, 2011</b>		<b>November 1, 2010</b>
Abzu Resources Ltd.	\$	-	\$ 1,131,253
Cardero Coal Ltd. (Ownership interest 42%)		-	4,105,287
	\$	-	\$ 5,236,540

**(a) Abzu Resources Ltd. (“Abzu”)**

During the year ended October 31, 2010, the Company acquired 9,000,002 shares of Abzu at a gross cost of \$1,350,000. As at October 31, 2010, the Company held approximately 31.36% of the outstanding common shares of Abzu.

On December 21, 2010, Totem Minerals Inc. acquired Abzu and changed its name to “Abzu Gold Inc.” (note 5) whereby the 9,000,002 shares of Abzu were exchanged for 4,500,001 shares of Abzu Gold. Between November 1, 2010 and December 20, 2010, the Company’s share of Abzu’s results of operations amounted to a loss of \$10,775. Following the above acquisition, the Company held 16.32% of Abzu Gold and changed this investment classification to “available-for-sale” from the equity method (note 5). The Company recorded a gain of \$3,019,523 on the reclassification, representing the excess of the fair value of the retained investment over the carrying amount of the equity investment at December 21, 2010.

**(b) Cardero Coal**

During the year ended October 31, 2010, the Company acquired 14,200,000 shares of Cardero Coal at a gross cost of \$4,370,000. As at October 31, 2010, the Company held approximately 42% of the outstanding common shares of Cardero Coal.

On December 16, 2010, the Company participated in a private placement in Cardero Coal and acquired 5,600,000 special warrants of Cardero Coal (“Special Warrants”) at a cost of \$2,800,000. Each Special Warrant was exercisable to acquire one common share of Cardero Coal, and would be automatically exercised upon the third business day after the issuance of a receipt for a prospectus of Cardero Coal qualifying the issuance of the common shares upon the exercise of the Special Warrants. If such receipt was not issued by June 27, 2011, each Special Warrant would thereafter be exercisable to acquire 1.1 common shares, and if such receipt has not been issued by September 27, 2011, each Special Warrant would thereafter be exercisable to acquire 1.11 common shares.

Pursuant to its “top-up” right, on December 21, 2010, the Company acquired by private placement an additional 3,608,143 common shares of Cardero Coal at a cost of \$0.30 per share, for an additional investment of \$1,082,443.

During the year ended October 31, 2011, the Company acquired the balance of Cardero Coal’s outstanding securities pursuant to a Plan of Arrangement, effective June 1, 2011 (note 3).

Before the acquisition, the Company’s share of Cardero Coal’s results of operations amounted to a loss of \$782,419 based upon Cardero Coal’s financial statements as of May 31, 2011. The Company held approximately 45.5% (2010 - 42%) of the outstanding common shares of Cardero Coal before the Acquisition.

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**7. EXPLORATION AND EVALUATION ASSETS**

The Company's capitalized acquisition and exploration expenditures on its exploration and evaluation assets are as follows:

	Mexico (note 7(a))	Argentina (note 7(b))	Peru (note 7(c))	U.S.A. (note 7(d))	Ghana (note 7(e))	Canada (note 7(f))	Total
<b>Balance, November 1, 2010</b>	\$ 261,127	\$ 2,471,635	\$ 10,254,095	\$ 2,648,977	\$ 220,916	\$ -	\$ 15,856,750
Acquisition costs:							
Acquisition costs – shares (notes 3 and 14)	-	-	-	-	-	44,320,558	44,320,558
Acquisition costs – cash	3,373	8,479	877,561	50,075	-	5,800	945,288
Total acquisition costs	3,373	8,479	877,561	50,075	-	44,326,358	45,265,846
Deferred exploration costs:							
Camp	17,504	65,396	653,215	218,206	-	3,155,433	4,109,754
Drilling and analysis	-	94,927	114,397	578,031	-	1,823,913	2,611,268
Personnel and geology	-	61,210	29,700	268,835	-	946,296	1,306,041
Total exploration costs	17,504	221,533	797,312	1,065,072	-	5,925,642	8,027,063
Total expenditures for the year	20,877	230,012	1,674,873	1,115,147	-	50,252,000	53,292,909
Costs recovered – Exploration	(222,000)	-	-	(75,383)	-	-	(297,383)
Write-offs – Acquisition costs	(6,730)	(50,000)	(4,383,054)	-	(50,000)	-	(4,489,784)
Write-offs – Exploration costs	-	-	(7,545,914)	-	(170,916)	-	(7,716,830)
Total write-offs	(6,730)	(50,000)	(11,928,968)	-	(220,916)	-	(12,206,614)
<b>Balance, October 31, 2011</b>	\$ 53,274	\$ 2,651,647	\$ -	\$ 3,688,741	\$ -	\$ 50,252,000	\$ 56,645,662
Acquisition costs:							
Acquisition costs – shares	-	-	-	-	-	-	-
Acquisition costs – cash	1,515	10,674	-	3,434	4,290,302	5,000,000	9,305,925
Total acquisition costs	1,515	10,674	-	3,434	4,290,302	5,000,000	9,305,925
Deferred exploration costs:							
Camp	-	-	-	7,320	64,565	2,110,096	2,181,981
Drilling and analysis	-	-	-	44,005	-	2,366,966	2,410,971
Personnel and geology	-	-	-	37,743	270,727	650,729	959,199
Total exploration costs	-	-	-	89,068	335,292	5,127,791	5,552,151
Total expenditures for the period	1,515	10,674	-	92,502	4,625,594	10,127,791	14,858,076
<b>Balance, January 31, 2012</b>	\$ 54,789	\$ 2,662,321	\$ -	\$ 3,781,243	\$ 4,625,594	\$ 60,379,791	\$ 71,503,738

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(a) Mexico**

The properties in Mexico consist of the following:

i. Corrales Property, Chihuahua State, Mexico

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

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

- USD 24,000 on execution (paid);
- USD 18,000 on or before January 23, 2008 (paid);
- USD 15,000 on or before October 23, 2008 (paid);
- USD 60,000 on or before October 23, 2009 (note 7(a)(iii));
- USD 90,000 on or before October 23, 2010 (note 7(a)(iii));
- USD 100,000 on or before October 23, 2011 (note 7(a)(iii)); and
- USD 350,000 on or before October 23, 2012.

The Company has granted to a public company the option to acquire up to a 70% interest in the Corrales property (see note 7(a)(iii)).

ii. Santa Teresa Property, Coahuila State

The Santa Teresa property consists of 8,715 hectares of exploration concessions held 100% by the Company. The Company has granted to a public company the option to acquire up to a 70% interest in the Santa Teresa property (note 7(a)(iii)).

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

The Company signed a letter of intent (“LOI”) dated June 12, 2008, as amended October 9, 2008 and May 29, 2009, with Ethos Capital Corp., a company listed on the TSX Venture Exchange (“TSXV”), pursuant to which Ethos has been granted an option to earn an interest in the Company’s Corrales and Santa Teresa silver-lead-zinc projects in Mexico (notes 7(a)(i) and (ii)).

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

- (a) paying to the Company the sum of \$500,000 (subsequently amended to \$300,000), as follows:
  - (i) \$100,000 by July 17, 2009 (the “Acceptance Date”), which is five days after the LOI is accepted for filing by the TSXV (received August 18, 2009);
  - (ii) an additional \$150,000 (subsequently amended to \$75,000) by the day, which is one year after the Acceptance Date (received on December 10, 2010);
  - (iii) an additional \$250,000 (subsequently amended to \$125,000) by the day, which is two years after the Acceptance Date (not paid, currently under negotiation);

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(a) Mexico (Continued)**

iii Ethos Capital Corp. Option/Joint Venture, Mexico (Continued)

- (b) delivering to the Company 1,434,000 (subsequently amended to 1,100,300) Ethos common shares, as follows:
- (i) 100,000 shares with a fair value of \$17,000 on the Acceptance Date (received);
  - (ii) 266,800 (subsequently amended to 150,000 with a fair value of \$147,000) shares by the day, which is one year after the Acceptance Date (received on December 10, 2010);
  - (iii) an additional 466,900 (subsequently amended to 250,000) shares by the day, which is two years after the Acceptance Date (not issued, currently under negotiation); and
  - (iv) an additional 600,300 shares by the day, which is three years after the Acceptance Date; and
- (c) maintaining the properties (including making all required payments pursuant to the underlying option agreements) in good standing during the option period.

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

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

During the year ended October 31, 2011, the Company received \$222,000 in option payments from Ethos.

**(b) Argentina**

The properties in Argentina consist of the following:

i. Organullo Property, Salta Province, Argentina

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

Pursuant to an agreement dated September 1, 2011 between the Company and Artha Resources Corporation (“Artha”) as accepted by Artha on September 9, 2011, the Company optioned its Organullo Gold project to Artha, whereby Artha can earn an undivided 55% working interest in the Organullo Project, and thereafter form a joint venture with Cardero Argentina.

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(b) Argentina (Continued)**

i Organullo Property, Salta Province, Argentina (Continued)

Artha has the option to earn an undivided 55% right, title and working interest in and to the Organullo property by incurring an aggregate of USD 1,500,000 in exploration expenditures over four years (USD 250,000 by September 9, 2012) and by issuing an aggregate of 350,000 common shares in the capital of Artha, also over three years (50,000 shares within 15 days of Exchange acceptance - received). Upon Artha having earned its initial 55% interest, Cardero has a right to maintain its 45% interest through pro-rata funding of exploration work going forward. Alternatively, Cardero may choose to be diluted down to a minimum of 10%, at which point its interest will be converted to a 2% NSR royalty.

ii Mina Angela, Chubut Province, Argentina

The Mina Angela property consists of a 100% interest in 44 mineral concessions in Chubut Province, Argentina, subject to a 1% NSR to the a private Argentinean company. The Company has the option to purchase the 1% NSR royalty from the holder for the sum of USD 500,000 at any time.

iii Pirquitas Property, Jujuy Province, Argentina

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

The Company has entered into an agreement dated July 9, 2009 with a private Australian company (subsequently assigned by the private company to Artha), whereby Artha may earn a 55% interest in the Pirquitas Property by incurring exploration expenditures of USD 1,000,000 over four years, of which USD 50,000 must be incurred in the first year (incurred) and an additional USD 100,000 in the second year (incurred). The effective date of the agreement is July 14, 2009. Following Artha having earned its interest, the parties will enter into a joint venture, and thereafter each party is required to contribute its proportional share of further expenditures or be diluted on a straight-line basis.

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(c) Peru**

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

Pursuant to option agreements dated October 1, 2003 and October 23, 2003 between the Company and a private Peruvian company, the Company acquired mineral concessions covering approximately 30,000 hectares in Lucanas, Nazca and Caraveli Provinces, Peru. Approximately 10,500 hectares of these concessions are subject to an underlying agreement with Rio Tinto Mining and Exploration Limited (“Rio Tinto”). The private company holds the exclusive right and option to acquire a 100% interest from Rio Tinto, subject to a 0.5% NSR to Rio Tinto, by incurring USD 450,000 in exploration expenditures over three years ending August 22, 2006 and by paying Rio Tinto USD 500,000 (of which USD 50,000 has been paid) on or before January 27, 2008. The Company can earn a 100% interest in all 30,000 hectares by assuming and performing all commitments to Rio Tinto pursuant to the underlying agreement, paying the vendor an aggregate of USD 120,000 (paid) and issuing an aggregate of 650,000 common shares to the vendor, as follows:

- 150,000 common shares on TSXV acceptance (issued);
- 100,000 common shares on or before May 28, 2004 (issued);
- 200,000 common shares on or before November 28, 2004 (issued); and
- 200,000 common shares on or before November 28, 2005 (issued).

The Company determined not to exercise the option from Rio Tinto, and terminated the underlying agreement with Rio Tinto. In addition, the Company abandoned all but five of the concessions (3,200 hectares) held by Minera Koripampa del Peru S.A. (“Koripampa”), (which retained concessions form part of the Company’s Iron Sands project (see note 7(c)(iii)).

ii. Pampa de Pongo Property, Caraveli Province, Peru

Pursuant to an option agreement dated February 2, 2004 between the Company and a private Peruvian company, the Company can acquire a 100% interest in mineral concessions covering approximately 7,970 hectares in Caraveli Province, Peru. The private Peruvian company holds the exclusive right and option to acquire a 100% interest in these concessions from Rio Tinto in consideration of the payment to Rio Tinto of aggregate payments of USD 500,000 over four years as follows:

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

The Company can earn a 100% interest in the property by assuming all of the obligations of the private company pursuant to the underlying agreement with Rio Tinto, and making the following payments and share issuances:

Payments aggregating USD 130,900 as follows:

- USD 65,900 on or before March 12, 2004 (for back taxes on the property) (paid); and
- USD 65,000 on or before March 12, 2004 (paid).

Issuance of an aggregate of 70,000 common shares, as follows:

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

**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(c) Peru (Continued)**

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

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

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

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

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

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

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

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(c) Peru (Continued)**

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

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

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

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

During the year ended October 31, 2010, payments received of \$93,607,400 (USD 88 million) were recognized in other income, net of related property costs of \$645,276 and transaction costs of \$5,234,967, for a gain of \$87,727,157 before applicable income taxes.

iii. Iron Sands Project, Nazca and Caraveli Provinces, Peru

The Company's Iron Sands Project consists of approximately 32,000 hectares of unconsolidated and semi-consolidated mineral bearing sands, the rights to which are encompassed by certain of the mineral claims comprising the Carbonera and Daniella properties (note 7(c)(i)), and an additional 39 mineral claims acquired by staking at a cost of USD 77,000, in the Departments of Arequipa, (Caraveli Province) and Ica (Nazca Province), Peru. As a result of work to date, some of the foregoing concessions have been dropped, and the property now consists of 16 concessions (12,100 hectares in four areas) owned 100% by the Company and five concessions (3,600 hectares in two areas) held under option as described below.

The Company has assumed, from a private Peruvian company, all rights and obligations under an agreement dated December 16, 2005 between a private Peruvian company and Minera Ataspacas S.A. ("Minera Ataspacas"), an arm's length private Peruvian company, whereby the private Peruvian company has the option to acquire, from Minera Ataspacas, an initial 70% interest in five mineral sand concessions (3,600 hectares total) surrounded by certain of the Company's mineral tenures noted above. In order to exercise the option, the Company is required to pay a total of USD 6,830,000 over five years to December 15, 2010 (with an initial payment of USD 20,000 on or before December 16, 2005 (paid)) and incur exploration expenditures of not less than USD 250,000 over the same period, as follows and as amended (see below):

- USD 80,000 on or before December 16, 2006 (paid);
- USD 100,000 on or before December 16, 2007 (paid);
- USD 150,000 on or before December 16, 2008 (paid);
- USD 500,000 on or before December 16, 2009 (paid); and
- USD 6,000,000 on or before December 16, 2011 (amended to February 8, 2012) (not paid);
  
- USD 50,000 on or before December 16, 2007 (incurred);
- USD 50,000 on or before December 16, 2008 (incurred);
- USD 50,000 on or before December 16, 2009 (incurred);
- USD 50,000 on or before December 16, 2010 (incurred); and
- USD 50,000 on or before December 16, 2011 (incurred).



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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(c) Peru (Continued)**

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

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

The Company entered into an agreement dated October 20, 2005 with the Peruvian subsidiary of a public B.C. company (the “Optionee”), whereby the Company has granted the Optionee the right to earn a 70% interest in the “hard rock” mineral rights (thereby excluding the unconsolidated and semi-consolidated mineral sands on such claims) accruing to certain of the mineral claims comprising the Iron Sands Project (plus additional claims acquired from Koripampa (note 7(c)(i)).

In order to exercise the option, the Optionee is required to incur an aggregate of USD 3,000,000 in expenditures over four years to November 18, 2009 and perform all of the obligations of the Company under the underlying agreements with respect to the Carbonera and Daniella properties (note 7(c)(i)), including making all payments and incurring all exploration expenditures required thereunder. Upon the Optionee having earned its 70% interest, the Optionee and the Company will incorporate a new Peruvian company to hold such rights, in which the Optionee and the Company will hold a 70% and a 30% interest therein, respectively. Each party will thereafter be required to contribute its *pro rata* share of future expenditures, and a party failing to contribute will have its interest in the joint venture company diluted. At such point as a party’s interest in the joint venture company is reduced to 10%, such interest will be acquired by the joint venture company in exchange for the grant to the diluted party of a 1% NSR. The Optionee terminated the agreement and returned its interest in the applicable concessions on April 16, 2007.

In November 2009, the Company entered into agreements with Minera Ataspacas and others regarding its option on certain of the concessions comprised in its Iron Sands Project, Peru. Pursuant to two agreements dated November 13, 2009, the original option agreement of December 16, 2005 with Minera Ataspacas was amended to provide that the Company may now acquire a 100% interest in the shares of a new Peruvian company (into which Minera Ataspacas will transfer a 100% interest in the five concessions subject to the option in favour of the Company) by paying to the shareholders of such new company the sum of USD 500,000 upon execution (paid) and USD 6,150,000 on or before December 16, 2010. The option exercise date was further amended by an agreement dated January 13, 2011, such that the option is now exercisable on or before February 9, 2012 for an option payment of USD 6,000,000. In consideration of the extension, the Company paid USD 800,000, of which USD 150,000 was applied to reduce the final option payment and USD 650,000 was for the extension of the option exercise deadline

During the year ended October 31, 2011, the Company wrote-off its remaining investment in the property in the amount of \$11,928,968.

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(d) United States of America**

i. TiTac Property, Minnesota

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

The option agreement requires an initial payment of USD 5,000 on execution (paid) plus an extension payment of USD 25,000 due on the first anniversary of the agreement in order to extend the option for an additional year (option exercised). There are no work commitments under the option, but the Company is required to comply with all laws and to maintain specified insurance in place during the option term.

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

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

ii. Longnose Property, Minnesota

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

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

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

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

ii. Longnose Property, Minnesota (Continued)

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

**(e) Ghana**

Pursuant to an agreement dated November 22, 2010 between Cardero Ghana and a private Ghanaian company, the parties entered into an arrangement under which Cardero Ghana will provide the financial resources and exploration expertise for the purpose of enabling the private Ghanaian company to apply to the Minerals Commission of Ghana for a prospecting license in respect of the certain lands in north-eastern Ghana referred to as the Sheini Iron Ore deposit. If the private Ghanaian company is successful in being awarded the prospecting license then, subject to the consent of the Government of Ghana, Cardero Ghana and the private Ghanaian company will enter into a joint venture to explore and, if warranted, develop and mine such deposit.

All costs incurred prior to receiving prospecting license have been reflected in Property Evaluations in the Consolidated Statements of Comprehensive Income (Loss).

Upon the formation of such joint venture, the participants will be deemed to have the following respective interests:

Cardero Ghana – 100% participating interest  
Private Ghanaian Company – 10% net profit interest

Upon the issuance of a mining lease subsequent to the expiry of the term of the prospecting license for the deposit, the Republic of Ghana will hold a ten percent free carried equity interest in the property subject to the mining lease.

On December 8, 2011, three separate prospecting licenses covering the Sheini Iron Ore deposit were granted and Cardero Ghana and the Private Ghanaian Company have entered into three separate joint ventures (one for each prospecting license), each dated December 12, 2011, to explore and, if warranted, develop the lands subject to the prospecting licenses. All expenditures incurred prior to December 8, 2011 have been included in Property Evaluations in the Statement of Comprehensive Income (Loss). All expenditures incurred after December 8, 2011 have been capitalized and included in exploration and evaluation assets.

Under the three joint ventures, Cardero Ghana will fund all expenditures under the particular joint venture and make the following payments to the Private Ghanaian Company:

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(e) Ghana (Continued)**

For the Sheini Hills North prospecting license:

- USD 25,000 upon the agreement to enter into the joint venture (paid prior to December 8, 2011);
- USD 250,000 as an initial joint venture payment (paid prior to December 8, 2011);
- USD 1,000,000 upon the formation of the joint venture (Effective Date) (paid \$700,000 prior to December 8, 2011 and USD 200,000);
- USD 1,000,000 six months after the Effective Date (paid prior to December 8, 2011);
- USD 500,000 one year after the Effective Date;
- USD 1,000,000 two years after the Effective Date;
- USD 1,000,000 three years after the Effective Date;
- USD 500,000 four years after the Effective Date; and
- USD 500,000 five years after the Effective Date.

For the Middle Sheini prospecting license:

- USD 25,000 upon the agreement to enter into the joint venture (paid prior to December 8, 2011);
- USD 250,000 as an initial joint venture payment (paid prior to December 8, 2011);
- USD 1,000,000 upon the formation of the joint venture (Effective Date) (paid);
- USD 1,000,000 six months after the Effective Date ;
- USD 500,000 one year after the Effective Date (paid);
- USD 1,000,000 two years after the Effective Date;
- USD 1,000,000 three years after the Effective Date;
- USD 500,000 four years after the Effective Date; and
- USD 500,000 five years after the Effective Date.

For the Sheini South prospecting license:

- USD 3,000,000 upon the formation of the joint venture (Effective Date) (paid);
- USD 1,000,000 one year after the Effective Date; and
- USD 1,000,000 two years after the Effective Date.

The Company has agreed to issue, subject to regulatory acceptance, a finder's fee of 2,000,000 common shares to an arm's length British Columbia company in connection with the acquisition of the Sheini project. The shares are to be issued in stages, as to 500,000 upon execution of one or more joint venture agreements on the Sheini properties, and an additional 500,000 shares after 6, 12 and 18 months, provided that at least one of the joint venture agreements is still in effect and that further work is planned. Regulatory acceptance has not yet been received.

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(f) Canada – Carbon Creek Property, British Columbia**

To acquire its interest in the Carbon Creek Metallurgical Coal Property, Cardero Coal entered into the following agreements:

i. Johnson Agreement

On May 18, 2010, Cardero Coal entered into a Coal Tenure Option Agreement (“Johnson Agreement”) to acquire, upon issuance, one coal license (“Johnson License”) over an area located in the Peace River Land District of British Columbia. Consideration for a 100% interest in the license consists of the following payments and share issuances:

- payments to date of \$350,000 and an additional payment of \$5,000,000 due within four months of the date the coal license is issued by the Government of British Columbia and transferred to Cardero Coal. Cardero Coal can extend the payment date by paying a \$20,000 monthly fee for up to three additional months;
- issuance of 400,000 common shares of the Company. Such issuance is to be made concurrently with the \$5,000,000 final payment; and
- issuance of an option to acquire 1,000,000 common shares of Cardero Coal at an exercise price of \$0.1875 per share (issued). The option was exercised on March 9, 2011.

ii. Burns Agreement

On June 15, 2010, Cardero Coal entered into an option agreement (“Burns Agreement”) to acquire a lease of the coal situated on 10 Crown granted district lots (“CGDL”) located in the Peace River Land District of British Columbia. To exercise its option, Cardero Coal must pay \$6,000,000 (paid). Cardero Coal has exercised the option agreement.

Under the lease agreement (“Burns Lease”), Cardero Coal will pay a 5% “freight on rail” royalty on all coal sold or \$2 per metric tonne of coal sold, whichever is greater, and 20% on sales for any coal substances sold or consumed on the CGDL.

iii. Joint Venture Agreement

On June 15, 2010, Cardero Coal entered into a joint venture agreement (the “Joint Venture Agreement”) with a private Alberta partnership, to participate in common operation and exploration, development and production of the Carbon Creek Property. Under the Joint Venture Agreement, the Carbon Creek Property subject to the joint venture will consist of Cardero Coal’s interest in the Johnson License (once issued and transferred to Cardero Coal), Cardero Coal’s interest in the Burns Lease (once the option has been exercised), 10 coal licenses held by the joint venture partner (once issued), one coal license held by Cardero Coal (once issued) and any additional coal licenses acquired by a joint venturer within 25 kilometres of the balance of the Carbon Creek Property. Pursuant to the Joint Venture Agreement, the Company will have a 75% interest in the joint venture and is responsible for incurring all costs of carrying out the required exploration, development and mining of the Carbon Creek Property and the marketing of the product produced. The joint venture partner will have a 25% carried interest in the joint venture and will not be required to contribute to any such costs. The joint venture partner is entitled to receive 25% of the net proceeds of production following Cardero Coal having recovered, from the proceeds of any production, all monies paid under the Johnson Agreement and all costs incurred by Cardero Coal to develop the mine site and put it into production.

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**7. EXPLORATION AND EVALUATION ASSETS (Continued)**

**(f) Canada – Carbon Creek Property, British Columbia (Continued)**

iii Joint Venture Agreement (Continued)

To acquire its interest in the joint venture, the Company was required to issue 1,600,000 common shares (issued) plus warrants to purchase an additional 1,600,000 common shares (issued) and make total payments of \$6,000,000(paid).

On June 1, 2011, the Company acquired the balance of the outstanding securities of Cardero Coal (note 3).

**(g) Title and environmental**

Although the Company has taken steps to verify the title to mineral properties in which it has or had a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples. Environmental legislations are becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislations on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

**(h) Environmental Expenditures**

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, are charged against earnings over the estimated remaining life of the related business operation, net of expected recoveries. The Company is not aware of any Provisions for Environmental Rehabilitation as of January 31, 2012.

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**8. SHARE CAPITAL**

**(a) Authorized**

An unlimited number of common shares without par value.

**Share issuances**

During the period ended January 31, 2012:

- i. On November 29, 2011, the Company completed a non-brokered private placement pursuant to which the Company sold 8,029,750 units (“Units”) at a price of \$ 0.95 per Unit for aggregate gross proceeds of \$7,628,263. Each Unit consists of one common share of the Company (a “Share”) and one-half of one common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant is exercisable into one additional Share until November 29, 2012 at an exercise price of \$1.25.
- ii. An aggregate of 434,000 common shares were issued on exercise of 434,000 agents’ warrants for gross proceeds of \$268,625.

During the year ended October 31, 2011:

- i. The Company issued an aggregate 840,000 common shares on exercise of 840,000 options for gross proceeds of \$1,026,150.
- ii. The Company issued an aggregate of 443,800 common shares on exercise of 443,800 agents’ warrants for gross proceeds of \$ 171,718.
- iii. On June 1, 2011, the Company completed the acquisition of Cardero Coal through a Plan of Arrangement (the “Acquisition”) whereby one Cardero Coal common share was exchanged for 0.8 of a common share of the Company. The acquisition resulted in the Company issuing 23,397,002 common shares at \$35,095,503 on the effective date, with a further 5,885,543 common shares reserved for issuance for the exercise of options held by former Cardero Coal optionees, the exercise of Cardero Coal warrants and pursuant to Cardero Coal property acquisition agreements. On completion of the transaction, Cardero Coal became a wholly-owned subsidiary of the Company.

**(b) Share purchase warrants**

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

	<b>January 31, 2012</b>		<b>October 31, 2011</b>	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of the period	3,412,600	\$ 0.39	-	\$ -
Issued	4,014,875	\$ 1.25	3,856,400	\$ 0.39
Exercised	(434,000)	\$(0.62)	(443,800)	\$(0.39)
Warrants outstanding, end of the period	6,993,475	\$ 0.87	3,412,600	\$ 0.39

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**8. SHARE CAPITAL (Continued)**

**(b) Stock purchase warrants (Continued)**

The weighted average remaining contractual life of warrants outstanding at January 31, 2012 was 0.90 year (October 31, 2011 – 1.11 years).

Warrants outstanding are as follows:

Expiry Date	January 31, 2012		October 31, 2011	
	Exercise Price	Number of Warrants	Exercise Price	Number of Warrants
December 17, 2011	\$ -	-	\$ 0.63	428,400
March 1, 2012 (note 15)	\$ 0.06	240,000	\$ 0.06	240,000
March 29, 2012	\$ -	-	\$ 0.16	5,600
April 6, 2012 (note 15)	\$ 0.16	12,600	\$ 0.16	12,600
May 20, 2012	\$ 0.06	120,000	\$ 0.06	120,000
June 14, 2012	\$ 0.38	336,000	\$ 0.38	336,000
June 15, 2012	\$ 0.06	120,000	\$ 0.06	120,000
September 22, 2012 (note 15)	\$ 0.44	70,000	\$ 0.44	70,000
January 12, 2013	\$ 0.13	240,000	\$ 0.13	240,000
May 29, 2013	\$ 0.13	240,000	\$ 0.13	240,000
June 1, 2013	\$ 0.50	1,600,000	\$ 0.50	1,600,000
November 29, 2012	\$ 1.25	4,014,875	\$ -	-
		6,993,475		3,412,600

**(c) Stock options**

The Company has a stock option plan whereby the Company may grant options to directors, officers, employees and consultants to purchase common shares, provided that the aggregate number of shares subject to such options may not exceed 10% of the common shares outstanding at the time of any grant (not including agent or broker options). The exercise price of each option is required to be set at the higher of the closing price of the Company's common shares on the trading day prior to the date of grant and the five-day volume-weighted average trading price for the five trading days prior to the date of grant (without any discounts). The option term and vesting period is determined by the Board of Directors within regulatory guidelines (the maximum term is ten years). All options are recorded at fair value when granted and are vested at the date for grant. A summary of the status of the stock option plan as of January 31, 2012 and October 31, 2011 and changes during the years ended on those dates is presented below:



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**8. SHARE CAPITAL (Continued)**

**(c) Stock options (Continued)**

	January 31, 2012		October 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the period	6,599,143	\$ 1.04	5,310,000	\$ 1.23
Granted pursuant to Acquisition (note 3)	-	\$ -	2,029,143	\$ 0.32
Granted	2,900,000	\$ 1.31	1,100,000	\$ 1.83
Expired	(360,000)	\$ 1.31	(1,000,000)	\$ 1.30
Exercised	-	\$ -	(840,000)	\$ 1.22
Options outstanding, end of the period	9,139,143	\$ 1.12	6,599,143	\$ 1.04

The weighted average remaining contractual life of options outstanding at January 31, 2012 was 1.16 years (October 31, 2011 – 1.02 years).

Stock options outstanding are as follows:

Expiry Date	January 31, 2012			October 31, 2011		
	Exercise Price	Number of Options	Exercisable at Period End	Exercise Price	Number of Options	Exercisable at Period End
December 1, 2011	\$ -	-	-	\$ 1.31	360,000	360,000
February 2, 2012 (note 15)	\$ 1.41	500,000	500,000	\$ 1.41	500,000	500,000
July 29, 2012	\$ 1.16	1,485,000	1,485,000	\$ 1.16	1,485,000	1,485,000
August 11, 2012	\$ 1.16	1,125,000	1,125,000	\$ 1.16	1,125,000	1,125,000
September 8, 2012	\$ 1.28	100,000	100,000	\$ 1.28	100,000	100,000
January 28, 2013	\$ 1.83	1,000,000	1,000,000	\$ 1.83	1,000,000	1,000,000
June 1, 2013	\$ 0.06	280,000	70,000	\$ 0.06	280,000	-
June 1, 2013	\$ 0.16	100,000	25,000	\$ 0.16	100,000	-
June 1, 2013	\$ 0.31	320,000	80,000	\$ 0.31	320,000	-
June 1, 2013	\$ 0.38	980,000	245,000	\$ 0.38	980,000	-
June 1, 2013	\$ 0.44	349,143	87,286	\$ 0.44	349,143	-
November 9, 2013	\$ 1.10	1,400,000	1,400,000	\$ -	-	-
January 26, 2014	\$ 1.51	1,500,000	1,500,000	\$ -	-	-
		9,139,143	7,617,286		6,599,143	4,570,000

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**8. SHARE CAPITAL (Continued)**

**(c) Stock options (Continued)**

The Company uses the fair value method for determining share-based payments for all options granted. The fair value was determined using the Black-Scholes option pricing model based on the following weighted average assumptions:

	<b>Period ended January 31, 2012</b>	<b>Year ended October 31, 2011</b>
Expected life (years)	2.0	2.0
Interest rate	0.96%	1.35%
Volatility	54.69%	61.21%
Dividend yield	0.00%	0.00%

Share-based payment charges for the three month period ended January 31, 2012 totalled \$1,624,823 (2011 - \$605,383), allocated as follows:

<b>For the three months ended January 31,</b>	<b>2012</b>	<b>2011</b>
Consulting fees	\$ 43,431	\$ 15,135
Investor relations	160,956	242,153
Professional fees	140,047	-
Salaries and benefits	1,280,389	348,095
	<b>\$ 1,624,823</b>	<b>\$ 605,383</b>

The weighted average fair value of options granted during the period was \$0.40 (October 31, 2011 - \$0.60).

**9. RELATED PARTY TRANSACTIONS**

**(a) Related parties**

Effective October 1, 2005, the Company retained Mr. Carlos Ballon of Lima, Peru, to provide management services on behalf of the Company in Peru through his private Peruvian company, Koripampa, for a fee of USD 7,500 per month, which has been expensed to consulting fees. Mr. Ballon became President of Cardero Peru in April 2006. Prior to Mr. Ballon becoming a related party, the Company entered into a number of mineral property acquisition/option agreements with either Koripampa or Sudamericana de Metales Peru S.A., another private Peruvian company controlled by Mr. Ballon. Such property transactions include those with respect to the Carbonera and Daniella Properties (note 7(c)(i)), the Pampa de Pongo Property (note 7(c)(ii)), the Katanga Property and the Corongo Property.

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

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

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

**(b) Due to related parties**

During the three month periods ended January 31, 2012 and 2011, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

	<b>2012</b>		<b>2011</b>	
Consulting fees	\$	75,000	\$	34,658
Professional fees	\$	25,625	\$	20,625

At January 31, 2012, there was \$35,700 (October 31, 2011 - \$Nil; November 1, 2010 - \$7,700) included in accounts payable and accrued liabilities. Professional fees include amounts paid to a law firm of which a director is a shareholder.

**(c) Due from related parties**

Amounts due from related parties are comprised as follows:

	<b>January 31, 2012</b>		<b>October 31, 2011</b>		<b>November 1, 2010</b>	
Unsecured promissory notes, 1% per annum, due the earlier of 30 days after demand or the due date, if applicable:						
Trevali	\$	96,660	\$	142,945	\$	78,227
Wealth		600,313		495,312		305,871
Dorato		324,368		261,882		143,193
Indico		106,431		49,891		468,819
Abzu		48,323		171,268		208,345
IMM		18,805		18,805		18,820
ITH		2,099		22,899		11,185
Others		133,782		76,041		127,090
	\$	1,330,781	\$	1,239,043	\$	1,361,550

The Company recovered \$360,463 during the three month period ended January 31, 2012 (2011 - \$199,362) in rent and administration costs from Wealth, ITH, Dorato, Indico, Trevali, Balmoral, Abzu, Corvus and LWTLC, companies with common officers or directors.

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

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

**(d) Management Compensation**

Key management personnel compensation comprised:

	<b>January 31, 2012</b>	<b>January 31, 2011</b>
Consulting fees	\$ 98,016	\$ 34,956
Directors fees	\$ 36,000	\$ 25,000
Professional fees	\$ 25,625	\$ 43,125
Wages and benefits	\$ 280,833	\$ 112,000
Share-based payments	\$ 582,383	\$ 302,691
	<b>\$ 1,022,857</b>	<b>\$ 517,772</b>

**(e) Loan receivable**

The Company entered into a loan agreement with Kria Resources Ltd. (“Kria”) whereby the Company advanced Kria \$8,064,000 (the “Loan”) to fund the USD 8,000,000 property payment due by Kria to Xstrata Canada Corporation (“Xstrata”) on or before January 16, 2011 under the terms of the revised Halfmile and Stratmat property purchase agreement dated July 15, 2009, between Kria and Xstrata. The Loan bears interest at 10% per annum, calculated monthly, not in advance. As security for the Loan, Kria has granted in favour of the Company a first charge, mortgage and security interest over all its assets and undertakings. In connection with the Loan, Kria issued to the Company 6,400,000 common share purchase warrants of Kria (the “Bonus Warrants”). Each Bonus Warrant entitles the holder to acquire a common share of Kria at an exercise price of \$0.25 until January 14, 2012. The fair value of the warrants was calculated at \$1,131,136 using the Black-Scholes model, and this amount was recognized as additional interest income under the term of the loan. On April 7, 2011, Trevali acquired Kria and the 6,400,000 Kria Bonus Warrants were exchanged for 1,280,000 Trevali warrants on 5:1 exchange ratio. The interest rate of the Loan was retroactively reduced to 8% to be calculated monthly and not in advance and is due on or before January 14, 2012.

The Company received repayment of the USD 8,000,000 loan plus USD 645,260 (totaling CAD \$8,783,463) in interest from Trevali on January 16, 2012. The loan was repaid as follows:

- USD 5,000,000 (CAD \$5,090,000) in cash, and
- Through the issuance of 4,149,521 units (“Units”) of Trevali at a deemed price of \$0.90 per Unit. Each Unit is comprised of one common share of Trevali (“Common Share”) and one-half of one transferrable common share purchase warrant (a “Warrant”). Each whole Warrant will entitle the holder thereof to purchase one Common Share (“Warrant Share”) at a price of \$1.10 per share until January 16, 2014. The Common Shares, Warrants and any Warrant Shares issued are subject to a hold period in Canada expiring on May 17, 2012. The fair value of the Units was \$5,062,416 (\$1.22 per Unit) calculated on a pro rata basis based on relative fair value using the market trading price and the Black-Scholes option pricing model for the shares and warrants respectively. This resulted in \$1,368,953 gain on loan settlement.

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**10. GEOGRAPHIC SEGMENTED DATA**

The Company operates in one industry segment, the mineral resources industry, and in six geographical segments, Canada, United States, Ghana, Peru, Mexico, and Argentina. The significant asset categories identifiable with these geographical areas are as follows:

	<b>January 31, 2012</b>			
	<b>Canada/US</b>	<b>Ghana</b>	<b>Others</b>	<b>Total</b>
Exploration and evaluation assets	\$ 64,161,034	\$ 4,625,594	\$ 2,717,110	\$ 71,503,738
Cash and cash equivalents	20,117,790	521,467	271,231	20,910,488
Resource related investments	19,884,666	-	-	19,884,666
Others	3,830,432	30,451	652,106	4,512,989
	<b>\$ 107,993,922</b>	<b>\$ 5,177,512</b>	<b>\$ 3,640,447</b>	<b>\$ 116,811,881</b>

	<b>October 31, 2011</b>			
	<b>Canada/US</b>	<b>Ghana</b>	<b>Others</b>	<b>Total</b>
Exploration and evaluation assets	\$ 53,940,741	\$ -	\$ 2,704,921	\$ 56,645,662
Cash and cash equivalents	5,819,881	1,473	164,280	5,985,634
Resource related investments	32,551,104	-	-	32,551,104
Others	12,893,767	-	551,736	13,445,503
	<b>\$ 105,205,493</b>	<b>\$ 1,473</b>	<b>\$ 3,420,937</b>	<b>\$ 108,627,903</b>

	<b>November 1, 2010</b>			
	<b>Canada/US</b>	<b>Ghana</b>	<b>Others</b>	<b>Total</b>
Exploration and evaluation assets	\$ 2,648,977	\$ 220,916	\$ 12,986,857	\$ 15,856,750
Cash and cash equivalents	6,192,603	-	46,071,400	52,264,003
Resource related investments	60,685,650	-	-	60,685,650
Equity investment	5,236,540	-	-	5,236,540
Others	1,152,536	-	1,009,675	2,162,211
	<b>\$ 75,916,306</b>	<b>\$ 220,916</b>	<b>\$ 60,067,932</b>	<b>\$ 136,205,154</b>

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**11. COMMITMENTS**

The Company entered into a sub-lease dated May 14, 2008 for new office space located at 1920 – 1188 West Georgia Street, Vancouver. This sub-lease commenced August 1, 2008 for a term of 51 months. The initial lease payments are \$14,654 per month for basic rent and \$9,623 per month for estimated operating costs, commencing in September 2008.

The Company entered into a lease dated November 18, 2010 for office space located at 2300 – 1177 West Hastings Street, Vancouver for a term commencing April 1, 2011 for a period of ten years to March 31, 2021 (subject to renewal for an additional five years). The rent for the first three years is \$312,579 per annum, plus operating costs and \$335,733 per annum, plus operating costs for the next two years.

The Company's subsidiary Cardero Coal entered into a lease dated November 24, 2011 for office space located at 1800 - 1177 West Hastings Street, Vancouver for a term commencing May 1, 2012 for a period of eight years and eleven months. The rent for the first three years is \$139,023 per annum, plus operating costs and \$149,321 plus operating costs per annum for the next two years.

Other commitments are disclosed elsewhere in these condensed interim consolidated financial statements.

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

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

The Company currently has no source of revenues; as such, the Company is dependent upon external financings or the sale of assets (or an interest therein) to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended January 31, 2012. The Company is not subject to externally imposed capital requirements.

The Company classified its cash and cash equivalents as FVTPL; accounts receivable and due from related parties as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities. The classification of resource related investments is set out in note 5. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The fair values of amounts due from related parties have not been disclosed, as their fair values cannot be reliably measured since the parties are not at arm's length.

*IFRS 7 Financial instruments: Disclosures* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such input exists. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

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

<b>January 31, 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 20,910,488	\$ -	\$ -	\$ 20,910,488
Resource related investments	18,250,450	-	-	18,250,450
Resource related investments	-	1,634,216	-	1,634,216
	\$ 39,160,938	\$ 1,634,216	\$ -	\$ 40,795,154

<b>October 31, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 5,985,634	\$ -	\$ -	\$ 5,985,634
Resource related investments	32,006,649	-	-	32,006,649
Resource related investments	-	544,455	-	544,455
	\$ 37,992,283	\$ 544,455	\$ -	\$ 38,536,738

<b>November 1, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 52,264,003	\$ -	\$ -	\$ 52,264,003
Resource related investments	57,041,708	-	-	57,041,708
Resource related investments	-	3,643,942	-	3,643,942
	\$ 109,305,711	\$ 3,643,942	\$ -	\$ 112,949,653

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

**(a) Credit risk**

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

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

**(a) Credit risk (Continued)**

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

	January 31, 2012	October 31, 2011	November 1, 2010
Bank accounts - Canada	\$ 19,993,156	\$ 5,821,354	\$ 6,035,679
Bank accounts - Ghana	521,467	1,473	-
Bank accounts - Peru	2,047	457	46,042,361
Bank accounts - Others	393,818	162,350	185,963
	<b>\$ 20,910,488</b>	<b>\$ 5,985,634</b>	<b>\$ 52,264,003</b>

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

With respect to the \$1,330,781 due from related parties at January 31, 2012 (October 31, 2011 - \$1,239,043; November 1, 2010 - \$1,361,550), the credit risk has been assessed as low by management as the Company has strong working relationships with the related parties involved.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in settling its commitments. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company maintains sufficient cash and cash equivalents at January 31, 2012 of \$20,910,488 (October 31, 2011 - \$5,985,634; November 1, 2010 - \$52,264,003) in order to meet short-term business requirements. At January 31, 2012, the Company had accounts payable and accrued liabilities of \$2,210,777 (October 31, 2011 - \$4,038,261; November 1, 2010 - \$832,087), which are due within 30 days.

**(c) Market risk**

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

**i. Interest rate risk**

The Company's cash and cash equivalents consist of cash held in bank accounts and guaranteed investment certificates that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of January 31, 2012. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.



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

**(c) Market risk (Continued)**

ii. Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary financial instruments are denominated in United States, Mexican, Argentinean, Peruvian and Ghanaian currencies. The Company has not entered into any foreign currency contracts to mitigate this risk as it believes this risk is minimized by the amount of cash held in these foreign jurisdictions. The Company's sensitivity analysis suggests that a consistent 5% change in the rate of exchange in all foreign jurisdictions where it has assets employed would change exploration and evaluation assets and foreign exchange gain or loss by \$50,110 (October 31, 2011 - \$11,839; November 1, 2010 - \$2,332,000).

iii. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company's investments are carried at market value and are, therefore, directly affected by fluctuations in the market value of the underlying securities. The Company's sensitivity analysis suggests that a 1% change in market prices would change the value of the resource related investments by \$198, 847.

**13. TRANSITIONAL TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

As stated in note 2, these are the Company's first condensed interim consolidated financial statements for the period covered by the first annual consolidated financial statements prepared in accordance with IFRS. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and comprehensive income is set out in this note.

The accounting policies set out in note 2 have been applied in preparing the condensed interim consolidated financial statements as at and for the three months ended January 31, 2012, the comparative information presented in these financial statements as at and for the three month period ended January 31, 2011 and as at and for the year ended October 31, 2011, and in the preparation of an opening IFRS Consolidated Statement of Financial Position at November 1, 2010 (the Company's date of transition).

**First time adoption of IFRS**

The Company's consolidated financial statements for the year ending October 31, 2012 are the first annual financial statements that will be prepared in accordance with IFRS. The Company has adopted IFRS on November 1, 2011 with a transition date of November 1, 2010. Under IFRS 1 *First time adoption of International Financial Reporting Standards* ("IFRS 1"), the IFRS standards are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to deficit, with IFRS 1 providing for certain optional and mandatory exemptions to this principle.

**13. TRANSITIONAL TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

**First time adoption of IFRS (Continued)**

Below are the adjustments necessary for the IFRS transition, including exemptions taken at the transition date:

**(a) Share-based payment transactions**

IFRS 1 allows that full retrospective application may be avoided for certain share-based instruments depending on the grant date, vesting terms and settlement of any real liabilities. A first-time adopter can elect to not apply IFRS 2 to share-based payments granted after November 7, 2002 that vested before the later of (i) the date of transition to IFRS and (ii) January 1, 2005. The Company has elected this exemption and will apply IFRS 2 to only unvested stock options as at the transition date of November 1, 2010.

Under Canadian GAAP, the fair value of options granted as replacement options to the shareholders of Cardero Coal (see note 3) formed part of the purchase consideration. In accordance with IFRS, none of the options granted to Cardero Coal shareholders were determined to be replacement awards attributable to pre-acquisition service. As such, the fair value of the options granted to Cardero Coal shareholders is treated as post-combination share-based payment expense. As at and for the year ended October 31, 2011, this IFRS transition change in accounting policy results in a \$988,347 reduction in the carrying value of exploration and evaluation assets, a \$542,218 reduction in contributed surplus, and a \$446,129 increase in share-based payments expense and deficit.

**(b) Estimates**

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

**(c) Business combination**

IFRS 1 allows that a first-time adopter may elect not to apply IFRS 3 Business Combinations (IFRS 3) retrospectively to business combinations prior to the date of transition, avoiding the requirement to restate prior business combinations. The Company has elected to only apply IFRS 3 to business combinations that occur on or after November 1, 2010.

**(d) Fair value as deemed cost**

The Company may elect among two options when measuring the value of its assets under IFRS. It may elect, on an asset by asset basis, to use either historical cost as measured under retrospective application of IFRS or fair value of an asset at the opening balance sheet date. The Company has elected to use historical cost for its assets.

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**13. TRANSITIONAL TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

**First time adoption of IFRS (Continued)**

**(e) Income taxes**

Under IFRS there is an initial recognition exemption for temporary differences arising from assets or liabilities subject to a transaction that is not a business combination and, at the time of the transaction, do not affect profit and loss for accounting or tax purposes. No such exemption is available under Canadian GAAP. During the year ended October 31, 2011, a tax liability associated with an asset acquisition that did not constitute a business combination (see note 3) was reversed with an associated reduction of exploration and evaluation assets.

Impact on consolidated financial statements:

	<b>October 31, 2011</b>	<b>January 31, 2011</b>	<b>November 1, 2010</b>
Reduction of exploration and evaluation assets	\$ (11,713,033)	\$ -	\$ -
Reduction of deferred income tax liability	\$ 11,713,033	\$ -	\$ -

**(f) Investments in associates**

As at November 1, 2010, the Company held approximately 31.36% of the outstanding common shares of Abzu. On December 21, 2010, Totem Minerals Inc. acquired Abzu and changed its name to “Abzu Gold Inc.” Following the above acquisition, the Company held 16.32% of Abzu Gold and changed this investment classification to “available-for-sale” from the equity method.

Under Canadian GAAP, the reclassification from equity investments to resource related investments was recorded at the carrying value of the equity investment at December 21, 2010. Under IFRS, the retained investment was measured at the fair value on the date of reclassification, with the difference between fair value and carrying value recorded in profit or loss. This change in accounting policy resulted in a \$3,019,523 increase in gain on reclassification and a corresponding reduction in other comprehensive income for the three months ended January 31, 2011.

**Reconciliation to previously reported financial statements**

A reconciliation of the above noted changes is included in these following Consolidated Statements of Financial Position and Statements of Comprehensive Income (Loss) for the dates and periods noted below. The effects of transition from Canadian GAAP to IFRS on the cash flow are not material; therefore a reconciliation of the Consolidated Statements of Cash Flows has not been presented.

- Transitional Consolidated Statement of Financial Position Reconciliation – November 1, 2010
- Interim Consolidated Statement of Financial Position Reconciliation – January 31, 2011.
- Interim Consolidated Statement of Comprehensive Income Reconciliation – January 31, 2011.
- Consolidated Statement of Financial Position Reconciliation – October 31, 2011
- Consolidated Statement of Comprehensive Loss Reconciliation – October 31, 2011.

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**13. TRANSITIONAL TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

**Transitional of Consolidated Statement of Financial Position Reconciliation – November 1, 2010**

	<b>Canadian GAAP</b>	<b>Effect of Transition to IFRS</b>	<b>Ref</b>	<b>IFRS</b>
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	\$ 52,264,003	\$ -		\$ 52,264,003
Accounts receivable	267,431	-		267,431
Due from related parties	1,361,550	-		1,361,550
Prepaid expenses	335,493	-		335,493
<b>Total Current Assets</b>	<b>54,228,477</b>	<b>-</b>		<b>54,228,477</b>
<b>Property, Plant and Equipment</b>	<b>197,737</b>	<b>-</b>		<b>197,737</b>
<b>Resource Related Investments</b>	<b>60,685,650</b>	<b>-</b>		<b>60,685,650</b>
<b>Equity Investments</b>	<b>5,236,540</b>	<b>-</b>		<b>5,236,540</b>
<b>Exploration and Evaluation Assets</b>	<b>15,856,750</b>	<b>-</b>		<b>15,856,750</b>
<b>Total Assets</b>	<b>\$ 136,205,154</b>	<b>\$ -</b>		<b>\$ 136,205,154</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	\$ 832,087	\$ -		\$ 832,087
Income taxes payable	26,847,314	-		26,847,314
<b>Total Liabilities</b>	<b>27,679,401</b>	<b>-</b>		<b>27,679,401</b>
<b>SHAREHOLDERS' EQUITY</b>				
<b>Share capital</b>	<b>69,890,947</b>	<b>-</b>		<b>69,890,947</b>
<b>Contributed surplus</b>	<b>14,726,585</b>	<b>-</b>		<b>14,726,585</b>
<b>Accumulated other comprehensive income</b>	<b>30,227,593</b>	<b>-</b>		<b>30,227,593</b>
<b>Deficit</b>	<b>(6,319,372)</b>	<b>-</b>		<b>(6,319,372)</b>
<b>Total Shareholders' Equity</b>	<b>108,525,753</b>	<b>-</b>		<b>108,525,753</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 136,205,154</b>	<b>\$ -</b>		<b>\$ 136,205,154</b>

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**13. TRANSITIONAL TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

**Interim Consolidated Statement of Financial Position Reconciliation – January 31, 2011**

	<b>Canadian GAAP</b>	<b>Effect of Transition to IFRS</b>	<b>Ref</b>	<b>IFRS</b>
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	\$ 34,079,389	\$ -		\$ 34,079,389
Accounts receivable	478,081	-		478,081
Due from related parties	921,284	-		921,284
Loan receivable	8,105,977	-		8,105,977
Prepaid expenses	330,005	-		330,005
<b>Total Current Assets</b>	<b>43,914,736</b>	<b>-</b>		<b>43,914,736</b>
<b>Property, Plant and Equipment</b>	<b>283,595</b>	<b>-</b>		<b>283,595</b>
<b>Resource Related Investments</b>	<b>87,760,358</b>	<b>-</b>		<b>87,760,358</b>
<b>Equity Investments</b>	<b>7,815,583</b>	<b>-</b>		<b>7,815,583</b>
<b>Exploration and Evaluation Assets</b>	<b>18,457,328</b>	<b>-</b>		<b>18,457,328</b>
	<b>\$ 158,231,600</b>	<b>\$ -</b>		<b>\$ 158,231,600</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	\$ 637,853	\$ -		\$ 637,853
Income taxes payable	26,350,700	-		26,350,700
<b>Total Liabilities</b>	<b>26,988,553</b>	<b>-</b>		<b>26,988,553</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	70,949,741	-		70,949,741
Contributed surplus	14,940,174	-		14,940,174
Accumulated other comprehensive income	47,323,011	(3,019,523)	(f)	44,303,488
Deficit	(1,969,879)	3,019,523	(f)	1,049,644
<b>Total Shareholders' Equity</b>	<b>131,243,047</b>	<b>-</b>		<b>131,243,047</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 158,231,600</b>	<b>\$ -</b>		<b>\$ 158,231,600</b>

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**13. TRANSITIONAL TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

**Interim Consolidated Statement of Comprehensive Income Reconciliation – January 31, 2011**

	Canadian GAAP	Effect of Transition to IFRS	Ref	IFRS
<b>Administrative Expenses</b>				
Consulting fees	\$ 252,489	\$ -		\$ 252,489
Corporate development	181,620	-		181,620
Depreciation	18,119	-		18,119
Insurance	28,133	-		28,133
Investor relations	317,247	-		317,247
Office costs	241,100	-		241,100
Professional fees	110,281	-		110,281
Property evaluations	280,557	-		280,557
Regulatory and transfer agent fees	17,975	-		17,975
Salaries and benefits	801,293	-		801,293
Travel	55,894	-		55,894
<b>Loss Before Other Items and Income Taxes</b>	<b>(2,304,708)</b>	<b>-</b>		<b>(2,304,708)</b>
<b>Other Items</b>				
Foreign exchange loss	(17,534)	-		(17,534)
Interest income, net of bank charges	42,158	-		42,158
Realized gain on sale of available-for-sale investments	2,196,898	-		2,196,898
Unrealized gain on derivative investments	3,702,823	-		3,702,823
Unrealized gain on fair value through profit or loss investment	23,000	-		23,000
Gain on the reclassification of investments from equity investments to resource related investments	-	3,019,523	(f)	3,019,523
Loss on equity investments	(182,922)	-		(182,922)
	5,764,423	3,019,523		8,783,946
<b>Income Before Income Taxes</b>	<b>3,459,715</b>	<b>3,019,523</b>		<b>6,479,238</b>
<b>Income Taxes</b>				
Current expense	(2,127,060)	-		(2,127,060)
Deferred recovery	3,016,838	-		3,016,838
	889,778	-		889,778
<b>Net Income for the Period</b>	<b>4,349,493</b>	<b>3,019,523</b>		<b>7,369,016</b>
<b>Other Comprehensive Income for the Period</b>	<b>17,095,418</b>	<b>(3,019,523)</b>		<b>14,075,895</b>
<b>Comprehensive Income for the Period</b>	<b>\$ 21,444,911</b>	<b>-</b>		<b>\$ 21,444,911</b>
<b>Basic and Diluted Income Per Common Share</b>				
	\$ 0.07	\$ -		\$ 0.13
<b>Weighted Average Number of Common Shares outstanding</b>				
	58,547,215	-		58,547,215

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**13. TRANSITIONAL TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

**Consolidated Statement of Financial Position Reconciliation – October 31, 2011**

	<b>Canadian GAAP</b>	<b>Effect of Transition to IFRS</b>	<b>Ref</b>	<b>IFRS</b>
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	\$ 5,985,634	\$ -		\$ 5,985,634
Accounts receivable	1,434,077	-		1,434,077
Due from related parties	1,239,043	-		1,239,043
Loan receivable	8,580,096	-		8,580,096
Prepaid expenses	356,191	-		356,191
<b>Total Current Assets</b>	<b>17,595,041</b>	<b>-</b>		<b>17,595,041</b>
<b>Property, Plant and Equipment</b>	<b>910,996</b>	<b>-</b>		<b>910,996</b>
<b>Resource Related Investments</b>	<b>32,551,104</b>	<b>-</b>		<b>32,551,104</b>
<b>Exploration and Evaluation Advances</b>	<b>810,100</b>	<b>-</b>		<b>810,100</b>
<b>Exploration and Evaluation Assets</b>	<b>69,347,042</b>	<b>(12,701,380)</b>	<b>(a, e)</b>	<b>56,645,662</b>
<b>Reclamation Deposit</b>	<b>115,000</b>	<b>-</b>		<b>115,000</b>
<b>Total Assets</b>	<b>\$ 121,329,283</b>	<b>\$ (12,701,380)</b>		<b>\$ 108,627,903</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	\$ 4,038,261	\$ -		\$ 4,038,261
<b>Deferred income tax liability</b>	<b>11,713,033</b>	<b>(11,713,033)</b>	<b>(e)</b>	<b>-</b>
<b>Total liabilities</b>	<b>15,751,294</b>	<b>(11,713,033)</b>		<b>4,038,261</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	107,237,122	-		107,237,122
Contributed surplus	20,318,203	(542,218)	<b>(a)</b>	19,775,985
Accumulated other comprehensive income	9,075,564	(3,019,523)	<b>(f)</b>	6,056,041
<b>Deficit</b>	<b>(31,052,900)</b>	<b>2,573,394</b>	<b>(a, f)</b>	<b>(28,479,506)</b>
<b>Total Shareholders' Equity</b>	<b>105,577,989</b>	<b>(988,347)</b>		<b>104,589,642</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 121,329,283</b>	<b>\$ (12,701,380)</b>		<b>\$ 108,627,903</b>

**CARDERO RESOURCE CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
(Unaudited – Prepared by Management)  
**Three Months ended January 31, 2012 and 2011**

**13. TRANSITIONAL TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

**Consolidated Statement of Comprehensive Loss Reconciliation – October 31, 2011**

	Canadian GAAP	Effect of Transition to IFRS	Ref	IFRS
<b>Administrative Expenses</b>				
Consulting fees	\$ 1,324,798	\$ -		\$ 1,324,798
Corporate development	606,239	-		606,239
Depreciation	244,935	-		244,935
Insurance	108,928	-		108,928
Investor relations	650,779	-		650,779
Office costs	736,844	-		736,844
Professional fees	977,197	-		977,197
Property evaluations	3,610,508	-		3,610,508
Regulatory and transfer agent fees	221,064	-		221,064
Salaries and benefits	3,840,081	446,129	(a)	4,286,210
Travel	225,639	-		225,639
<b>Loss Before Other Items and Income Taxes</b>	<b>(12,547,012)</b>	<b>(446,129)</b>		<b>(12,993,141)</b>
<b>Other Items</b>				
Foreign exchange gain	984,660	-		984,660
Interest income, net of bank charges	1,420,650	-		1,420,650
Realized gain on sale of available-for-sale investments	8,833,404	-		8,833,404
Unrealized loss on derivative investments	(2,936,073)	-		(2,936,073)
Unrealized loss on fair value through profit or loss investment	(59,500)	-		(59,500)
Write-off of exploration and evaluation assets	(12,206,614)	-		(12,206,614)
Impairment losses on available-for-sale investments	(2,837,978)	-		(2,837,978)
Gain on the reclassification of investments from equity investments to resource related investments	-	3,019,523	(f)	3,019,523
Loss on equity investments	(793,194)	-		(793,194)
	<b>(7,594,645)</b>	<b>3,019,523</b>		<b>(4,575,122)</b>
<b>Loss Before Income Taxes</b>	<b>(20,141,657)</b>	<b>2,573,394</b>		<b>(17,568,263)</b>
<b>Income Taxes</b>				
Current expense	(859,159)	-		(859,159)
Deferred expense	(3,732,712)	-		(3,732,712)
	<b>(4,591,871)</b>			<b>(4,591,871)</b>
<b>Net Loss for the Year</b>	<b>\$ (24,733,528)</b>	<b>\$ 2,573,394</b>		<b>\$ (22,160,134)</b>
<b>Other Comprehensive Loss for the Year</b>	<b>(21,152,029)</b>	<b>(3,019,523)</b>	<b>(f)</b>	<b>(24,171,552)</b>
<b>Comprehensive Loss for the Year</b>	<b>\$ (45,885,557)</b>	<b>(446,129)</b>		<b>\$ (46,331,686)</b>
<b>Basic and Diluted Income Per Common Share</b>				
	\$ (0.36)	\$ -		\$ (0.32)
<b>Weighted Average Number of Common Shares outstanding</b>				
	68,988,456	-		68,988,456



**CARDERO RESOURCE CORP.**  
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**Notes to the Condensed Interim Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
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**Three Months ended January 31, 2012 and 2011**

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

<b>For the Three Months ended January 31</b>	<b>2012</b>	<b>2011</b>
<b>Supplemental Cash Flow Information</b>		
Accounts payable related to property expenditure	\$ 1,851,999	\$ 142,815
Accounts receivable related to property expenditure	\$ -	\$ -
Shares issued for property option payments	\$ -	\$ 147,000
Income taxes paid	\$ -	\$ 2,127,060

**15. SUBSEQUENT EVENTS**

Subsequent to January 31, 2012:

- (a) The Company issued 240,000 common shares on exercise of 240,000 warrants for gross proceeds of \$15,000.
- (b) The Company issued 19,600 common shares on exercise of 19,600 agent's warrants for gross proceeds of \$4,759.
- (c) The Company withdrew from the non-binding letter of intent ("LOI") with Anglo Pacific Group PLC ("Anglo Pacific") to acquire the Trefi Coal Property and will pay a break fee of \$75,000 plus certain ancillary expenses incurred by Anglo Pacific in connection with the LOI (estimated at a maximum of \$125,000).
- (d) 500,000 options exercisable at a price of \$1.41 per share expired, unexercised, on February 2, 2012.
- (e) The Company sold 270,000 Corvus shares (note 5) for net proceeds of \$209,656 and resulting in a loss on sale of \$11,744.
- (f) The Company granted 537,000 stock options at a price of \$1.16 for a period of two years ending March 23, 2014.



**CARDERO RESOURCE CORP.**

**Form 51-102F1**

**Management's Discussion and Analysis  
For the three months ended January 31, 2012**

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## **INTRODUCTION**

This Management Discussion and Analysis (“MD&A”) for Cardero Resource Corp. (“Cardero” or the “Company”) for the three months ended January 31, 2012 has been prepared by management, in accordance with the requirements of National Instrument 51-102, as of April 11, 2012, and compares its financial results for the three months ended January 31, 2012 to the three months ended January 31, 2011. This MD&A provides a detailed analysis of the business of Cardero and should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements and the accompanying notes for the periods ended January 31, 2012 and 2011 and audited consolidated financial statements for the years ended October 31, 2011 and 2010. The Company’s reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The Company reports its financial position, results of operations and cash-flows in accordance with International Financial Reporting Standards.

### **Forward-Looking Statements**

This MD&A contains forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning of applicable Canadian and US securities legislation. These statements relate to future events or the future activities or performance of the Company. All statements, other than statements of historical fact, are forward-looking statements. Information concerning mineral resource estimates also may be deemed to be forward-looking statements in that it reflects a prediction of the mineralization that would be encountered if a mineral deposit were developed and mined. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate, plans and similar expressions, or which by their nature refer to future events. These forward looking statements include, but are not limited to, statements concerning:

- the Company’s strategies and objectives, both generally and specifically in respect of Carbon Creek Metallurgical Coal property (“Carbon Creek”), Sheini Hills iron ore properties, and the Minnesota Iron/Titanium properties ;
- the ability of the Company to convert portions of the existing resource at Carbon Creek into the Measured & Indicated categories;
- the ability of the Company to increase the global resource at Carbon Creek by including additional coal seams in the resource estimation;
- the timing of decisions regarding the timing and costs of exploration programs with respect to, and the issuance of the necessary permits and authorizations required for, the Company’s ongoing exploration programs on its properties;
- the Company’s estimates of the quality and quantity of the resources at its mineral properties;
- the timing and cost of the planned future exploration programs at the Sheini Hills Iron Ore and Carbon Creek Coal properties, and the timing of the receipt of results therefrom;

- the Company's future cash requirements;
- general business and economic conditions;
- the Company's ability to meet its financial obligations as they come due, and to be able to raise the necessary funds to continue operations;
- the anticipated timing of the completion of the prefeasibility study and feasibility study for the Carbon Creek project; and
- the Company's ability to negotiate acceptable option/joint venture agreements for some or all of its "non-core" properties.

Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Inherent in forward looking statements are risks and uncertainties beyond the Company's ability to predict or control, including, but not limited to, risks related to the Company's inability to identify one or more economic deposits on its properties, variations in the nature, quality and quantity of any mineral deposits that may be located, variations in the market price of any mineral products the Company may produce or plan to produce, the Company's inability to obtain any necessary permits, consents or authorizations required for its activities, to produce minerals from its properties successfully or profitably, to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies, and other risks identified herein under "Risk Factors". The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results are likely to differ, and may differ materially, from those expressed or implied by forward looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove incorrect, including, but not limited to, assumptions about:

- the level and volatility of the price of commodities, and iron ore, coal, vanadium and titanium in particular;
- general business and economic conditions;
- the timing of the receipt of regulatory and governmental approvals, permits and authorizations necessary to implement and carry on the Company's planned exploration programs, particularly at the Sheini Hills Iron Ore and Carbon Creek Coal properties;
- conditions in the financial markets generally;
- the Company's ability to secure the necessary consulting, drilling and related services and supplies on favourable terms in connection with its ongoing and planned exploration programs;
- the Company's ability to attract and retain key staff;
- the accuracy of the Company's resource estimates (including with respect to size and grade) and the geological, operational and price assumptions on which these are based;
- the timing of the ability to commence and complete the planned work at the Sheini Hills Iron Ore and Carbon Creek Coal properties;

- the anticipated terms of the consents, permits and authorizations necessary to carry out the planned exploration programs at the Company's properties and the Company's ability to comply with such terms on a safe and cost-effective basis;
- the ongoing relations of the Company with its underlying optionors/lessors, its joint venture partners and the applicable regulatory agencies;
- that the metallurgy and recovery characteristics of samples from certain of the Company's mineral properties are reflective of the deposit as a whole;
- the Company's ability to negotiate and enter into appropriate off-take agreements for the potential products from Carbon Creek; and
- the Company's ability to overcome any potential difficulties in adapting pilot scale operations and testing to commercial scale operations.

These forward looking statements are made as of the date hereof and the Company does not intend and does not assume any obligation, to update these forward looking statements, except as required by applicable law. For the reasons set forth above, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

#### **Caution Regarding Adjacent or Similar Mineral Properties**

This MD&A contains information with respect to adjacent or similar mineral properties in respect of which the Company has no interest or rights to explore or mine. The Company advises US investors that the mining guidelines of the US Securities and Exchange Commission (the "SEC") set forth in the SEC's Industry Guide 7 ("SEC Industry Guide 7") strictly prohibit information of this type in documents filed with the SEC. Because the Company meets the definition of a "foreign private issuer" under applicable SEC rules and is preparing this MD&A pursuant to Canadian disclosure requirements under the Canada-U.S. Multi-Jurisdictional Disclosure System, this MD&A is not subject to the requirements of SEC Industry Guide 7. Readers are cautioned that the Company has no interest in or right to acquire any interest in any such properties, and that mineral deposits on adjacent or similar properties are not indicative of mineral deposits on the Company's properties.

#### **Caution Regarding Reference to Resources and Reserves**

National Instrument 43-101 Standards of Disclosure of Mineral Projects ("NI 43-101") is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all reserve and resource estimates contained in or incorporated by reference in this MD&A have been prepared in accordance with NI 43-101 and the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resource and Mineral Reserves, adopted by the CIM Council on November 14, 2004 (the "CIM Standards") as they may be amended from time to time by the CIM and, with respect to coal, in the Geological Survey of Canada Paper 88-21 entitled "A Standardized Coal Resource/Reserve Reporting System for Canada" originally published in 1988.

The terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" are Canadian mining terms as defined in accordance with NI 43-101 and the CIM Standards. These definitions differ from the definitions in SEC Industry Guide 7. The SEC has taken the position that mineral reserves for a

mineral property may not be designated unless: (i) competent professional engineers conduct a detailed engineering and economic study, and the “bankable” or “final” feasibility study demonstrates that a mineral deposit can be mined profitably at a commercial rate; (ii) a historic three-year average commodity price is used in any reserve or cash flow analysis used to designate reserves; and (iii) the company has demonstrated that the mineral property will receive its governmental permits, and the primary environmental document has been filed with the appropriate governmental authorities.

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

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

### **Caution Regarding Historical Results**

Historical results of operations and trends that may be inferred from the discussion and analysis in this MD&A may not necessarily indicate future results from operations. In particular, the current state of the global securities markets may cause significant reductions in the price of the Company’s securities and render it difficult or impossible for the Company to raise the funds necessary to continue operations. See “Risk Factors - Share Price Volatility”.

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

### **DATE**

This MD&A reflects information available as at April 11, 2012.

## RESULTS OF OPERATIONS

### Background

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

### Exploration Activities

#### General

Cardero is focussed on the migration from high-risk, early-stage grassroots exploration projects to more advanced stage projects, and on bulk commodities such as metallurgical coal and iron, where it can add value through identification and acquisition of advanced projects.

In recent years, Cardero's focus has increasingly been on iron ore and iron-making technologies. The sale of Cardero's wholly-owned Pampa de Pongo iron deposit in late 2009 for US\$100 million cash represented an early success in the iron market. Cardero continues to hold significant iron-titanium ore resources in Minnesota, USA as well as a large iron exploration project in Ghana.

In keeping with bulk-commodity focus, on June 1, 2011, Cardero completed the acquisition of all of the issued securities of Coalhunter Mining Corporation, which subsequently changed its name to Cardero Coal Ltd. ("Cardero Coal"). Cardero Coal is a private British Columbia company which controls the Carbon Creek Metallurgical Coal deposit in north-eastern British Columbia, Canada, and is proceeding with an aggressive work program as outlined below.

Cardero's current strategy is to seek to option-out or joint venture all of its "non-core" assets, allowing the Company to focus on its coal and iron ore projects. Cardero is also actively assessing and seeking to acquire interests in a number of mineral exploration properties which are prospective for iron ore and coal. At the present time, it is focusing its activities on its core projects in British Columbia (Canada), and Ghana (Africa) where it has established subsidiaries and the infrastructure to enable it to actively work in such countries. The Company, through its subsidiaries, holds, or has or is negotiating the right to acquire interests in, mineral properties in these countries. However, at the present time it does not consider all of these to be material as, in many cases, the properties are in the early stages of evaluation, or have not had sufficient work done on them by the Company to determine if they are material.

Property	Total Costs to October 31, 2011	Total Costs to January 31, 2012	Estimated Fiscal 2012 Expenditures <sup>(1)</sup>
Minnesota Iron-Titanium Projects, USA	\$3,688,741	\$3,781,243	\$Nil
Carbon Creek Metallurgical Coal Project, BC, Canada	\$50,252,000	\$60,379,791	\$10,000,000
Sheini Hills Iron Project	\$3,041,310	\$7,666,904	\$6,000,000

**Note:** 1. This amount represents the estimated exploration expenditures for fiscal year ending October 31, 2012 and does not include property acquisition costs. Estimated expenditures are contingent upon ongoing successful results justifying further expenditures.

During the year ended January 31, 2012 and to April 11, 2012, the Company was primarily focussed on the Carbon Creek Metallurgical Coal deposit (including preparations for the 2012 drill program), and initiating exploration at the Sheini Iron Project in Ghana, as well as its ongoing efforts to investigate and evaluate additional potential acquisitions.

### **Material Mineral Properties**

#### **Carbon Creek Metallurgical Coal Deposit, British Columbia, Canada**

The interest of the Company in the Carbon Creek property, which lies approximately 60km northwest of the town of Chetwynd, BC and 40km west of the town of Hudson's Hope, is held through Cardero Coal Ltd. ("Cardero Coal"). Improved forest service roads connect the property with BC Highway 29 between the towns of Chetwynd and Hudson Hope. The CN Rail line connecting Fort St John and Tumbler Ridge areas with Prince George passes 40km south of the property. The CN Rail line provides direct access to the ports of Vancouver and Ridley Terminals in Prince Rupert, BC.

The Carbon Creek property is in the Peace River Coalfield and consists of twelve coal license applications (and any coal licenses issued pursuant to such applications) ("Coal License Applications") and ten Crown Granted District Lots ("CGDL"), comprising a contiguous tenure parcel of 17,200ha. Ten of the Coal License Applications have been submitted by P. Burns Resources Ltd. ("Burns") of Calgary, Alberta and, upon the issuance of any coal licenses thereunder, such licenses are to be transferred to the Carbon Creek Partnership ("CCP"), an Alberta partnership. One Coal License Application has been submitted by Alan A. Johnson ("Johnson"), and one has been submitted by Cardero Coal. The CGDL's, totalling approximately 2,600ha, are controlled by Peace River Partnership ("PRP"), an Alberta partnership. Cardero Coal has entered into an option to acquire a coal lease over the CGDL from PRP.

Cardero Coal has entered into an agreement with Johnson to purchase the one coal license to be issued pursuant to the Coal License Application submitted by Johnson (subject to the issuance of the applicable coal license).

Cardero Coal has entered into a joint venture agreement with CCP ("JV Agreement"), in which Cardero Coal will have a 75% interest and CCP will have a 25% interest. Pursuant to the joint venture agreement, each joint venture partner is contributing its interest in the Carbon Creek property, being the coal lease over the CGDL (when acquired by Cardero Coal), and all coal licenses (if and when issued to Burns and transferred to CCP and if as and when issued to Cardero Coal pursuant to the applicable Coal License Applications and, in the case of the coal license which may be issued to Johnson pursuant to his Coal License Application, upon its acquisition from him by Cardero Coal). The joint venture, known as the Carbon Creek Joint Venture, will control and operate the Carbon Creek property described above. The joint venture agreement provides that the CCP interest is a carried net profits interest which requires Cardero Coal to fund the exploration, development, construction and operation of the mine and that the CCP receives no profits until Cardero Coal has recovered its investment. At that point, the CCP is entitled to 25% of the net profits of the Carbon Creek Joint Venture. Cardero Coal is the manager of the Carbon Creek Joint Venture.

Cardero completed the acquisition of the balance of the outstanding shares of Cardero Coal through a Plan of Arrangement that was completed on June 1, 2011. On December 26, 2011, Cardero Coal exercised the option to acquire a coal lease of the CGDC, and made the final payment necessary to enter into the Carbon Creek Joint Venture pursuant to the JV Agreement.

The coal seams encountered on the property are predominantly medium volatile bituminous coal seams, with minor increase or decrease in rank depending on structural or stratigraphic variations and depth of burial. Historic coal quality reports indicate that the coals will, with beneficiation (washing) to remove impurities, produce a product with coking properties suitable for metallurgic applications.

Norwest Corporation (“Norwest”) completed a preliminary economic assessment (“PEA”) of the project in late 2011. A resource estimation of the Carbon Creek property was completed in accordance with the procedures and criteria of Geological Survey of Canada (GSC) Paper 88-21 as required by NI 43-101. The mineral resource estimates for surface and underground moderate geology-type coal reported from the current Carbon Creek geologic model are outlined in Table 1.1. The resource statement is current as of October 1, 2011. Surface mineable resources are based on mining to a maximum strip ratio (waste volume to tonne of in-place coal) of 20 to 1. Carbon Creek has an estimated 166.7Mt of in-place coal resources in the measured and indicated categories.

**Table 1.1 Classification of Resource – Carbon Creek Property – October 1, 2011**

Deposit Type	ASTM Coal Rank	Measured (Mt)	Indicated (Mt)	Inferred (Mt)
Surface	mvB	33.1	20.1	19.6
Underground	mvB	42.4	71.1	147.5
<b>Total</b>	<b>mvB</b>	<b>166.7</b>		<b>167.1</b>

The accuracy of resource estimates is, in part, a function of the quality and quantity of available data and of engineering and geological interpretation and judgment. Given the data available at the time the PEA was prepared, the estimates presented herein are considered reasonable. However, they should be accepted with the understanding that additional data and analysis available subsequent to the date of the estimates may necessitate revision. These revisions may be material. **There is no guarantee that all or any part of the estimated resources will be recoverable. Mineral resources are not mineral reserves and there is no assurance that any mineral resources will ultimately be reclassified as proven or probable reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability.**

Based on the geological model developed in the PEA a general mining layout was prepared for both surface and underground mining areas. Applying mining parameters, a potentially mineable tonnage estimate was developed for each mining method as shown in Table 1.2.

**Table 1.2 Potentially Mineable Coal Tonnes Through Year 30**

Mining Method	Potentially Mineable Tonnes (millions)	Resource Tonnes (Measured & Indicated)
Surface	21.8	53.2
Underground	115.2	113.5
Combined Total	137.0	166.7

The Run of Mine (“ROM”) surface potentially mineable tonnes are significantly lower than the surface resource identified above. This difference is explained by the fact that much of this resource is higher



strip ratio and higher cost relative to underground mining methods. The ROM underground tonnes exceed the geological resource estimate because the mining layout includes a small amount (1.7Mt) of Inferred tonnes.

ROM coal will be crushed and sent to a coal washery where ash will be removed through heavy media separation of the coarse fractions and floatation for the fines fractions. Wash plant yields have been estimated on average at 68% for surface mined coal and 62% for underground mined coal. Individual yield and indicative clean coal specifications are presented in more detail in Section 13 of the PEA. The clean coal will be dried in a fluidized bed dryer to approximately 6% moisture and stored in covered storage to keep it dry until shipment.

Clean coal will be loaded into highway type coal haulers operated by a trucking contractor and hauled approximately 69km to a rail loadout on the CN railway. The coal will be offloaded into a bottom-dump hopper and conveyed to a twin dome covered storage structure. Clean coal will be drawn from beneath the storage piles onto a reclaim conveyor and loaded through a batch weighing system into unit trains. The coal will be transported to the ports of Vancouver and/or Prince Rupert for loading onto ships for transport to the Pacific Rim markets. The clean coal will be exposed to the elements during train transport and while stockpiled temporarily at the port and is expected to increase in moisture content to about 8%<sub>m</sub>, which is the preferred maximum for ocean shipping.

Assumptions regarding capital expenditures are detailed in the PEA. All dollar values throughout the PEA are in US\$. Pre-production capital requirements total \$301M and include coal handling, coal preparation, train loadout facilities, surface facilities, site access and power, and mine development and contingency. All major surface and underground mining equipment is assumed to be leased with a seven year lease term at 4.5% and a 20% residual. The total value of the mining equipment being leased is \$151M. Annual lease payments at full production for surface mining total \$12.3M and \$9.6M for underground. Total capital excluding leased equipment is \$504M over the LOM. Lease payments for mining equipment total \$321M over the LOM.

Operating costs have been estimated for the surface and underground mines based on required equipment hours, labour hours and materials and supplies. These costs are shown in Table 1.3 on a unit basis for each mine and the coal handling and preparation plant (“CHPP”).

**Table 1.3 Cash Operating Costs**

<b>Cost Area</b>	<b>\$/ROM tonne</b>	<b>\$/Clean tonne</b>
Surface Mining	30.62	50.77
Underground Mining	31.86	57.68
Coal Handling & Prep	3.90	
Sub-Total ( Includes equipment lease payments)		60.76
Indirect Costs		10.51
<b>Total Cash Costs</b>		<b>71.27</b>

Norwest prepared an economic model in US\$ that captures direct costs, including labor, equipment, materials, production taxes and royalties. Indirect costs including corporate overhead, mineral tax and property tax were added to the model along with depreciation of purchased equipment and facilities. A cash flow calculation was prepared on an after tax basis using an average FOB price of \$185 per saleable

tonne and an average clean coal production of 2.9Mtpa. Clean coal production increases from 2.1Mtpa to 3.2Mtpa over the first seven years of production and then averages 2.9Mtpa for the remaining mine life of 23 years. The first seven years includes surface mine production and the ramp up of underground mining. After seven years, the property is mined by underground methods only.

Pre-production cash outflows total \$301M over the estimated three year development and construction period. Cash flow is positive once production begins and payback occurs by the end of the third year of production or six years after the initial cash outflow. After payback and providing for the net profits interest, cash flow averages \$115M per year for a total net cash flow of \$3.1B over the life of the mine for Cardero Coal's 75% interest.

The internal rate of return for Cardero Coal's 75% interest in the Carbon Creek Joint Venture is approximately 29%. Net present values at 8%, 10% and 12% are shown in the Table 1.4.

**Table 1.4 NPV Results Cardero's 75% Interest (\$millions)**

<b>Interest Rate</b>	<b>8%</b>	<b>10%</b>	<b>12%</b>
NPV	\$752	\$551	\$408

The internal rate of return for the entire property is approximately 35.1%. Net present values at 8%, 10% and 12% are shown in Table 1.5.

**Table 1.5 NPV Results 100% Interest (\$ Millions)**

<b>Interest Rate</b>	<b>8%</b>	<b>10%</b>	<b>12%</b>
NPV	\$1,070	\$800	\$605

**The PEA is preliminary in nature, and includes inferred mineral resources. Inferred mineral resources are considered too speculative geologically to have technical and economic considerations applied to them that would enable them to be categorized as mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Accordingly, there can be no certainty that the results estimated in the PEA will be realized.**

Table 1.6 summarizes the key results of the PEA.

**Table 1.6 Carbon Creek Project Summary**

Resource Measured & Indicated	Mt	166.7
Resource Inferred	Mt	167.1
Underground Potentially Mineable Tonnes	Mt	115.1
Mean Plant Recovery	%	62%
Underground Clean Coal Tonnes	Mt	71.4
Surface Potentially Mineable Tonnes	Mt	21.8
Mean Plant Recovery	%	68%
Surface Clean Coal Tonnes	Mt	14.8
Total Clean Coal Tonnes Produced	Mt	86.2

Surface Mining Minimum Seam Thickness	M	0.6
Surface Mining Maximum strip ratio	Ratio	12.5:1
Underground Mining Minimum Seam Thickness	M	1.2
Full Production Rate Clean Coal per Year	Mt/yr	2.9
Pre-production Capital Costs	M\$	301
Sustaining Capital LOM	M\$	203
Value of Leased Equipment LOM	M\$	151
Surface Mine OPEX ROM Basis	\$/t	30.62
Underground Mine OPEX ROM Basis	\$/t	31.86
Surface Mine OPEX Clean Coal Basis	\$/t	50.77
Underground Mine OPEX Clean Coal Basis	\$/t	57.68
Processing OPEX	\$/t	3.90
Average direct mine costs (incl. equipment lease) Clean Coal Basis	\$/t	60.76
Haul, Rail & Port Costs	\$/t	42.42
FOB Price Long-Term Base Case	\$/t	185
Gross Revenue LOM	M\$	15,952
Operating Costs LOM	M\$	6,145
Pre-Tax Operating Cash Flow LOM	M\$	6,149
Post-Tax NPV 8 (75% Basis)	M\$	752
Internal Rate of Return (75% Basis)	%	29.3
Post-Tax NPV 8 (100% Basis)	M\$	1,070
Internal Rate of Return (100% Basis)	%	35.1
Total Undiscounted Post-Tax Cash Flow (75% Basis)	M\$	3,113

**The Company cautions that the foregoing PEA is only preliminary in nature, and is based on technical and economic assumptions which will be evaluated in further studies. The PEA is based on the current (as at October 1, 2011) Carbon Creek estimated resource model, which consists of material in both the measured/indicated and inferred classifications. Inferred mineral resources are considered too speculative geologically to have technical and economic considerations applied to them. The current basis of project information is not sufficient to convert the mineral resources to mineral reserves, and mineral resources that are not mineral reserves do not have demonstrated economic viability. Accordingly, there can be no certainty that the results estimated in the PEA will be realized.**

To the date of this MD&A in 2012, Cardero Coal has completed large diameter drilling on 9 coal seams and 300kg samples from each seam have been despatched to various laboratories for a washability analysis. A Notice of Work (“NoW”) has been submitted to Government authorities outlining planned drilling activities during 2012. A total of 9,000 metres of drilling are planned for 2012 and the program is expected to commence in Q2 2012 (subject to receipt of the applicable permit(s)).

Norwest have been retained to complete a prefeasibility study (“PFS”) which is anticipated to be completed in early Q3 2012. The report will utilize data collected during Q3 and Q4 2011, including 15,500 metres of drilling, large diameter core washability testing results, surface and sub-surface geotechnical data and hydrogeological and hydrological data, as well as a new resource estimate, detailed mine scheduling and planning, and more detailed economic analysis of the Carbon Creek project.

**Sheini Hills Iron Project, Ghana**

The Project is located in the Zabzugu-Tatale District in the Northern Region of the Republic of Ghana. The Project area (“Project Area”) consists of three contiguous prospecting licences (“Prospecting Licences”) covering a cumulative licence area of 397.5 square kilometres. The Government of the Republic of Ghana, acting by the Ministry of Lands and Natural Resources, has issued a licence document dated December 8, 2011 for each of the three Prospecting Licences (Sheini North, Sheini Central and Sheini South).

The Prospecting Licences were issued to Emmaland Resources Limited (“Emmaland”), a local Ghanaian company. Cardero Ghana Ltd. (“Cardero Ghana”), an indirect wholly owned Ghanaian subsidiary of Cardero, has entered into three separate joint ventures (one for each Prospecting License) with Emmaland. The object of each joint venture is to explore and, if warranted, develop the lands subject to the relevant Prospecting Licence. The effective date for each of the joint venture agreements is December 12, 2011. The joint venture agreements are in the process of being registered with the Government of Ghana as required.

Under the three joint ventures, Cardero Ghana will have the right to earn a 100% working interest in each Prospecting Licence, subject to (a) a 10% NPI (net profit interest) in favour of Emmaland and (b) a 10% fully carried interest, in favour of the Government of Ghana, in the portions of the licence areas that become the subject of one or more mining licences subsequently issued to Emmaland. Cardero Ghana will have the right to purchase the 10% NPI held by Emmaland in a joint venture at any time for an amount representing the net present value thereof, as calculated by an independent engineering firm, or such other amount as is acceptable to Emmaland. There are no other royalties or back-in rights to which the Project is subject.

In order to earn its interest, Cardero Ghana is required to fund all expenditures under each of the particular joint ventures and make cash payments to Emmaland totalling USD 16,600,000. To the date of this MD&A, USD 6,450,000 has been paid in scheduled payments and advances thereon. Each Prospecting License outlines a required work program and an expenditure commitment based on this work program. The expenditure commitments relate to the initial two-year licence period, ending December 8, 2013, and total USD 9,180,966 for all three Prospecting Licenses.

The Iron Formation forms a folded sedimentary unit several hundred metres thick and outcropping along wide ridges (or sets of parallel ridges) running for more than 35 kilometres in a north–south direction. They are composed of a number of horizons varying in lithology, grain size, and mineral composition. The individual horizons of the Iron Formation have a thickness between 20 and more than 100 metres and are inter-bedded with sandstones, siltstones, and probably quartzites. The iron bearing horizons dip 10°–45°, mainly to the east-southeast (in the Sheini south and Kubalem area) and also to the west in the area west of Sheini Village.

Recent work includes cleaning and sampling of 29 trenches with an approximate length of 1,552 metres. One-meter-channel sampling was used to collect samples from the cleaned historical trenches. In total, 656 metres of channel sampling were carried out in 29 cleaned trenches. These 656 metres of channel sampling represent 659 channel samples. A total of 307 samples were prepared and assayed by ALS laboratory in Kumasi. The rest of the samples (449) are stored securely ready for transport in the future.

The results of the 269 trench samples (excluding blanks and duplicates) adequately confirm the findings presented by historical explorers. The results also confirm the field geological and mineralogical observations that BIF, due to its composition, grain size, and texture, is typically higher grade than

Fragmental Iron Formation (“Fragmental”) (BIF and Fragmental are collectively referred to as the “Iron Formations”).

**Table 1.7: IRON RESULTS FOR MAJOR IRON FORMATION LITHOLOGIES**

Lithology	Fe total. (%)			
	Min.	Max.	Median	Mean
<b>Banded Iron Formation (n=105)</b>	30.98	60.08	48.05	<b>47.50</b>
<b>Fragmental Iron Formation (n=155)</b>	29.03	55.04	38.33	<b>38.84</b>
Fragmental Iron Formation (weathered) (n=9)	16.51	25.46	20.07	20.55

The 2012 exploration program at Sheini has been initiated. Work completed to the date of this MD&A includes additional surface mapping along 35km strike length. A camp site has been cleared and a container-based camp purchased with expected delivery in late April 2012.

A project-wide airborne geophysical survey has been commissioned and is expected to begin in early April, 2012 following several permitting delays. The survey will comprise approximately 3,000 line km of magnetic, radiometric and electromagnetic (VTEM) data collection. QA/QC and interpretation will be undertaken by Cardero Ghana’s geophysical consultant.

An initial 10,000m drilling contract was signed with Geodrill Ghana Ltd in late 2011. Drilling commenced in late March 2012, with three drillholes completed to date (no results have yet been received). Initial plans are to test approximately 16km strike length on lines spaced 1.6km apart and with drillholes spaced 50-100m on each line. Infill lines will be completed as appropriate. As results from the geophysical survey become available, specific targets will be tested in addition to the grid-based delineation program.

Results from the program will be released as received and analyzed.

**Longnose Titanium Project, Minnesota, USA**

The lands making up the Longnose Titanium Project (“Longnose Project Area”) are located in northeastern Minnesota in St. Louis County, Township 59N, Range 13W, Section 30 and is centered at: (Coordinate system: Universal Trans Mercator, Zone 15 North, North American 1983 Datum) 572200 metres East, 5268300 metres North.

Cardero’s indirect wholly owned subsidiary, Cardero Iron Ore (USA) Inc. (“CIOUS”), holds an option to acquire up to an 85% interest in the Longnose project by incurring USD 1,850,000 in expenditures (to acquire 70%) and delivering a feasibility study (to acquire an additional 15%). Upon CIOUS earning its 70% or 85% interest, the optionor of the Longnose project has the option to maintain its 30% or 15% interest and enter into a joint venture with CIOUS, or to convert its working interest to either a 10% or 5% net profits interest. Advance royalties and production royalties are payable to the underlying property lessors.

The Longnose Project Area was the subject of historical exploration processes between 1950 and 2008. The deposit was initially discovered by Bear Creek Mining, while exploring for copper-nickel (“Cu-Ni”) deposits. Twelve (12) drill holes were completed by American Shield Corp., Bear Creek Mining, and Nicor during the 1980s and 1990s.

The Longnose Project Area was held by a series of mining companies including American Shield and BHP Minerals International Inc. (“BHP”). BHP held the Longnose Project Area for some time in the 1990s. Most of the work completed by BHP centered on metallurgy, and TiO<sub>2</sub> recovery. Initial metallurgical testing focussed on the production of an ilmenite concentrate. Further upgrading analysis was completed as well, the first of which involved a smelting and sulfation-leaching process developed by the US Bureau of Mines. Their second investigation involved an oxidation-reduction roast followed by chemical leaching, using a process called the “Murso” process. Several large (1.5 tonne to 60 tonne) bulk samples were utilized to complete the metallurgical testwork. The larger samples were collected from outcrop of the Longnose deposit, while smaller test samples were taken from core. The University of Minnesota, Natural Resources Research Institute, Coleraine Minerals Research Laboratory houses what remains of both bulk samples.

Mineralization at the Longnose project is hosted by Oxide-bearing Ultramafic Intrusions (“OUI” or “OUIs”) that intruded into layered series intrusions of the Duluth Complex. OUIs are dominantly composed of coarse-grained to pegmatitic pyroxenite, peridotite, and dunite that contain approximately 10-40% titanium-iron oxide mineralization, dominantly as ilmenite with lesser titaniferous magnetite. Typically, zones of massive and semi-massive oxide are also present throughout the stratigraphy. The Longnose OUI contains disseminated, semi-massive, and massive ilmenite and titaniferous-magnetite mineralization. The Longnose Project Area hosts a single intrusion which is at least 150 m thick, dipping shallowly to the southeast. Mineralization at the Longnose Project Area dominantly consists of disseminated to net-textured, medium to coarse-grained, ilmenite, titaniferous magnetite and magnetite. Olivine-rich ultramafic rocks (peridotite, feldspathic peridotite & dunite) host the majority of the titanium-iron oxide mineralization found in the Longnose OUI, and will often be net-textured with oxide minerals interstitial to silicates. It is clear that the main mineralized intrusion at the Longnose project is a thick, laterally and vertically continuous intrusion dominantly composed of a mixture of oxide-bearing peridotite, oxide-bearing dunite, massive oxide, and semi-massive oxide with between 15% and 100% titanium-iron oxide mineralization.

Twenty-seven diamond drill core holes have been drilled on the Longnose Project Area, including six holes drilled by CIOUS in 2010, and nine holes drilled by CIOUS in 2011. Historic drilling includes 12 drill holes completed by a variety of operators in the 1980s and 1990s. The historic drill core has been re-sampled by CIOUS during 2009 and 2010, where such material was available. In total, the twenty-seven holes totalled 5,217 m, with 1,979 m from historic holes and 3,238 m from CIOUS drill holes.

In 2011, SRK was retained by Cardero to complete a Mineral Resource for the Longnose project, as well as to update the technical report for the Longnose project. The Mineral Resource Statement for the Longnose project is presented in Table 1.8 below.

**Table 1.8: Mineral Resource Statement\*, Longnose Project, Minnesota, USA,  
 SRK Consulting (Canada) Inc, effective date, January 19, 2012.**

Category (Open Pit**)	Estimated Quantity	Estimated Grade	
		TiO <sub>2</sub>	Adjusted Fe <sub>2</sub> O <sub>3</sub> ***
	Mt	%	%
Indicated	58.1	16.6	18.8
Inferred	65.3	16.4	19.4

**Mineral resources are reported in relation to a conceptual pit shell. Mineral resources are not mineral reserves and do not have demonstrated economic viability.** All figures are rounded to reflect the relative accuracy of the estimate. All composites have been capped where appropriate.  
 Open pit (near surface) Mineral Resources are reported at a cut-off grade of 8% TiO<sub>2</sub>. Cut-off grades are based on a price of US\$170 per tonne of ilmenite back calculated to TiO<sub>2</sub> and recoveries of 70 percent, without considering revenues from other metals.  
 \*Reported Fe<sub>2</sub>O<sub>3</sub> has been lowered to reflect the amount of Fe estimated contained within ilmenite and silicates, based upon Davis Tube testing. At this time, accurately quantifying the amount of magnetite contained within this estimate is not possible.

The Mineral Resource Statement for Longnose has been quantified in terms of TiO<sub>2</sub> and Fe<sub>2</sub>O<sub>3</sub>, the analytical components captured for assays of titanium and iron. The Fe<sub>2</sub>O<sub>3</sub> values have been reduced to reflect Fe found within silicates and within the ilmenite associated with the TiO<sub>2</sub>, however accurately quantifying magnetite is not possible at this time as further mineralogical work will be needed. In any potential mining scenario, the Longnose project would produce ilmenite (FeTiO<sub>3</sub>) and may produce titaniferous magnetite (TiFe<sub>2</sub>O<sub>4</sub>) and magnetite (Fe<sub>3</sub>O<sub>4</sub>) as a by-product. Using CIOUS's Davis Tube test results, historic mineralogy and metallurgy reports, reasonable assumptions regarding mineralogy of the deposit, estimates of the quantity of ilmenite was made.

No exploration has been carried out during the current quarter, and no further work is planned at this time. The Company intends to seek a partner to advance the Longnose project.

**Titac Titanium Project, Minnesota, USA**

The land making up the Titac Titanium Project ("Titac Project Area") is located in northeastern Minnesota in St. Louis County, Township 55N, Range 14W, Section 34, and Township 54N, Range 14W, Section 3. The Titac project is approximately centered at: (Coordinate system: Universal Trans Mercator, Zone 15 North, North American 1983 Datum) 568000 m East, 5228000 m North.

The Titac Project Area interests are held by CIOUS. CIOUS holds a 100% leasehold interest in the Titac Project Area under a mining lease dated July 1, 2009. The lease is for an initial term of 20 years, subject to extension for up to 20 additional years, and requires annual rental payments until commercial production and thereafter production royalty payments (minimum \$200,000/year).

Exploration of the Titac Project Area, historically known as Section 34, has been limited, though several exploratory bore holes and geophysical surveys have been completed. Six holes were drilled historically (by United States Steel Corp. ("USSC")), and CIOUS completed 30 holes in 2010 and 2 holes in 2011. A ground magnetic survey was conducted in the mid-1960s by United States Steel Corp. A small amount of metallurgical testwork was completed by USSC in 1971.

Mineralization is hosted by OUIs that intruded into layered series intrusions of the Duluth Complex. OUIs are dominantly composed of coarse-grained to pegmatitic pyroxenite, peridotite, and dunite that

contain approximately 15-40% titanium-iron oxide mineralization. Typically, zones of massive and semi-massive oxide are also present throughout the stratigraphy. Locally, some OUIs also contain abundant copper-nickel sulfide mineralization. Most OUIs occur along the western margin of the southern portion of the Duluth Complex, and display numerous shapes (sheet-, funnel-, dike- and pipe-like geometries), and inclinations (flat-lying, moderately-dipping, and sub-vertical).

The Titac OUIs contain disseminated, semi-massive, and massive titanium-iron oxide mineralization, dominantly ilmenite ( $\text{TiFeO}_3$ ) and magnetite and titaniferous magnetite ( $\text{Fe}_3\text{O}_4$ ,  $\text{Fe}_2\text{TiO}_4$ ). The Titac Project Area contains at least two mineralized OUIs (Titac North and Titac South). During 2010 and 2011, a total of 11,034.4 m of drilling was completed for 32 drill-holes, 8 (2685.3 m) of which were drilled at Titac North and 24 (8349.1 m) at Titac South. The drilling confirmed titanium-iron-oxide mineralization at the Titac Project Area, and that both Titac North and Titac South had large zones of titanium-iron-oxide mineralization. Titac North is at least 450 m thick (open at depth) and has a vertical pipe-like geometry. Titac South is at least 490 m thick, and also has a pipe-like geometry.

In July 2011, SRK was retained by Cardero to complete a Mineral Resource for the Titac project deposits, as well as to update the technical report for the Titac project. The Mineral Resource Statement for the Titac Project is presented in Table 1.9 below.

**Table 1.9: Mineral Resource Statement\*, Titac Project, Minnesota, USA, SRK Consulting (Canada) Inc, effective date, January 19, 2012**

Category	Estimated Quantity	Estimated Grade	
		TiO <sub>2</sub>	Adjusted Fe <sub>2</sub> O <sub>3</sub> ***
	Mt	%	%
<b>Open Pit**</b>			
Inferred	45.1	15.0	14.74

**Mineral resources are reported in relation to a conceptual pit shell. Mineral resources are not mineral reserves and do not have demonstrated economic viability.** All figures are rounded to reflect the relative accuracy of the estimate. All composites have been capped where appropriate.

\*Open pit mineral resources are reported at a cut-off grade of 8% TiO<sub>2</sub>. Cut-off grades are based on a price of US\$170 per tonne of ilmenite back calculated to TiO<sub>2</sub> and recoveries of 70 percent, without considering revenues from other metals.

\*\*Reported Fe<sub>2</sub>O<sub>3</sub> has been lowered to reflect the amount of Fe estimated to be contained in ilmenite based on the assumption that all Ti has been assigned to ilmenite. At this time, accurately quantifying the amount of magnetite contained within this estimate is not possible.

The Mineral Resource Statement for Titac has been quantified in terms of TiO<sub>2</sub> and Fe<sub>2</sub>O<sub>3</sub>, the analytical components captured for assays of titanium and iron. In any potential mining scenario, the Titac project would produce ilmenite ( $\text{FeTiO}_3$ ) and potentially titaniferous magnetite ( $\text{TiFe}_2\text{O}_4$ ) and magnetite ( $\text{Fe}_3\text{O}_4$ ) as a by-product. The Fe<sub>2</sub>O<sub>3</sub> values have been reduced to reflect Fe found within the ilmenite associated with the TiO<sub>2</sub>, however accurately quantifying magnetite is not possible at this time as further mineralogical work will be needed.

No exploration has been carried out during the current quarter, and no further work is planned at this time. The Company intends to seek a partner to advance the Longnose project.



## **Other Mineral Properties**

### **Pampa El Toro Iron Sands Project, Peru**

After spending a significant period of time and considerable effort in trying to secure a joint venture partner for the Pampa el Toro Iron Sand project in Peru without success, the Company has determined to focus its full attention on the Carbon Creek Metallurgical Coal Project in British Columbia and the Sheini Hills Iron Ore Project in Ghana and has therefore terminated its option to acquire the subject iron sand concessions from Minera Ataspascas SA and relinquished the remaining 100% owned concessions to the Peruvian government.

### **Baja IOCG, Mexico**

The Company has entered into a letter of intent dated January 24, 2012 with Riverside Resources Inc. ("Riverside"), whereby, subject to the completion of satisfactory due diligence by Riverside, the completion of formal documentation and receipt of any necessary regulatory acceptances/approvals, Riverside may earn a 75% interest in the Company's Baja IOCG concessions in Mexico (other than Santa Ursula) by spending USD 3 million over 5 years. Upon Riverside earning its interest, the parties will form a joint venture. The parties are currently working on the formal documentation.

### **Corrales and Santa Teresa Projects, Mexico**

On February 24, 2012, Ethos Capital Corp. surrendered its option to earn an interest in the Corrales concession (owned 100% by Minerales Y Metales California, S.A. de C.V., the Company's wholly owned Mexican subsidiary). As this was the last property still subject to the June 12, 2008 option agreement (as amended), this option agreement has been terminated. The Company plans to review the available data on the Corrales property and make a determination as to whether or not to carry out any additional work on the property.

### **Organullo Project, Argentina**

On September 9, 2011, the Company entered into an option/joint venture agreement with Artha Resources Corporation ("Artha"), whereby an Argentinean subsidiary of Artha can earn a 55% working interest in the Organullo property, and thereafter form a joint venture with Cardero Argentina S.A., a wholly owned subsidiary of the Company.

The option agreement provides that Artha has the option to earn a 55% working interest in the Organullo property by incurring an aggregate of USD 1,500,000 in exploration expenditures over three years (USD 250,000 by September 9, 2012) and by issuing an aggregate of 350,000 common shares in the capital of Artha, also over three years (50,000 shares within 15 days of TSXV acceptance - issued). Upon Artha having earned its initial 55% interest, the Company has the right to maintain its 45% interest through pro rata funding of exploration expenditures going forward. Alternatively, the Company may choose to be diluted down to a minimum interest of 10%, at which point its interest will be converted to a 2% NSR royalty.

The Company understands that Artha currently proposes to carry out drill program at the Organullo property in 2012 but has received no update on the progress of any work on the property up to the date of this MD&A.

**Los Manantiales (Mina Angela) Project, Argentina**

The Company has not carried out any work on this property during the current quarter or to the date of this MD&A and is currently seeking a joint venture partner to continue work on this property.

**Minas Pirquitas Project, Argentina**

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

Artha has advised that it is currently in the process of finalizing community access agreements so that an initial 2,500m drilling program can be initiated on the Noeilla Breccia and Pirquitas NW prospects, where surface work and IP geophysics have defined 2 targets ready for drilling. Further information will be released as received from Artha.

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

EurGeol Keith Henderson PGeo, Cardero’s Vice President-Exploration and a qualified person as defined by National Instrument 43-101, has supervised the preparation of the scientific and technical information that forms the basis for the mineral property disclosure in this MD&A. Mr. Henderson is not independent of the Company, as he is an employee and holds incentive stock options.

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

**Risk Factors**

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties, primarily in Canada, Mexico, Argentina, Peru, the United States, and Ghana. Due to the nature of the Company’s proposed business and the present stage of exploration of its mineral properties (which are primarily early to advanced stage exploration properties and, with the exception of the Carbon Creek Metallurgical Coal property in British Columbia and the Longnose and Titac Titanium projects in Minnesota which have estimated mineral resources, with no known resources and or known reserves), the following risk factors, among others, will apply:

*Resource Exploration and Development is Generally a Speculative Business:* Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things,

unprofitable efforts resulting both from the failure to discover mineral deposits and from finding mineral deposits which, though present, are insufficient in size and grade at the then prevailing market conditions to return a profit from production. The marketability of natural resources which may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

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

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

*Recent market events and conditions:* From 2007 and into 2011, the U.S. credit markets have experienced serious disruption due to a deterioration in residential property values, defaults and delinquencies in the residential mortgage market (particularly, sub-prime and non-prime mortgages) and a decline in the credit quality of mortgage backed securities. These problems have led to a slow-down in residential housing market transactions, declining housing prices, delinquencies in non-mortgage consumer credit and a general decline in consumer confidence. These conditions caused a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining

consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings.

While these conditions appear to have improved slightly in 2011 and into early 2012, unprecedented disruptions in the credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its operations. The Company's access to additional capital may not be available on terms acceptable to it or at all.

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

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

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

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

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

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

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

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

*No Assurance of Profitability:* The Company has no history of production or earnings and due to the nature of its business there can be no assurance that the Company will be profitable. The Company has

not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. All of the Company's properties are in the exploration stage and the Company has not defined or delineated any proven or probable reserves on any of its properties. None of the Company's properties are currently under development. Continued exploration of its existing properties and the future development of any properties found to be economically feasible, will require significant funds. The only present source of funds available to the Company is through the sale of its equity securities or the sale or optioning of a portion of its interest in its mineral properties. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through further equity offerings or through the sale or possible syndication of its properties, there is no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

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

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

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

*Dependence Upon Others and Key Personnel:* The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability of the Company to enter into strategic alliances through a combination of one or more joint ventures, mergers or acquisition transactions; and (ii) the ability to attract and retain additional key personnel in exploration, mine development, sales, marketing, technical support and finance. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Company. There can be no assurance

of success with any or all of these factors on which the Company's operations will depend. The Company has relied and may continue to rely, upon consultants and others for operating expertise.

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

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

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

*Regulatory Requirements:* The activities of the Company are subject to extensive regulations governing various matters, including environmental protection, management and use of toxic substances and explosives, management of natural resources, exploration, development of mines, production and post-closure reclamation, exports, price controls, taxation, regulations concerning business dealings with indigenous peoples, labour standards on occupational health and safety, including mine safety, and

historic and cultural preservation. Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties, enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions, any of which could result in the Company incurring significant expenditures. The Company may also be required to compensate those suffering loss or damage by reason of a breach of such laws, regulations or permitting requirements. It is also possible that future laws and regulations, or more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspension of the Company's operations and delays in the exploration and development of the Company's properties.

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

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

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

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



of future operations. Estimated mineral resources and mineral reserves may have to be re-estimated based on changes in applicable commodity prices, further exploration or development activity or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence mineral resource or mineral reserve estimates. Market price fluctuations for gold, silver or base metals, increased production costs or reduced recovery rates or other factors may render any particular reserves uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated reserves could require material write downs in investment in the affected mining property and increased amortization, reclamation and closure charges.

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

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

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

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

Alternatively, a U.S. taxpayer that makes a “qualified electing fund” (a “QEF”) election with respect to Cardero generally will be subject to U.S. federal income tax on such U.S. taxpayer’s pro rata share of Cardero’s “net capital gain” and “ordinary earnings” (as specifically defined and calculated under U.S. federal income tax rules), regardless of whether such amounts are actually distributed by Cardero. U.S. taxpayers should be aware, however, that there can be no assurance that Cardero will satisfy record keeping requirements under the QEF rules or that Cardero will supply U.S. taxpayers with required information under the QEF rules, if Cardero is a PFIC and a U.S. taxpayer wishes to make a QEF election. As a second alternative, a U.S. taxpayer may make a “mark-to-market election” if Cardero is a PFIC and the Common Shares are “marketable stock” (as specifically defined). A U.S. taxpayer that makes a mark-to-market election generally will include in gross income, for each taxable year in which Cardero is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the Common Shares as of the close of such taxable year over (b) such U.S. taxpayer’s adjusted tax basis in the Common Shares.

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

### **Financial Results of Operations**

During the three month period ended January 31, 2012, the Company had a net income of \$7,331,849 or \$0.08 per share as compared to \$7,369,016 or \$0.13 per share for 2011.

The following discussion explains the variations in 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. Quarterly results can vary significantly depending on whether the Company has abandoned any properties or granted any stock options.

#### ***Three months ended January 31, 2012 compared to three months ended January 31, 2011***

The Company’s general and administrative costs were \$3,915,634, compared to \$2,304,708 in 2011. The 70% increase is due to changes in the following expense categories:

- Salaries and benefits of \$2,013,961 (2011 - \$801,293), increased due to the share-based payments of \$1,280,389 (2011 - \$348,095), \$93,000 bonuses paid during the current period versus \$Nil in the prior period, and an increase in personnel due to acquisition of Cardero Coal;
- Regulatory and transfer agent fees increased to \$53,223 (2011 - \$17,975), primarily as a result of increased filing requirements due to the private placement completed on November 29, 2011;
- Consulting fees of \$421,230 (2011 - \$252,489) includes \$43,431 (2011 - \$15,135) of share-based payments. It increased as a result of the fees paid to consultants retained to provide corporate advisory services;
- Corporate development expenses of \$76,492 (2011 - \$181,620) decreased, mainly due to recoveries of \$51,100 (2011 - \$15,406) from related companies;

- Professional fees of \$429,005 (2011 - \$110,281), increased due to share-based payments of \$140,047 (2011 - \$Nil) and legal fees paid for corporate structuring advice in the current period;
- Investor relations of \$282,570 (2011 - \$317,247), decreased due to the decreased share-based payments of \$160,956 (2011 - \$242,153);
- Office costs of \$307,050 (2011 - \$241,100), increased primarily due to the acquisition of Cardero Coal;
- Property evaluations of \$17,340 (2011 - \$280,557) decreased, primarily due to the lower maintenance costs on the Company's Baja IOCG project. The Baja IOCG project had previously been written down while the Company continues to seek joint venture partners; and
- Depreciation increased to \$82,723 (2011 - \$18,119), primarily due to the increased depreciation of the metallurgy lab, the acquisition of Cardero Coal, and the relocation of the Vancouver office in April 2011.

Other items showed an income of \$12,454,911 in the current quarter versus an income of \$8,783,946 in the comparable quarter of 2011. Due to their nature, these transactions relate to events that do not necessarily generate comparable effects on the Company's operating results. Significant areas of change include:

- Interest income of \$124,197, of which \$123,367, principally from the repayment of the Trevali Mining Corporation ("Trevali") loan versus an interest income of \$42,158 in the comparative quarter;
- Realized gain of \$10,388,310 from the sale of International Tower Hill Mines Ltd. ("ITH") (3,053,933 shares), Trevali (4,175,000 shares), and Corvus Gold Inc. ("Corvus") (755,000 shares) common shares, compared to a realized gain of \$2,196,898 from the sale of ITH (125,500 shares) and Trevali (790,000 shares) common shares in the comparative period;
- The unrealized gain on warrants of Trevali and Abzu Gold Ltd. ("Abzu") in the current period was \$384,342 versus unrealized gains on warrants of Trevali, Abzu and Kria Resources Ltd. ("Kria") of \$3,702,823 in the comparative quarter;
- Gain on the loan settlement with Trevali amounting to \$1,368,953 (2011 - \$Nil);
- \$57,500 of unrealized gain on fair value through profit or loss investment in Ethos Capital Corp. compared to \$23,000 unrealized gain in the prior period;
- Gain on the reclassification of investments in Abzu from equity investments to resource related investments of \$nil (2011 - \$3,019,523);
- Due to substantial decline in the fair value of available-for-sale investments in Wealth and Dorato Resources Inc. ("Dorato") common shares, the Company recorded impairment losses of \$26,344 (2011 - \$Nil). These changes are due to market fluctuations which are entirely outside of the Company's control; and

- \$Nil in the loss on equity investments (2011 - \$182,922) since Cardero Coal is now wholly-owned by the Company (2011 – 45.5% ownership interest) and the Company owns only 15.10% of Abzu’s issued and outstanding common shares (2010 – 31.36%).

**SELECTED ANNUAL INFORMATION**

The Company’s condensed interim consolidated financial statements for the first quarter ended January 31, 2012 (the “Interim Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 “*Interim Financial Reporting*” and IFRS 1 “*First-time Adoption of International Financial Reporting Standards*”. The following selected financial information for the years ended October 31, 2011 is taken from the Company’s unaudited condensed interim consolidated financial statements for the period ended January 31, 2012. The information for the years ended October 31, 2010 and 2009 are taken from the audited consolidated financial statements for the years ended October 31, 2010 and 2009. This information should be read in conjunction with those statements. Readers of the MD&A should refer to “Change in Accounting Policies including Initial Adoption” and “International Financial Reporting Standards” included in this MD&A for a discussion of IFRS and its effect on the Company’s financial presentation. Selected annual financial information appears below.

	<b>October 31, 2011</b>	<b>October 31, 2010</b>	<b>October 31, 2009</b>
	(IFRS)	(Canadian GAAP)	(Canadian GAAP)
Income (Loss) for the year	\$ (22,160,134)	\$ 44,950,970	\$ (254,628)
Net income (loss) per share	\$ (0.32)	\$ 0.77	\$ (0.01)
Total assets	\$ 108,627,903	\$ 136,205,154	\$ 48,071,671

**SUMMARY OF QUARTERLY RESULTS**

The table below sets out the quarterly results, expressed in Canadian dollars, for the current fiscal year ending October 31, 2012 and the past two fiscal years ended October 31, 2011 and 2010:

**Fiscal 2012**

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	(IFRS)			
Total revenue	\$ 124,197	\$ -	\$ -	\$ -
Gain on sale of investments	10,388,310	-	-	-
Impairment loss	(26,344)	-	-	-
Gain on loan settlement	1,368,953	-	-	-
Write-off of exploration and evaluation assets	-	-	-	-
Net income (loss)	7,331,849	-	-	-
Net income (loss) per share	0.08	-	-	-
Comprehensive income (loss)	\$ 489,751	\$ -	\$ -	\$ -

**Fiscal 2011**

	<b>First Quarter</b> (IFRS)	<b>Second Quarter</b> (Canadian GAAP)	<b>Third Quarter</b> (Canadian GAAP)	<b>Fourth Quarter</b> (Canadian GAAP)
Total revenue	\$ 42,158	\$ 149,111	\$ 165,254	\$ 1,064,127
Gain on sale of investments	2,196,898	312,096	2,474,833	3,849,577
Impairment loss	-	-	-	2,837,978
Write-off of exploration and evaluation assets	-	-	-	12,206,614
Gain on the reclassification of investments from equity investment to resource related investments	3,019,523	-	-	-
Net income (loss)	7,369,016	(2,859,179)	(3,824,274)	(22,399,568)
Net income (loss) per share	0.13	(0.05)	(0.05)	(0.36)
Comprehensive income (loss)	\$ 21,444,911	\$ (10,318,134)	\$ (17,846,724)	\$ (39,165,610)

**Fiscal 2010**

	<b>First Quarter</b> (Canadian GAAP)	<b>Second Quarter</b> (Canadian GAAP)	<b>Third Quarter</b> (Canadian GAAP)	<b>Fourth Quarter</b> (Canadian GAAP)
Total revenue	\$ 411	\$ (993)	\$ 426	\$ 192
Gain (loss) on resource property	89,406,016	(780,415)	(891,388)	(7,056)
Gain on sale of investments	136,092	162,517	-	641,042
Write-off of resource properties	-	8,180,742	299,546	17,795
Net income (loss)	62,261,575	(14,053,095)	(4,092,028)	834,518
Net income (loss) per share	1.06	(0.24)	(0.07)	0.02
Comprehensive income (loss)	\$ 69,081,221	\$ (11,456,150)	\$ (6,854,748)	\$ 11,404,744

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

The variation seen over such quarters is primarily dependent upon the success of the Company's ongoing property evaluation program and the timing and results of the Company's exploration activities on its then current properties, none of which are possible to predict with any accuracy. There are no general trends regarding the Company's quarterly results, and the Company's business of mineral exploration is not seasonal. Quarterly results can vary significantly depending on whether the Company has abandoned any properties or granted any stock options or paid any employee bonuses and these are the factors that account for material variations in the Company's quarterly net losses, none of which are predictable. In addition, results in fiscal 2010 were significantly influenced by the one-time sale of the Pampa de Pongo property. While the Company may seek, in the future, to sell some or all of the interests in other of its mineral properties, the timing and potential effect of any such sale is impossible to predict. The write-off of mineral properties can have a material effect on quarterly results as and when they occur. Another factor which can cause a material variation in net loss on a quarterly basis is the grant of stock options due to the resulting share-based payment charges which can be significant when they arise. The payment of employee bonuses, being once-yearly charges, can also materially affect operating losses for the quarters in which they occur. General operating costs other than the specific items noted above tend to be quite

similar from period to period. With the exception of the interest generated from the loan to Trevali (an one-off event), the variation in income is related solely to the interest earned on funds held by the Company, which is dependent upon the success of the Company in raising the required financing for its activities which will vary with overall market conditions, and is therefore difficult to predict.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company has no revenue generating operations from which it can internally generate funds. To date, the Company's ongoing operations have been predominantly financed by the sale of its equity securities by way of private placements and the subsequent exercise of share purchase warrants and broker options issued in connection with such private placements. However, the exercise of warrants/options is dependent primarily on the market price and overall market liquidity of the Company's securities at or near the expiry date of such warrants/options (over which the Company has no control) and therefore there can be no guarantee that any existing warrants/options will be exercised. Over the past fiscal year, the Company has also successfully generated operating funds through the sale of certain of its investments, which have significantly increased in value since their acquisition. However, such returns are subject to fluctuations in the market for the shares of the companies in which the Company has invested, and therefore there can be no assurance that the Company will continue to be able to generate significant additional funds through the liquidation of its investments. In addition, the Company can raise funds through the sale of interests in its mineral properties (as, for example, with the sale of the Pampa de Pongo project, which raised \$88,372,433 net of costs in the 2010 fiscal year).

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

As January 31, 2012, the Company reported cash and cash equivalents of \$20,910,488 compared to \$5,985,634 at October 31, 2011 and \$52,264,003 as at November 1, 2010. The change in cash and cash equivalents over the period is comprised of funds provided by investing activities of \$5,431,421, \$1,596,545 from operations (mainly due to the \$4,886,633 loan repayment from Trevali), and \$7,896,888 provide by financing activities due to proceeds from shares issued. As at January 31, 2012, the Company had working capital of \$21,839,486 compared to working capital of \$13,556,780 at October 31, 2011 and \$26,549,076 at November 1, 2010.

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

There have not been any material changes in the Company's contractual obligations for mineral property lease and option payments and committed operating lease obligations as disclosed in its MD&A for the period ended October 31, 2011.

**OFF BALANCE-SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

**RELATED PARTY TRANSACTIONS**

During the three months period ended January 31, 2012, the Company entered into the following transactions with related parties and paid or accrued the following amounts, excluding share-based payment charges in connection therewith:

<b>Name</b>	<b>Relationship</b>	<b>Purpose of transaction</b>	<b>Amount</b>
Michael Hunter	CEO of the Company	Wages and Salaries	\$ 90,000
Hendrik Van Alphen	Director of the Company	Wages and Salaries	\$ 70,000
Lawrence W Talbot	Director of the Company	Wages and Salaries	\$ 40,000
Blaine Bailey	CFO of the Company	Wages and Salaries	\$ 43,333
Marla Ritchie	Corporate secretary of the Company	Wages and Salaries	\$ 37,500
Stephan Fitch	Director of the Company	Director's fees	\$ 12,000
Leonard Harris	Director of the Company	Director's fees	\$ 12,000
Murray Hitzman	Director of the Company	Director's fees	\$ 12,000
Lawrence W. Talbot Law Corporation	Company controlled by a Director of the Company	Professional fees	\$ 25,625
Minera Koripampa del Peru S.A.	Company controlled by the Manager, South America of the Company	Consulting fees	\$ 23,016
Acuitas Consulting Ltd.	Company controlled by Executive Vice President of the Company	Consulting fees	\$ 75,000

**PROPOSED TRANSACTIONS**

Although the Company is currently investigating/negotiating a number of additional property acquisitions, and is entertaining proposals for the sale or option/joint venture of one or more of its properties, as at the date of this MD&A there are no proposed transactions where the Board of Directors,

or senior management who believe that confirmation of the decision by the Board is probable, have decided to proceed with and which are not disclosed herein.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with IFRS 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the carrying value and the recoverability of the exploration and evaluation assets, the recognition of deferred income tax assets and the impairment of long term assets included in the Condensed Consolidated Interim Statements of Financial Position, the assumptions used to determine the fair value of share-based payments in the Condensed Consolidated Interim Statements of Comprehensive Loss, and the estimated amounts of reclamation and environmental obligations.

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

Please refer to note 13 of the January 31, 2012 unaudited condensed interim consolidated financial statements for a comprehensive review of the accounting policies adopted upon transition to IFRS.

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

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

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

The Company's cash and cash equivalents at January 31, 2012 was \$20,910,488 of which \$5,111,890 was held in US, Mexican, Argentinean, Ghanaian and Peruvian currencies.

The Company's receivables and payables at January 31, 2012 were normal course business items that are settled on a regular basis. The Company's investments in ITH, Corvus, Trevali, Abzu, Wealth, Indico Resources Ltd. and Dorato are carried at quoted market value or an estimate thereof, and are classified as "available-for-sale" for accounting purposes. The Company's investment in Ethos Capital Corp. is classified as "fair value through profit or loss" for accounting purposes. All resource related investments in warrants are classified as fair value through profit or loss and are considered derivative financial instruments where changes to the fair value are included in net income. The Company intends to dispose of its resource-related investments as necessary to fund ongoing operations.

### **MATERIAL PROCEEDINGS**

The Company is not a party to any material proceedings.



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

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

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at January 31, 2012 as required by Canadian and US securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of January 31, 2012, the disclosure controls and procedures were effective.

## **EVALUATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

For an evaluation of the Company's internal control over financial reporting, please refer to "Management's Report on Internal Control over Financial Reporting" as well as "Report of Independent Registered Public Accounting Firm to the Shareholders of Cardero Resource Corp. (an Exploration Stage Company)" in the Company's audited consolidated financial statements.

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

The Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in the Company's internal control over financial reporting during the period beginning on November 1, 2011 and ended on January 31, 2012, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

The Interim Financial Statements are the Company's first condensed interim consolidated financial statements prepared in accordance with IFRS. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and comprehensive income is set out below.

The accounting policies set out in note 2 to the Interim Financial Statements have been applied in preparing the Interim Financial Statements, the comparative information presented in the Interim Financial Statements and as at and for the year ended October 31, 2011, and in the preparation of an opening IFRS Consolidated Statement of Financial Position at November 1, 2010 (the Company's date of transition).

### **First time adoption of IFRS**

The Company's consolidated financial statements for the year ending October 31, 2012 are the first annual financial statements that will be prepared in accordance with IFRS. The Company has adopted IFRS on November 1, 2011 with a transition date of November 1, 2010. Under IFRS 1 First time adoption of International Financial Reporting Standards ("IFRS 1"), the IFRS standards are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to deficit, with IFRS 1 providing for certain optional and mandatory exemptions to this principle.

Below are the adjustments necessary for the IFRS transition, including exemptions taken at the transition date:

#### **(a) Share-based payment transactions**

IFRS 1 allows that full retrospective application may be avoided for certain share-based instruments depending on the grant date, vesting terms and settlement of any real liabilities. A first-time adopter can elect to not apply IFRS 2 to share-based payments granted after November 7, 2002 that vested before the later of (i) the date of transition to IFRS and (ii) January 1, 2005. The Company has elected this exemption and will apply IFRS 2 to only unvested stock options as at the transition date of November 1, 2010.

Under Canadian GAAP, the fair value of options granted as replacement options to the shareholders of Cardero Coal formed part of the purchase consideration. In accordance with IFRS, none of the options granted to Cardero Coal shareholders were determined to be replacement awards attributable to pre-acquisition service. As such, the fair value of the options granted to Cardero Coal shareholders is treated as post-combination share-based payment expense. As at and for the year ended October 31, 2011, this IFRS transition change in accounting policy results in a \$988,347 reduction in the carrying value of exploration and evaluation assets, a \$542,218 reduction in contributed surplus, and a \$446,129 increase in share-based payments expense and deficit.

#### **(b) Estimates**

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

## Business combination

IFRS 1 allows that a first-time adopter may elect not to apply IFRS 3 Business Combinations (IFRS 3) retrospectively to business combinations prior to the date of transition, avoiding the requirement to restate prior business combinations. The Company has elected to only apply IFRS 3 to business combinations that occur on or after November 1, 2010.

### (c) Fair value as deemed cost

The Company may elect among two options when measuring the value of its assets under IFRS. It may elect, on an asset by asset basis, to use either historical cost as measured under retrospective application of IFRS or fair value of an asset at the opening balance sheet date. The Company has elected to use historical cost for its assets.

### (d) Income taxes

Under IFRS there is an initial recognition exemption for temporary differences arising from assets or liabilities subject to a transaction that is not a business combination and, at the time of the transaction, do not affect profit and loss for accounting or tax purposes. No such exemption is available under Canadian GAAP. During the year ended October 31, 2011, a tax liability associated with an asset acquisition that did not constitute a business combination was reversed with an associated reduction of exploration and evaluation assets

Impact on consolidated financial statements:

	October 31, 2011	January 31, 2011	November 1, 2010
Reduction of exploration and evaluation assets	\$ (11,713,033)	\$ -	\$ -
Reduction of deferred income tax liability	\$ 11,713,033	\$ -	\$ -

### (e) Investments in associates

As at November 1, 2010, the Company held approximately 31.36% of the outstanding common shares of Abzu. On December 21, 2010, Totem Minerals Inc. acquired Abzu and changed its name to "Abzu Gold Inc." Following the above acquisition, the Company held 16.32% of Abzu Gold and changed this investment classification to "available-for-sale" from the equity method.

Under Canadian GAAP, the reclassification from equity investments to resource related investments was recorded at the carrying value of the equity investment at December 21, 2010. Under IFRS, the retained investment was measured at the fair value on the date of reclassification, with the difference between fair value and carrying value recorded in profit or loss. This change in accounting policy resulted in a \$3,019,523 increase in gain on reclassification and a corresponding reduction in other comprehensive income for the three months ended January 31, 2011.

**Reconciliation to previously reported financial statements**

A reconciliation of the above noted changes is included in these following Consolidated Statements of Financial Position and Statements of Comprehensive Income (Loss) for the dates and periods noted below. The effects of transition from Canadian GAAP to IFRS on the cash flow are not material; therefore a reconciliation of the Consolidated Statements of Cash Flows has not been presented.

- Transitional Consolidated Statement of Financial Position Reconciliation – November 1, 2010
- Interim Consolidated Statement of Financial Position Reconciliation – January 31, 2011.
- Interim Consolidated Statement of Comprehensive Income Reconciliation – January 31, 2011.
- Consolidated Statement of Financial Position Reconciliation – October 31, 2011
- Consolidated Statement of Comprehensive Loss Reconciliation – October 31, 2011.

**Transitional of Consolidated Statement of Financial Position Reconciliation – November 1, 2010**

	Canadian GAAP	Effect of Transition to IFRS	Ref	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	\$ 52,264,003	\$ -		\$ 52,264,003
Accounts receivable	267,431	-		267,431
Due from related parties	1,361,550	-		1,361,550
Prepaid expenses	335,493	-		335,493
Total Current Assets	54,228,477	-		54,228,477
<b>Property, Plant and Equipment</b>	197,737	-		197,737
<b>Resource Related Investments</b>	60,685,650	-		60,685,650
<b>Equity Investments</b>	5,236,540	-		5,236,540
<b>Exploration and Evaluation Assets</b>	15,856,750	-		15,856,750
Total Assets	\$ 136,205,154	\$ -		\$ 136,205,154
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	\$ 832,087	\$ -		\$ 832,087
Income taxes payable	26,847,314	-		26,847,314
Total Liabilities	27,679,401	-		27,679,401
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	69,890,947	-		69,890,947
Contributed surplus	14,726,585	-		14,726,585
Accumulated other comprehensive income	30,227,593	-		30,227,593
Deficit	(6,319,372)	-		(6,319,372)
Total Shareholders' Equity	108,525,753	-		108,525,753
Total Liabilities and Shareholders' Equity	\$ 136,205,154	\$ -		\$ 136,205,154

Interim Consolidated Statement of Financial Position Reconciliation – January 31, 2011

	Canadian GAAP	Effect of Transition to IFRS	Ref	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	\$ 34,079,389	\$ -		\$ 34,079,389
Accounts receivable	478,081	-		478,081
Due from related parties	921,284	-		921,284
Loan receivable	8,105,977	-		8,105,977
Prepaid expenses	330,005	-		330,005
Total Current Assets	43,914,736	-		43,914,736
Property, Plant and Equipment	283,595	-		283,595
Resource Related Investments	87,760,358	-		87,760,358
Equity Investments	7,815,583	-		7,815,583
Exploration and Evaluation Assets	18,457,328	-		18,457,328
	\$ 158,231,600	\$ -		\$ 158,231,600
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	\$ 637,853	\$ -		\$ 637,853
Income taxes payable	26,350,700	-		26,350,700
Total Liabilities	26,988,553	-		26,988,553
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	70,949,741	-		70,949,741
Contributed surplus	14,940,174	-		14,940,174
Accumulated other comprehensive income	47,323,011	(3,019,523)	(f)	44,303,488
Deficit	(1,969,879)	3,019,523	(f)	1,049,644
Total Shareholders' Equity	131,243,047	-		131,243,047
Total Liabilities and Shareholders' Equity	\$ 158,231,600	\$ -		\$ 158,231,600

Interim Consolidated Statement of Comprehensive Income Reconciliation – January 31, 2011

	Canadian GAAP	Effect of Transition to IFRS	Ref	IFRS
<b>Administrative Expenses</b>				
Consulting fees	\$ 252,489	\$ -		\$ 252,489
Corporate development	181,620	-		181,620
Depreciation	18,119	-		18,119
Insurance	28,133	-		28,133
Investor relations	317,247	-		317,247
Office costs	241,100	-		241,100
Professional fees	110,281	-		110,281
Property evaluations	280,557	-		280,557
Regulatory and transfer agent fees	17,975	-		17,975
Salaries and benefits	801,293	-		801,293
Travel	55,894	-		55,894
<b>Loss Before Other Items and Income Taxes</b>	<b>(2,304,708)</b>	<b>-</b>		<b>(2,304,708)</b>
<b>Other Items</b>				
Foreign exchange loss	(17,534)	-		(17,534)
Interest income, net of bank charges	42,158	-		42,158
Realized gain on sale of available-for-sale investments	2,196,898	-		2,196,898
Unrealized gain on derivative investments	3,702,823	-		3,702,823
Unrealized gain on fair value through profit or loss investment	23,000	-		23,000
Gain on the reclassification of investments from equity investments to resource related investments	-	3,019,523	(f)	3,019,523
Loss on equity investments	(182,922)	-		(182,922)
	5,764,423	3,019,523		8,783,946
<b>Income Before Income Taxes</b>	<b>3,459,715</b>	<b>3,019,523</b>		<b>6,479,238</b>
<b>Income Taxes</b>				
Current expense	(2,127,060)	-		(2,127,060)
Deferred recovery	3,016,838	-		3,016,838
	889,778	-		889,778
<b>Net Income for the Period</b>	<b>4,349,493</b>	<b>3,019,523</b>		<b>7,369,016</b>
<b>Other Comprehensive Income for the Period</b>	<b>17,095,418</b>	<b>(3,091,523)</b>		<b>14,075,895</b>
<b>Comprehensive Income for the Period</b>	<b>\$ 21,444,911</b>	<b>-</b>		<b>\$ 21,444,911</b>
<b>Basic and Diluted Income Per Common Share</b>	<b>\$ 0.07</b>	<b>\$ -</b>		<b>\$ 0.13</b>
<b>Weighted Average Number of Common Shares outstanding</b>	<b>58,547,215</b>	<b>-</b>		<b>58,547,215</b>

Consolidated Statement of Financial Position Reconciliation – October 31, 2011

	Canadian GAAP	Effect of Transition to IFRS	Ref	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	\$ 5,985,634	\$ -		\$ 5,985,634
Accounts receivable	1,434,077	-		1,434,077
Due from related parties	1,239,043	-		1,239,043
Loan receivable	8,580,096	-		8,580,096
Prepaid expenses	356,191	-		356,191
Total Current Assets	17,595,041	-		17,595,041
Property, Plant and Equipment	910,996	-		910,996
Resource Related Investments	32,551,104	-		32,551,104
Exploration and Evaluation Advances	810,100	-		810,100
Exploration and Evaluation Assets	69,347,042	(12,701,380)	(a, e)	56,645,662
Reclamation Deposit	115,000	-		115,000
Total Assets	\$ 121,329,283	\$ (12,701,380)		\$ 108,627,903
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	\$ 4,038,261	\$ -		\$ 4,038,261
Deferred income tax liability	11,713,033	(11,713,033)	(e)	-
Total liabilities	15,751,294	(11,713,033)		4,038,261
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	107,237,122	-		107,237,122
Contributed surplus	20,318,203	(542,218)	(a)	19,775,985
Accumulated other comprehensive income	9,075,564	(3,019,523)	(f)	6,056,041
Deficit	(31,052,900)	2,573,394	(a, f)	(28,479,506)
Total Shareholders' Equity	105,577,989	(988,347)		104,589,642
Total Liabilities and Shareholders' Equity	\$ 121,329,283	\$ (12,701,380)		\$ 108,627,903

Consolidated Statement of Comprehensive Loss Reconciliation – October 31, 2011

	Canadian GAAP	Effect of Transition to IFRS	Ref	IFRS
<b>Administrative Expenses</b>				
Consulting fees	\$ 1,324,798	\$ -		\$ 1,324,798
Corporate development	606,239	-		606,239
Depreciation	244,935	-		244,935
Insurance	108,928	-		108,928
Investor relations	650,779	-		650,779
Office costs	736,844	-		736,844
Professional fees	977,197	-		977,197
Property evaluations	3,610,508	-		3,610,508
Regulatory and transfer agent fees	221,064	-		221,064
Salaries and benefits	3,840,081	446,129	(a)	4,286,210
Travel	225,639	-		225,639
<b>Loss Before Other Items and Income Taxes</b>	<b>(12,547,012)</b>	<b>(446,129)</b>		<b>(12,993,141)</b>
<b>Other Items</b>				
Foreign exchange gain	984,660	-		984,660
Interest income, net of bank charges	1,420,650	-		1,420,650
Realized gain on sale of available-for-sale investments	8,833,404	-		8,833,404
Unrealized loss on derivative investments	(2,936,073)	-		(2,936,073)
Unrealized loss on fair value through profit or loss investment	(59,500)	-		(59,500)
Write-off of exploration and evaluation assets	(12,206,614)	-		(12,206,614)
Impairment losses on available-for-sale investments	(2,837,978)	-		(2,837,978)
Gain on the reclassification of investments from equity investments to resource related investments	-	3,019,523	(f)	3,019,523
Loss on equity investments	(793,194)	-		(793,194)
	(7,594,645)	3,019,523		(4,575,122)
<b>Loss Before Income Taxes</b>	<b>(20,141,657)</b>	<b>2,573,394</b>		<b>(17,568,263)</b>
<b>Income Taxes</b>				
Current expense	(859,159)	-		(859,159)
Deferred expense	(3,732,712)	-		(3,732,712)
	(4,591,871)			(4,591,871)
<b>Net Loss for the Year</b>	<b>\$ (24,733,528)</b>	<b>\$ 2,573,394</b>		<b>\$ (22,160,134)</b>
<b>Other Comprehensive Loss for the Year</b>	<b>(21,152,029)</b>	<b>(3,019,523)</b>	<b>(f)</b>	<b>(24,171,552)</b>
<b>Comprehensive Loss for the Year</b>	<b>\$ (45,885,557)</b>	<b>(446,129)</b>		<b>\$ (46,331,686)</b>
<b>Basic and Diluted Income Per Common Share</b>				
	\$ (0.36)	\$ -		\$ (0.32)
<b>Weighted Average Number of Common</b>	<b>68,988,456</b>	<b>-</b>		<b>68,988,456</b>



Shares outstanding

DISCLOSURE OF OUTSTANDING SHARE DATA

1. Authorized and Issued capital stock:

As at January 31, 2012:

	Authorized	Issued	Book Value
An unlimited number of common shares without par value		91,517,854	\$114,819,304

As at April 11, 2012:

	Authorized	Issued	Book Value
An unlimited number of common shares without par value		91,777,454	\$115,209,435

2. Options Outstanding:

As at January 31, 2012:

Number	Exercise Price	Expiry Date
500,000	\$ 1.41	February 2, 2012
1,485,000	\$ 1.16	July 29, 2012
1,125,000	\$ 1.16	August 11, 2012
100,000	\$ 1.28	September 8, 2012
1,000,000	\$ 1.83	January 28, 2013
280,000 <sup>(1)</sup>	\$ 0.06	June 1, 2013
100,000 <sup>(1)</sup>	\$ 0.16	June 1, 2013
320,000 <sup>(1)</sup>	\$ 0.31	June 1, 2013
980,000 <sup>(1)</sup>	\$ 0.38	June 1, 2013
349,143 <sup>(1)</sup>	\$ 0.44	June 1, 2013
1,400,000	\$ 1.10	November 9, 2013
1,500,000	\$ 1.51	January 26, 2014
9,139,143		

<sup>(1)</sup> Former Cardero Coal incentive stock options.

As at April 11, 2012:

Number	Exercise Price	Expiry Date
1,485,000	\$ 1.16	July 29, 2012
1,125,000	\$ 1.16	August 11, 2012
100,000	\$ 1.28	September 8, 2012
1,000,000	\$ 1.83	January 28, 2013
280,000 <sup>(1)</sup>	\$ 0.06	June 1, 2013
100,000 <sup>(1)</sup>	\$ 0.16	June 1, 2013
320,000 <sup>(1)</sup>	\$ 0.31	June 1, 2013
980,000 <sup>(1)</sup>	\$ 0.38	June 1, 2013
349,143 <sup>(1)</sup>	\$ 0.44	June 1, 2013
1,400,000	\$ 1.10	November 9, 2013
1,500,000	\$ 1.51	January 26, 2014
537,000	\$ 1.16	March 23, 2014
9,176,143		

<sup>(1)</sup> Former Cardero Coal incentive stock options.

3. Warrants Outstanding:

As at January 31, 2012, the following warrants were outstanding:

Number	Exercise Price	Expiry Date
240,000 <sup>(2)</sup>	\$ 0.06	March 1, 2012
12,600 <sup>(2)</sup>	\$ 0.16	April 6, 2012
120,000 <sup>(2)</sup>	\$ 0.06	May 20, 2012
336,000 <sup>(2)</sup>	\$ 0.38	June 14, 2012
120,000 <sup>(2)</sup>	\$ 0.06	June 15, 2012
70,000 <sup>(2)</sup>	\$ 0.44	September 22, 2012
4,014,875	\$ 1.25	November 29, 2012
240,000 <sup>(2)</sup>	\$ 0.13	January 12, 2013
240,000 <sup>(2)</sup>	\$ 0.13	May 29, 2013
1,600,000 <sup>(2)</sup>	\$ 0.50	June 1, 2013
6,993,475		

<sup>(2)</sup> Former Cardero Coal warrants.

At April 11, 2012, the following warrants were outstanding:

<b>Number</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
120,000 <sup>(2)</sup>	\$ 0.06	May 20, 2012
336,000 <sup>(2)</sup>	\$ 0.38	June 14, 2012
120,000 <sup>(2)</sup>	\$ 0.06	June 15, 2012
63,000 <sup>(2)</sup>	\$ 0.44	September 22, 2012
1,600,000 <sup>(2)</sup>	\$ 0.50	June 1, 2013
240,000 <sup>(2)</sup>	\$ 0.13	January 12, 2013
240,000 <sup>(2)</sup>	\$ 0.13	May 29, 2013
4,014,875	\$ 1.25	November 29, 2012
<b>6,733,875</b>		

<sup>(2)</sup> Former Cardero Coal warrants.

## **NYSE AMEX CORPORATE GOVERNANCE**

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

## **ADDITIONAL SOURCES OF INFORMATION**

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