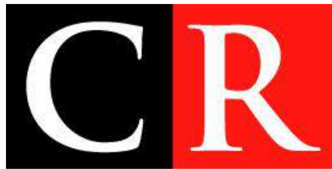

# CARDERO RESOURCE CORP.

**(An Exploration Stage Company)**

## Audited Consolidated Financial Statements

**(Expressed in Canadian Dollars)**

## October 31, 2014 and 2013


**<u>Corporate Head Office</u>**

Suite 2300 – 1177 West Hastings Street
Vancouver, British Columbia
V6E 2K3
Tel: 604-408-7488

## INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS OF CARDERO RESOURCE CORP.**

We have audited the accompanying consolidated financial statements of Cardero Resource Corp., which comprise the consolidated statement of financial position as at October 31, 2014 and the consolidated statements of loss, comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cardero Resource Corp. as at October 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Emphasis of Matter*
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that cast substantial doubt about the Company's ability to continue as a going concern.

*Other Matter*
The consolidated financial statements of Cardero Resource Corp. as at October 31, 2013 and for the years ended October 31, 2013 and 2012, were audited by another auditor who expressed an unmodified opinion on those statements on January 27, 2014.

Smythe Ratcliffe LLP
Chartered Accountants

Vancouver, Canada
January 26, 2015



7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

**Tel:** 604 687 1231
**Fax:** 604 688 4675
**smytheratcliffe.com**

**CARDERO RESOURCE CORP.**
**(AN EXPLORATION STAGE COMPANY)**
**Consolidated Financial Statements**
**(Expressed in Canadian Dollars)**
**October 31, 2014 and 2013**

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**CARDERO RESOURCE CORP.**
**(AN EXPLORATION STAGE COMPANY)**
**Consolidated Statements of Financial Position**
(Expressed in Canadian Dollars)

| | October 31 2014 | October 31 2013 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | $ 91,047 | $ 291,277 |
| Accounts receivable (note 5) | 35,644 | 4,268,527 |
| Due from related parties (note 10) | 117,298 | 157,131 |
| Prepaid financing costs (note 8) | 1,216,597 | - |
| Prepaid expenses | 186,989 | 225,369 |
| Total Current Assets | 1,647,575 | 4,942,304 |
| **Property, Plant and Equipment** (note 3) | 227,687 | 561,041 |
| **Investments** (note 4) | 127,870 | 496,746 |
| **Exploration and Evaluation Advances** | - | 55,000 |
| **Exploration and Evaluation Assets** (note 5) | 8,800,000 | 78,152,654 |
| **Deposits** (note 6) | 375,886 | 4,906,636 |
| Total Assets | $ 11,179,018 | $ 89,114,381 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (note 12) | $ 1,278,280 | $ 5,870,254 |
| Short-term loan (note 7) | 1,888,751 | 5,338,312 |
| Flow-through premium liabilities (note 13) | - | 232,613 |
| | 3,167,031 | 11,441,179 |
| **Credit Facility** (note 8) | 2,722,425 | - |
| Total Liabilities | 5,889,456 | 11,441,179 |
| **SHAREHOLDERS' EQUITY** | | |
| **Share Capital** (note 9) | 126,163,632 | 125,528,040 |
| **Contributed Surplus** | 30,510,807 | 23,847,997 |
| **Accumulated Other Comprehensive Income** | - | 12,835 |
| **Deficit** | (151,384,877) | (71,715,670) |
| Total Shareholders' Equity | 5,289,562 | 77,673,202 |
| Total Liabilities and Shareholders' Equity | $ 11,179,018 | $ 89,114,381 |

Approved on behalf of the Board:

*"Hendrik Van Alphen"*
Hendrik Van Alphen, Director

*"Stephan Fitch"*
Stephan Fitch, Director

**CARDERO RESOURCE CORP.**
**(AN EXPLORATION STAGE COMPANY)**
**Consolidated Statements of Loss**
(Expressed in Canadian Dollars)
Years Ended October 31

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Expenses** | | | |
| Accounts receivable write-off | $ 113,772 | $ 229,047 | $ 132,245 |
| Consulting fees (notes 9 and 10) | 225,363 | 1,517,453 | 1,071,977 |
| Corporate development | 60,836 | 266,723 | 368,112 |
| Depreciation | 114,696 | 237,408 | 349,544 |
| Insurance | 98,178 | 195,431 | 109,318 |
| Investor relations (notes 9 and 10) | 11,056 | 143,355 | 429,302 |
| Impairment losses on due from related parties | 61,677 | 198,239 | 1,112,726 |
| Impairment loss on deposits (note 6) | 4,500,000 | - | - |
| Impairment losses on property, plant and equipment | - | 389,487 | - |
| Impairment loss on exploration and evaluation assets (note 5) | 69,753,529 | 16,447,113 | 3,554,667 |
| Gain on sale of exploration and evaluation asset (note 5) | (57,779) | - | - |
| Impairment recovery on accounts receivable | (26,876) | - | - |
| Loss on sale of property, plant and equipment | 76,493 | 10,855 | - |
| Office costs | 435,112 | 794,124 | 970,157 |
| Professional fees (notes 9 and 10) | 501,457 | 1,963,715 | 1,806,456 |
| Exploration property evaluations | 37,595 | 172,810 | 603,819 |
| Regulatory and transfer agent fees | 89,917 | 144,041 | 237,972 |
| Salaries and benefits (notes 9 and 10) | 1,020,565 | 3,001,438 | 5,419,163 |
| Travel | 59,791 | 276,024 | 769,827 |
| | (77,075,382) | (25,987,263) | (16,935,285) |
| Other income (expense) | (27,290) | 293,338 | 40,143 |
| Foreign exchange loss | (597,898) | (293,351) | (94,484) |
| Interest expense (note 8) | (4,229,134) | (1,389,964) | 149,434 |
| Realized gain (loss) on available-for-sale investments (note 4) | (1,788) | (39,562) | 9,486,396 |
| Realized loss on derivative investment (note 4) | (87,470) | - | - |
| Unrealized loss on derivative investment (note 4) | - | (407,487) | (754,917) |
| Impairment losses on available-for-sale investments (note 4) | (231,427) | (1,437,030) | (3,767,563) |
| Loss on sale of subsidiary | (81,537) | - | - |
| Facilitation fee (note 5) | 670,080 | - | - |
| Flow-through Part XIII penalty and interest (note 13) | (166,152) | - | - |
| Flow-through renunciation deduction (note 13) | (227,500) | - | - |
| Gain on settlement of accounts payable (note 12) | 2,153,078 | - | - |
| Gain (loss) on loan settlement (notes 7 and 10) | - | (686,531) | 1,368,953 |
| **Loss Before Income Taxes** | (79,902,420) | (29,947,850) | (10,507,323) |
| **Income Taxes** | | | |
| Deferred recovery (expense) | 233,213 | 188,187 | (1,086,776) |
| | 233,213 | 188,187 | (1,086,776) |
| **Net Loss for Year** | $ (79,669,207) | $ (29,759,663) | $ (11,594,099) |
| **Basic and Diluted Loss Per Share** | $ (0.68) | $ (0.27) | $ (0.13) |
| **Weighted Average Number of Common Shares Outstanding** | 116,919,527 | 109,157,361 | 91,537,423 |

See Notes to Consolidated Financial Statements

**CARDERO RESOURCE CORP.**
**(AN EXPLORATION STAGE COMPANY)**
**Consolidated Statements of Comprehensive Loss**
(Expressed in Canadian Dollars)
Years Ended October 31

| | | 2014 | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| **Net Loss for Year** | $ | (79,669,207) | $ | (29,759,663) | $ | (11,594,099) |
| Exchange differences on translation of foreign operations | | (17,035) | | 165,688 | | (59,733) |
| Other comprehensive income (loss) on available-for-sale securities | | 4,200 | | 13,510 | | (7,895,509) |
| **Other Comprehensive Income (Loss) for the Year, net of deferred taxes** | | (12,835) | | 179,198 | | (7,955,242) |
| **Comprehensive Loss for the Year** | $ | (79,682,042) | $ | (29,580,465) | $ | (19,549,341) |

**CARDERO RESOURCE CORP.**
**(AN EXPLORATION STAGE COMPANY)**
**Consolidated Statements of Shareholders' Equity**
(Expressed in Canadian Dollars)

| | Share Capital | | | | Functional | Available-for- | Total |
|---|---|---|---|---|---|---|---|
| | | | | Contributed | Currency | Sale | Shareholders' |
| | Shares | Amount | Deficit | Surplus | Translation | Investments | Equity |
| **Balance, October 31, 2011** | **83,054,104** | **$ 107,237,122** | **$ (30,361,908)** | **$ 19,775,985** | **$ (88,920)** | **$ 7,877,799** | **$ 104,440,078** |
| Net loss for the year | - | - | (11,594,099) | - | - | - | (11,594,099) |
| Other comprehensive income | | | | | | | |
| Unrealized loss on available-for-sale investments | - | - | - | - | - | (17,710) | (17,710) |
| Transfer to income of realized gain on sale of investments | - | - | - | - | - | (7,877,799) | (7,877,799) |
| Transfer to income for impairment losses on investments | | | | | | | |
| Functional currency translations | - | - | - | - | (59,733) | - | (59,733) |
| Shares issued for cash | 8,029,750 | 7,628,263 | - | - | - | - | 7,628,263 |
| Private placement | - | (699,257) | - | 699,257 | - | - | - |
| Allocation of proceeds to warrants | - | - | - | - | - | - | - |
| Exercise of warrants | 1,332,600 | 457,219 | - | - | - | - | 457,219 |
| Shares issued for non-cash | | | | | | | |
| Property acquisition | 1,000,000 | 900,000 | - | - | - | - | 900,000 |
| Reclassification of contributed surplus on exercise of warrants | - | 1,547,342 | - | (1,547,342) | - | - | - |
| Share-based payments | - | - | - | 3,350,460 | - | - | 3,350,460 |
| **Balance, October 31, 2012** | **93,416,454** | **117,070,689** | **(41,956,007)** | **22,278,360** | **(148,653)** | **(17,710)** | **97,226,679** |
| Net loss for the year | - | - | (29,759,663) | - | - | - | (29,759,663) |
| Other comprehensive income | | | | | | | |
| Unrealized loss on available-for-sale investments | - | - | - | - | - | 13,510 | 13,510 |
| Functional currency translation | - | - | - | - | 165,688 | - | 165,688 |
| Shares issued for cash | | | | | | | |
| Private placement | 16,439,816 | 7,277,903 | - | - | - | - | 7,277,903 |
| Exercise of warrants | 480,000 | 60,000 | - | - | - | - | 60,000 |
| Exercise of options | 200,000 | 12,500 | - | - | - | - | 12,500 |
| Share issue costs | - | (466,452) | - | 47,973 | - | - | (418,479) |
| Shares issued for non-cash | | | | | | | |
| Property acquisition | 900,000 | 203,000 | - | - | - | - | 203,000 |
| Short-term loan | 2,000,000 | 420,000 | - | - | - | - | 420,000 |
| Reclassification of contributed surplus on exercise of warrants | - | 662,400 | - | (662,400) | - | - | - |
| Reclassification of contributed surplus on exercise of options | - | 288,000 | - | (288,000) | - | - | - |
| Short-term loan warrants | - | - | - | 1,801,027 | - | - | 1,801,027 |
| Share-based payments | - | - | - | 671,037 | - | - | 671,037 |
| **Balance, October 31, 2013** | **113,436,270** | **$ 125,528,040** | **$ (71,715,670)** | **$ 23,847,997** | **$ 17,035** | **$ (4,200)** | **$ 77,673,202** |

See Notes to Consolidated Financial Statements

**CARDERO RESOURCE CORP.**
**(AN EXPLORATION STAGE COMPANY)**
**Consolidated Statements of Shareholders' Equity**
(Expressed in Canadian Dollars)

| | Share Capital | | | | Functional | Available-for- | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Deficit | Contributed Surplus | Currency Translation | Sale Investments | Shareholders' Equity |
| **Balance, October 31, 2013** | **113,436,270** | **$ 125,528,040** | **$ (71,715,670)** | **$ 23,847,997** | **$ 17,035** | **$ (4,200)** | **$ 77,673,202** |
| Net loss for the year | - | - | (79,669,207) | - | - | - | (79,669,207) |
| Other comprehensive income | | | | | | | |
| Unrealized loss on available-for-sale investments | - | - | - | - | - | 4,200 | 4,200 |
| Functional currency translation | - | - | - | - | (17,035) | - | (17,035) |
| Shares issued for cash | | | | | | | |
| Exercise of options | 711,000 | 78,210 | - | - | - | - | 78,210 |
| Share issue costs | - | (315) | - | - | - | - | (315) |
| Shares issued for non-cash | | | | | | | |
| Reclassification of contributed surplus on exercise of options | - | 42,558 | - | (42,558) | - | - | - |
| Shares issued in settlement of trade creditors | 3,219,617 | 515,139 | - | - | - | - | 515,139 |
| Short-term loan warrants | - | - | - | 986,464 | - | - | 986,464 |
| Credit facility warrants | - | - | - | 5,521,436 | - | - | 5,521,436 |
| Share-based payments | - | - | - | 197,468 | - | - | 197,468 |
| **Balance, October 31, 2014** | **117,366,887** | **$ 126,163,632** | **$ (151,384,877)** | **$ 30,510,807** | **$ -** | **$ -** | **$ 5,289,562** |

See Notes to Consolidated Financial Statements

**CARDERO RESOURCE CORP.**
**(AN EXPLORATION STAGE COMPANY)**
**Consolidated Statements of Cash Flows**
(Expressed in Canadian Dollars)
**Years ended October 31**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net loss for the year | $ (79,669,207) | $ (29,759,663) | $ (11,594,099) |
| Items not involving cash | | | |
| Accounts receivable write-off | 113,772 | 229,047 | 132,245 |
| Depreciation | 114,696 | 237,408 | 349,544 |
| Share-based payments (note 9) | 197,468 | 671,036 | 3,350,460 |
| Interest expense | 3,522,050 | 748,729 | - |
| Realized loss (gain) on sale of available-for-sale investments (note 4) | 1,788 | 39,562 | (9,486,396) |
| Impairment on deposits | 4,500,000 | - | - |
| Impairment losses on available-for-sale investments (note 4) | 231,427 | 1,437,030 | 3,767,563 |
| Impairment losses on due from related parties (note 10(c)) | 61,677 | 198,239 | 1,112,726 |
| Impairment loss on exploration and evaluation assets | 69,753,529 | 16,447,113 | 3,554,667 |
| Impairment losses on property, plant and equipment | - | 389,487 | - |
| Gain on loan settlement | - | - | (1,368,953) |
| Gain on settlement of trade payables | (2,153,078) | - | - |
| Realized loss on derivative investments (note 4) | 87,470 | - | - |
| Unrealized loss on derivative investments (note 4) | - | 407,487 | 754,917 |
| Shares issued for financing | - | 420,000 | - |
| Loss on sale of property, plant and equipment | 76,493 | 10,855 | - |
| Income taxes expense (recovery) | (233,213) | (188,187) | 1,086,776 |
| Unrealized foreign exchange loss | 667,269 | 49,906 | - |
| Foreign exchange loss on cash | - | (7,316) | (4,607) |
| Changes in non-cash working capital items | | | |
| Prepaid expenses | 38,380 | 372,191 | (241,370) |
| Accounts payable and accrued liabilities | (1,141,057) | 1,987,111 | 136,329 |
| Interest payable | 245,436 | 141,693 | - |
| **Cash Used in Operating Activities** | (3,585,100) | (6,168,272) | (8,450,198) |
| **Investing Activities** | | | |
| Expenditures on exploration and evaluation assets | (1,128,575) | (10,621,057) | (28,614,484) |
| Decrease (Increase) in deposits (note 6) | 30,750 | (52,500) | (4,739,136) |
| Proceeds from sale of investments (note 4) | 160,211 | 198,029 | 31,300,914 |
| Purchase of investments | (107,221) | - | (262,113) |
| Proceeds from sale of property, plant and equipment | 125,130 | - | - |
| Purchase of property, plant and equipment | - | (51,599) | (576,726) |
| Loan receivable | - | - | 4,886,633 |
| Accounts receivable | 4,119,111 | 1,133,549 | (5,080,819) |
| Due from related parties | (21,844) | 168,242 | (397,295) |
| **Cash Provided by (Used in) Investing Activities** | 3,177,563 | (9,225,336) | (3,483,026) |
| **Financing Activities** | | | |
| Proceeds from shares issued, net of issuance costs | 78,210 | 7,770,459 | 8,085,482 |
| Share issuance costs | (315) | (418,479) | - |
| Credit facility (note 8) | 4,428,245 | - | - |
| Short-term loan (note 7) | - | 11,317,885 | - |
| Short-term loan repayment (note 7) | (4,298,833) | (5,134,795) | - |
| **Cash Provided by Financing Activities** | 207,307 | ,13,535,070 | 8,085,482 |
| **Effect of Foreign Exchange on Cash** | - | 7,316 | 4,607 |
| **Decrease in Cash and Cash Equivalents** | (200,230) | (1,851,222) | (3,843,135) |
| **Cash and Cash Equivalents, Beginning of the Year** | 291,277 | 2,142,499 | 5,985,634 |
| **Cash and Cash Equivalents, End of the Year** | $ 91,047 | $ 291,277 | $ 2,142,499 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Cardero Resource Corp. ("Cardero" or the "Company") and its subsidiaries are engaged in the exploration of mineral properties, primarily in Canada and Argentina. The Company considers itself to be an exploration stage company.

The Company is a public company with shares listed on the TSX Exchange (the "TSX") and the Frankfurt Stock Exchange. The head office, principal address and records office of the Company are located at 1177 West Hastings Street, Suite 2300, Vancouver, British Columbia, Canada, V6E 2K3.

### Going concern

While these consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations, realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, the following events and conditions raise substantial doubt on the validity of that assumption:

- During the year ended October 31, 2014, the Company incurred a net loss of $79,669,207 (2013 - $29,759,663) (2012 - $11,594,099), and as at October 31, 2014 had an accumulated deficit of $151,384,877 (2013 - $71,715,670) and a working capital deficit of $1,519,456 (2013 - $6,498,875);
- Additional sources of financing are required to enable the Company to meet its existing obligations; and
- USD 2.2 million of secured note is due August 5, 2015.

While the Company has been successful in obtaining its required funding in the past, there is no assurance that sufficient funds will be available to the Company in the future. The Company has no assurance that such financing will be available or be available on favorable terms. Factors that could affect the availability of financing include the progress and results of the Company's exploration properties, the state of international debt and equity markets, investor perceptions and expectations, and the global financial and iron ore and metallurgical coal markets. There can be no assurance the Company will be successful in its endeavor to obtain additional financing. These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities in the normal course of operations. Such adjustments could be material.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financing Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been prepared on the historical cost basis, except for assets and liabilities recorded at fair value, and include the accounts of the Company and its wholly-owned subsidiaries (note 2(b)). Intercompany balances and transactions are eliminated on consolidation. The presentation and functional currency of the Company is the Canadian dollar.

The Board of Directors approved the consolidated financial statements on January 26, 2015.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of consolidation

These consolidated financial statements include the accounts of Cardero and its wholly-owned integrated subsidiaries, Cardero Argentina, S.A. ("Cardero Argentina"), Cardero Iron Ore Company Ltd., Cardero Hierro Del Peru S.A.C., Cerro Colorado Development Ltd., Compania Minera Cardero Chile Limitada, 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"), Cardero Iron Ore Ghana (BVI) Ltd., Cardero Technologies Ltd., Cardero Intellectual Property Corp., Cardero Licensing Ltd. and Cardero Materials Testing Laboratory Ltd. (collectively, the "Company"). A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investee. The Company reassessed the control conclusions previously made for its subsidiaries. The conclusions did not change, and accordingly, no adjustments were determined necessary. All significant intercompany transactions and balances have been eliminated.

During the year, the Company disposed of its wholly-owned subsidiary Minerales y Metales California, S.A. de C.V., which was located in Mexico.

### (c) Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements.

#### Mineral property impairment

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as: the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted or planned and results of exploration and evaluation activities on the exploration and evaluation assets. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Critical accounting estimates and judgments (continued)

**Valuation of debt**

Carrying value at amortized cost of the short-term loan and credit facility is estimated using an effective interest rate. Estimation of the effective interest rate includes uncertainties such as: the discount rate used and the fair value of common share purchase warrants issued as consideration. These estimates are subject to management judgments in setting the Company's discount rate. These uncertainties may result in the actual value of the obligations differing from the carrying value.

**Share-based payments**

Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and are expensed to net loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option/warrant. Changes in these input assumptions can significantly affect the fair value estimate.

### (d) Cash and cash equivalents

Cash and cash equivalents includes 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.

### (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 costs 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.

**Deprecation**

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

| | | |
|---|---|---|
| Computer software | - | 100% declining balance basis |
| Computers and office equipment | - | 20% to 30% 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)

### (f) 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.

**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 profit or loss.

The Company assesses exploration and evaluation assets for indicators of impairment in accordance with IFRS 6 *Exploration and Evaluation of Mineral* Resources. If indicators of impairment are identified, the Company assess whether the exploration and evaluation assets are impaired in accordance with the criteria set out in IAS 36 *Impairment of Assets* to determine whether the carrying amount of an asset exceeds 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 reclassified 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.

### (g) Impairment of non-current assets

The carrying amounts of non-current assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Impairment of non-current assets (continued)

The recoverable amount is the higher of an asset's "fair value less costs to sell" for the asset's highest and best use, and "value-in-use". Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined. "Fair value less costs to sell" is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. For mining assets this would generally be determined based on the present value of the estimated future cash flows arising from the continued development, use or eventual disposal of the asset. In assessing these cash flows and discounting them to the present value, assumptions used are those that an independent market participant would consider appropriate. In assessing "value-in-use", the estimated future cash flows expected to arise from the continuing use of the assets in their present form and from their disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are evaluated for potential reversals when events or circumstances warrant such consideration. Where an impairment loss is subsequently reversed, the amount of such reversal is limited such that the revised carrying amount of the asset or cash-generating unit does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in the prior years. A reversal of an impairment loss is recognized in profit or loss.

### (h) Foreign currency translation

The presentation currency of the Company is the Canadian dollar.

The functional currency of Cardero and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates. The functional currency of Cardero Ghana and Cardero Iron US is US dollars, and for the Company and the other consolidated entities the functional currency is Canadian dollars.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income (loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income (loss). Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

**Presentation currency**

The financial position and results of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at exchange rates prevailing at the reporting date; and
- Income and expenses are translated at monthly average exchange rates during the year.

Exchange differences arising on translation of such foreign operations are recognized in other comprehensive income (loss).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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 profit or 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.

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 profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or 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.

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.

### (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. Share issue costs on the issue of the Company's shares are charged directly to share capital.

**Flow-through shares**

The issuance of flow-through common shares results in the tax deductibility of the qualifying resource expenditures funded from the proceeds of the sale of such shares being transferred to the purchasers of the shares. Under IFRS, on the issuance of such shares, the Company bifurcates the flow-through shares into: a flow-through share premium, equal to the estimated premium that investors pay for the flow-through feature, which is recognized as a liability, and share capital. As the related exploration expenditures are incurred, the Company derecognizes the liability and recognizes a related income tax recovery.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period.

**Valuation of warrants**

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as part of units or debt agreements. The residual value method first allocates value to common shares issued in the private placements at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the warrants. Any fair value attributed to the warrants is recorded in shareholders' equity. For warrants issued as part of debt agreements, the residual method first allocates value to the debt at its fair value, as determined using a discounted cash flow analysis. The balance, if any, is allocated to the warrants.

### (k) 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 items recognized directly in equity or in other comprehensive income (loss).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Income taxes (continued)

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 that 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.

### (l) 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

Share purchase warrants included in investments are derivative financial instruments and are classified as fair value through profit or loss (“FVTPL”), and accordingly, unrealized gains or losses, net of applicable income taxes, are included in operations.

Available for Sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated as AFS 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 (note 4) are classified as AFS financial assets.

Management assesses the carrying value of AFS financial assets for objective evidence that impairment exists each reporting period and any impairment charges are recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in accumulated other comprehensive income are included in profit or loss.

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.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An evaluation is made as to whether a decline in fair value is “significant” or “prolonged” based on indicators such as significant adverse changes in the market, economic or legal environment.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Financial instruments (continued)

**Financial liabilities**

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

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 Company's accounts payable and accrued liabilities are classified as other financial liabilities.

The Company's short-term loan was initially recognized at fair value with the residual value attributed to the associated warrants. After initial recognition, the short-term loan is subsequently measured at amortized cost using the effective interest method.

The Company's credit facility was initially recognized at fair value. Instruments issued with respect to the Credit Facility are fair valued using the Black-Scholes option pricing model. As amounts are drawn down from the Credit Facility, amounts are reallocated from prepaid financing costs to the Credit Facility, and the Credit Facility is subsequently measured at amortized cost using the effective interest method.

### (m) New accounting pronouncements

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

**IAS 32 *Financial Instruments: Presentation***

IAS 32 amendment provides clarification on the application of offsetting rules. The amendments are effective for the Company for the year ended October 31, 2015. The Company has yet to assess the full impact of IAS 32.

**IAS 36 *Impairment of Assets***

On May 29, 2013, the IASB made amendments to the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. These amendments will be effective for the Company for the year ended October 31, 2015. The Company has yet to assess the full impact of IAS 36.

**IFRIC 21 *Levies***

IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. This interpretation addresses what the obligating event is that give rise to pay a levy and when a liability should be recognized. The standard will be effective for the Company for the year ended October 31, 2015. The Company has yet to assess the full impact of IFRIC 21.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) New accounting pronouncements (continued)

**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, 2019. The Company has yet to assess the full impact of IFRS 9.

## 3. PROPERTY, PLANT AND EQUIPMENT

| | Metallurgy Lab | Leasehold Improvements | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance, October 31, 2012** | $ 546,267 | $ 378,184 | $ 1,403,260 | $ 2,327,711 |
| Additions | 47,192 | - | 4,407 | 51,599 |
| Disposals | - | - | (313,258) | (313,258) |
| Impairment | - | - | (483,295) | (483,295) |
| Currency translation adjustments | 26,263 | - | - | 26,263 |
| **Balance, October 31, 2013** | 619,722 | 378,184 | 611,114 | 1,609,020 |
| Disposals | (619,722) | - | (11,563) | (631,285) |
| **Balance, October 31, 2014** | $ - | $ 378,184 | $ 599,551 | $ 977,735 |
| **Accumulated depreciation** | | | | |
| **Balance, October 31, 2012** | $ 211,467 | $ 231,552 | $ 471,929 | $ 914,948 |
| Depreciation for the year (1) | 116,908 | 15,293 | 145,737 | 277,938 |
| Disposal | - | - | (66,814) | (66,814) |
| Impairment | - | - | (93,808) | (93,808) |
| Currency translation adjustments | 15,715 | - | - | 15,715 |
| **Balance, October 31, 2013** | 344,090 | 246,845 | 457,044 | 1,047,979 |
| Depreciation for the year | 61,629 | 17,133 | 35,934 | 114,696 |
| Disposal | (405,719) | - | (6,908) | (412,627) |
| **Balance, October 31, 2014** | $ - | $ 263,978 | $ 486,070 | $ 750,048 |
| **Carrying amounts** | | | | |
| At October 31, 2013 | $ 275,632 | $ 131,339 | $ 154,070 | $ 561,041 |
| At October 31, 2014 | $ - | $ 114,206 | $ 113,481 | $ 227,687 |

The Company operates in one industry segment, the mineral resources industry, and in two geographical segments, Canada and Argentina. As at October 31, 2014, all assets are located in Canada. The Metallurgical Testing laboratory, $Nil (2013 - $275,632), which was disposed of during the year, was located in the United States.

(1) $Nil (2013 - $40,530) of depreciation is included in Exploration and Evaluation Assets (note 5).

## 4. INVESTMENTS

| October 31, 2014 | Shares Number | Shares Fair Value |
|---|---|---|
| (1) Wealth Minerals Ltd. ("Wealth") | 1,255,701 | $ 75,342 |
| (2) Xiana Mining Inc. ("Xiana") | 126,800 | 6,340 |
| (3) Abzu Gold Inc. ("Abzu Gold") | 787,500 | 35,438 |
| Artha Resources Corporation ("Artha") | 2,150,000 | 10,750 |
| | | $ 127,870 |

| October 31, 2013 | Shares Number | Shares Fair Value | Warrants Number | Warrants Fair Value | Total |
|---|---|---|---|---|---|
| Trevali Mining Corporation ("Trevali") | - | $ - | 2,074,761 | $ 87,470 | $ 87,470 |
| (1)Wealth | 1,255,701 | 150,684 | - | - | 150,684 |
| (2)Xiana | 126,800 | 17,752 | - | - | 17,752 |
| Indico Resources Ltd. ("Indico") | 50,000 | 5,750 | - | - | 5,750 |
| Balmoral Resources Ltd. ("Balmoral") | 8,000 | 3,040 | - | - | 3,040 |
| (3)Abzu Gold | 923,400 | 184,680 | - | - | 184,680 |
| Artha | 2,150,000 | 32,250 | - | - | 32,250 |
| Ethos Capital Corp. | 150,000 | 15,120 | - | - | 15,120 |
| | | $ 409,276 | | $ 87,470 | $ 496,746 |

(1) During the year ended October 31, 2014, Wealth completed a 4 – 1 share consolidation.
(2) During the year ended October 31, 2013, Dorato Resources Inc. changed its name to Xiana Mining Inc. and completed a 20 – 1 share consolidation.
(3) During the year ended October 31, 2014, Abzu completed a 10 - 1 share consolidation.

All the resource related companies are considered to be related parties, with the exception of Trevali, Xiana, Abzu Gold and Artha, by virtue of having directors and/or officers in common. All investments in shares are classified as AFS under the financial instruments classification. As investments in warrants are considered to be derivative instruments, they are by definition classified as FVTPL.

During the year ended October 31, 2014, the Company sold investments for gross proceeds of $160,211 (2013 - $198,029; 2012 - $31,300,914) with a carrying value of $158,423 (2013 - $237,590; 2012 - $21,814,518) for net gain (loss) on sale of $(1,788) (2013 - $(39,562); 2012 - $9,486,396). Impairment losses on investments amounted to $231,427 (2013 - $1,437,030; 2012 - $3,767,563).

During the year ended October 31, 2014, the Company recorded a realized loss on the fair value of derivatives of $87,470 (2013 - $Nil; 2012 - $Nil). The Company recorded an unrealized loss on the fair value adjustment of derivatives of $Nil (2013 – $407,487; 2012 - $754,917). The Company held 2,074,761 Trevali warrants with an exercise price of $1.10 which expired, unexercised, on January 16, 2014.

## 5. EXPLORATION AND EVALUATION ASSETS

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

| | U.S.A. (note 5(b)) | Ghana (note 5(c)) | Canada (note 5(d)) | Total |
|---|---|---|---|---|
| **Balance, October 31, 2012** | **$ 3,770,227** | **$ 11,436,626** | **$ 73,116,935** | **$ 88,323,788** |
| Acquisition costs | | | | |
| Acquisition costs – shares | - | 135,000 | 68,000 | 203,000 |
| Acquisition costs – cash | 557 | 635,500 | 5,625,760 | 6,261,817 |
| Total acquisition costs | 557 | 770,500 | 5,693,760 | 6,464,817 |
| Deferred exploration costs | | | | |
| Camp | - | 146,891 | 322,482 | 469,373 |
| Drilling and analysis | - | - | 410,761 | 410,761 |
| Personnel and geology | 4,470 | 248,546 | 2,342,717 | 2,595,733 |
| Total exploration costs | 4,470 | 395,437 | 3,075,960 | 3,475,867 |
| Total expenditures for the year | 5,027 | 1,165,937 | 8,769,720 | 9,940,684 |
| Costs recovered – exploration (i) | - | - | (3,734,000) | (3,734,000) |
| Write-offs – acquisition costs | (353,540) | (6,820,013) | - | (7,173,553) |
| Write-offs – exploration costs | (3,421,714) | (5,851,846) | - | (9,273,560) |
| Total write-offs | (3,775,254) | (12,671,859) | - | (16,447,113) |
| Currency translation adjustments | - | 69,296 | - | 69,296 |
| **Balance, October 31, 2013** | **-** | **-** | **78,152,655** | **78,152,655** |
| Acquisition costs | | | | |
| Acquisition costs – cash | - | - | 301,960 | 301,960 |
| Total acquisition costs | - | - | 301,960 | 301,960 |
| Deferred exploration costs | | | | |
| Drilling and analysis | - | - | 8,416 | 8,416 |
| Personnel and geology | - | - | 90,498 | 90,498 |
| Total exploration costs | - | - | 98,914 | 98,914 |
| Total expenditures for the year | - | - | 400,874 | 400,874 |
| Write-offs – acquisition costs | - | - | (44,736,362) | (44,736,362) |
| Write-offs – exploration costs | - | - | (25,017,167) | (25,017,167) |
| Total write-offs | - | - | (69,753,529) | (69,753,529) |
| **Balance, October 31, 2014** | **$ -** | **$ -** | **$ 8,800,000** | **$ 8,800,000** |

(i) Costs recovered are BC METC amounts claimed and refunded to the Company. These tax credits were recorded as accounts receivable as at October 31, 2013, and were received by the Company during the year ended October 31, 2014.

### (a) Argentina

During the year ended October 31, 2014, the Company's subsidiary, Cardero Argentina, disposed of the Minas Pirquita property in Argentina for a gain of $57,779 (USD 50,000). The Company received a facilitation fee of $926,755 (USD 850,000) for services rendered in connection with the termination of an option agreement with Artha, thereby permitting the disposition to proceed. The Company paid a finder's fee of $24,480 (USD 22,500) to an arm's length individual, $230,558 (USD 212,942) to Artha in consideration of Artha terminating its existing option agreement with respect to the Minas Pirquitas property, and other miscellaneous costs of $1,637, resulting in a net facilitation fee of $670,080. Exploration and evaluation assets of $2,672,761 associated with the Minas Pirquita property had been written-off in the year ended October 31, 2012.

## 5. EXPLORATION AND EVALUATION ASSETS (Continued)

### (b) United States of America

During the year ended October 31, 2013, the Company determined that no further exploration will be done on the TiTac and Longnose properties. The Company determined that the carrying value of the properties was impaired and wrote-off cumulative costs incurred to date of $3,775,254 as an impairment charge.

### (c) Ghana

On December 8, 2011, three separate prospecting licenses, Sheini Hills North, Middle Sheini and Sheini South, covering the Sheini Iron Ore deposit were granted and Cardero Ghana and a private Ghanaian company have entered into three separate joint ventures (one for each prospecting license), each dated December 12, 2011 and amended November 2, 2012 (which replace all previous agreements between the parties, including the November 22, 2010 agreement), to explore and, if warranted, develop the lands subject to the prospecting licenses. Ghanaian government approval to the three joint venture agreements was obtained April 10, 2012. All expenditures incurred prior to December 8, 2011 have been included in property evaluations in the consolidated statement of loss. All expenditures incurred after December 8, 2011 were capitalized and included in exploration and evaluation assets.

During the year ended October 31, 2012, Cardero Ghana elected not to make a payment of USD 500,000 due December 8, 2012 in respect of the joint venture agreement on the Sheini Hills North prospecting license. Accordingly, the Company determined that the carrying value of the property was impaired and wrote-off cumulative costs incurred to date of $374,716 as an impairment charge.

During the year end October 31, 2013, the Company issued 500,000 common shares at a deemed value of $135,000 for a finder's fee on the Sheini project.

During the year ended October 31, 2013, Cardero Ghana elected not to make a payment of USD 1,000,000 due December 8, 2012 in respect of the joint venture agreement on the Middle Sheini prospecting license and USD 1,900,000 due December 8, 2013 in respect of the joint venture agreement on the Sheini South prospecting license. Accordingly, the Company determined that the carrying value of the properties were impaired and wrote-off cumulative costs incurred to date of $12,671,859 as an impairment charge in the consolidated statement of loss. The Company has made the determination to withdraw from all three joint ventures and has issued a formal Notice of Withdrawal dated August 16, 2014. The withdrawal from such joint ventures will become effective 60 days thereafter.

### (d) 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 (a wholly-owned subsidiary of the Company) entered into a Coal Tenure Option Agreement, as amended April 14, 2011, January 14, 2013 and April 12, 2013, (the "Johnson Agreement") to acquire, subject to the issuance by the BC Government of certain coal licenses (the "Johnson Licenses") in respect of a coal license application over an area located in the Peace River Land District of British Columbia (4 coal licenses issued June 14, 2012), all of the shares (the "Shares") of a private Alberta company that holds such coal licenses. Consideration for the acquisition of a 100% interest in the Shares consisted of the following payments, share issuance and option grant:

## 5. EXPLORATION AND EVALUATION ASSETS (Continued)

### (d) Canada – Carbon Creek Property, British Columbia (continued)

i) Johnson Agreement (continued)

- $75,000 on execution of the Johnson Agreement (paid), an additional $275,000 on or before June 24, 2010 (paid) and a final payment of $5,000,000 due within four months of the date of issuance of the Johnson Licenses (October 14, 2012). As permitted by the Johnson Agreement, Cardero Coal extended the deadline for the final payment from October 14, 2012 until January 14, 2013 by paying $20,000 per month. The deadline was further extended to April 14, 2013 by Cardero Coal paying a non-refundable cash deposit of $1,000,000 on January 14, 2013 (paid), plus an additional $20,000 per month for each month's extension ($60,000 paid in total). The deadline was further extended to April 22, 2013 upon payment of a further non-refundable cash deposit of $1,000,000 (paid April 12, 2013). On April 22, 2013, Cardero Coal exercised the option and paid the balance of $3,000,000. Immediately following the exercise of option, the coal licenses and other assets of the private company were transferred to Cardero Coal and thereby became part of the Carbon Creek Joint Venture;

- issuance of 400,000 common shares (issued), with a fair value of $68,000, of the Company concurrently with the $3,000,000 final option payment; and

- grant of an option to acquire 1,000,000 common shares of Cardero Coal at an exercise price of $0.15 per share (granted). The option was exercised March 9, 2011 (prior to the acquisition of Cardero Coal by the Company).

ii) Burns Agreement

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

Under the lease agreement (the "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. On May 1, 2013, the Burns Lease was amended to include an advance royalty payment to be paid until the commencement of the payment of the royalty. The advance royalty is non-refundable and is to be deducted from the amount required to be paid in respect of the royalty due. On May 30, 2014, the Company withdrew from the Burns Lease. As a consequence, the Burns Lease no longer forms part of the property subject to the joint venture agreement (note 5(d) (iii)). The Company determined that the carrying value of its interest in the Carbon Creek project was impaired because the Burns Lease no longer forms a part of the property and wrote-off cumulative costs incurred to date on the Burns Lease claims of $21,004,470 as an impairment charge.

## 5. EXPLORATION AND EVALUATION ASSETS (Continued)

### (d) Canada – Carbon Creek Property, British Columbia (Continued)

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 Licenses and, until May 30, 2014, the Burns Lease, 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% interest in the joint venture, which interest is carried and the joint venture partner will therefore not be required to contribute to any such costs. The joint venture partner is entitled to receive, in respect of its 25% interest, 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. To acquire its interest in the joint venture, the Company issued 1,600,000 common shares, warrants to purchase 1,600,000 common shares and made payments of $6,000,000.

On September 5, 2014, Cardero Coal completed the acquisition of 13 applications for coal licenses referred to as the "South Williston Coal Licence Applications" for $235,000. These applications cover lands contiguous with the eastern and western borders of the Carbon Creek Property and become part of the Joint Venture Agreement.

iv) Carbon Creek Impairment

As at October 31, 2014, the Company assessed the Carbon Creek property for indicators of impairment in accordance with IFRS 6, *Exploration and evaluation of mineral resources*. The Company identified that indicators of impairment existed for the Carbon Creek Property as a result of the depressed price of coal, the Company's market capitalization being significantly below the carrying value of net assets, and the withdrawal from the Burns Lease. The indicators of impairment necessitated an impairment test in accordance with IAS 36, *Impairment of assets*. The impairment test focused on fair value of the Carbon Creek property, less costs to sell, because the Carbon Creek property is not sufficiently advanced to create a meaningful calculation of value in use. The fair value of the Carbon Creek property was calculated using the value implied based on that asset being the primary security to settle the Company's short-term debt and credit facility. Accordingly, the Company assumes that the fair value of the Carbon Creek property is approximately equal to the fair value of the short-term debt and credit facility. The fair value resulting from that calculation was $8,800,000, which resulted in the Company impairing the property by a $48,749,059 write-down. This write-down was calculated in accordance with level 3 of the fair value hierarchy, and is in addition to the Burns Lease impairment of $21,004,470 discussed above.

### (e) 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 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.

## 6. DEPOSITS

The Company paid $4,500,000 (2013 - $4,500,000) as a non-refundable commitment deposit to Ridley Terminals Inc. (the "Terminal"), pursuant to a terminal services agreement dated May 14, 2012 (the "Terminal Agreement"). Pursuant to the Terminal Agreement, the Terminal agrees to provide services to the Company consisting of receiving and storing coal and loading coal onto ships at the Terminal's bulk materials handling and loading facilities during the period commencing January 1, 2014 and expiring December 31, 2028. The commitment deposit will be applied against the Terminal's charges for the shipping of the Company's coal at a rate of $1 per tonne for the first 4,500,000 tonnes. As at October 31, 2014, the Company wrote-down the deposit by $4,500,000 to a value of $Nil as a result of the uncertainties (detailed below) being experienced with the Carbon Creek property and the write-down to fair value of that property, which were viewed as indicators of impairment. The write-down was completed in accordance with IAS 36, and was for the full value of the deposit, as it was not practicable to estimate a value in use of the deposit as at October 31, 2014. Further, as the deposit is not assignable, fair value less costs to sell was estimated to be $nil in accordance with level 3 of the fair value hierarchy.

The Company's agreement with Ridley Terminals Inc. subjects the Company to minimum throughput payments of $3.5 million in 2015 and increasing to $6.3 million in 2016. As a result of various delays on obtaining the necessary regulatory approvals, licenses and permits for the Carbon Creek property the Company declared Force Majeure due to government inaction as of October 27, 2014 as defined in sections 14.2 of the Terminal Agreement. Specifically, the force majeure event constitutes "acts or refusals to act of any government or government agency in.. its sovereign… capacity". By virtue of the delays and refusal to issue the relevant approvals, licenses and permits the Company has been required to defer the opening of its planned new mine. The Company cannot reasonably expect to have any further Coal Licenses nor work permits until at least 2016. As a result the Company cannot expect to be in a position to ship coal until 2020. The Force Majeure declaration is expected to mitigate from 2015 until 2020, payments the Company would have otherwise had to pay. Ridley Terminals Inc. has advised the Company that it does not believe that a Force Majeure event has occurred. At this time no further action has been taken by Ridley Terminals Inc. other than to send the invoice for the committed amount for 2014.

Remaining deposits consist of $267,500 paid in the event that the Company incurs future reclamation expenditures on the Carbon Creek project, and $108,386 (2013 - $139,136) for other security deposits.

## 7. SHORT-TERM LOAN

On April 22, 2013, the Company completed a placement of senior secured notes (the "Luxor Notes") in the aggregate principal amount of USD 5.5 million with certain affiliates of Luxor Capital Group, LP. ("Luxor"). The Luxor Notes had a one year term and were issued at a 9.1% discount to net the Company USD 5.0 million ($5,083,398) with interest accruing at the rate of 10% per annum, payable semi-annually (13% after an event of default). The Luxor Notes were secured by a general security agreement over the assets of the Company, as well as a specific pledge of the shares of Cardero Coal. Cardero Coal also provided a corporate guarantee. The Luxor Notes could be redeemed by the Company at any time at par plus accrued interest. Should there be a change of control of Cardero Coal while the Luxor Notes remain outstanding, the holders of the Luxor Notes would have the right to put the Luxor Notes to the Company for an amount equal to 110% of par plus accrued interest.

As a bonus for subscribing for and purchasing the Luxor Notes, the holders of the Luxor Notes were issued an aggregate of 2,000,000 common shares of the Company (the "Bonus Shares"). The Bonus Shares were subject to a hold period in Canada until August 25, 2013, plus additional restrictions under United States securities laws.

On August 9, 2013, the Company completed a private placement of senior secured notes (the "Notes") in the aggregate principal amount of USD 5.7 million with entities controlled by Robert C. Kopple of Los Angeles, California, US (the "Lenders"). The net proceeds of the Notes were used to pay the indebtedness owing to Luxor immediately following closing. The Company incurred a loss of $686,531 on settlement of the Luxor Notes.

## 7. SHORT TERM LOAN (Continued)

Notes in the amount of USD 3.7 million were due no later than December 31, 2013, subsequently extended to February 28, 2014 and further extended to March 14, 2014. The Company paid USD 3,920,986 (representing the USD 3,700,000 principal amount plus USD 220,986 in interest, of which USD 3,360,957 was paid in cash and USD 560,029 was paid from the Company's line of credit) towards the Notes due on or before March 14, 2014. The remaining USD 2.0 million of the Notes plus interest of USD 0.2 million due August 8, 2014 was amended with an extension of the maturity date to August 8, 2015 (note 15). Interest accrues at the rate of 10% per annum payable quarterly. The Notes are secured by a general security agreement over the assets of the Company, as well as a specific pledge of the shares of Cardero Coal. The Notes may be redeemed by the Company at any time at par plus accrued interest. Should there be a change of control of the Company or Cardero Coal while the Notes remain outstanding, other than a change of control caused by the Lenders or their associates or affiliates, the holders of the Notes will have the right to put the Notes to the Company for an amount equal to 110% of par plus accrued interest.

As consideration for purchasing the Notes, the Lenders were issued transferrable warrants to purchase an aggregate of 28,359,066 common shares of the Company. The warrants have a term of seven years, and are exercisable at a price of $0.05 (reduced from $0.095 with the approval of the Company's shareholders obtained at the December 19, 2014 Special Annual General Meeting ("AGM"). In accordance with IAS 32 *Financial Instruments: Presentation*, the residual value being the difference between the cash value and fair value of the Notes was assigned to the fair value of the warrants. Re-pricing of the notes to $0.05 was measured in accordance with IFRS 2 *Share-Based Payment*, and was expensed as interest expense when incurred.

The warrants, and any shares issuable on the exercise thereof, will be subject to a hold period in Canada of four months from the date of issuance, plus additional restrictions under United States securities laws. Assuming the full exercise of the warrants, the Lenders, together with their associates and affiliates, and including their current shareholdings (but excluding any additional common shares that may be purchased by them), would then hold in excess of 20% of the Company's then-issued shares (assuming no other share issuances by the Company in the meantime). As this exercise of warrants represents a potential change of control, the Company agreed to seek, and obtained, shareholder approval to the full exercise of the warrants and potential change of control arising therefrom at its 2014 AGM. As a result of such shareholder approval having been obtained, the Lenders may exercise the warrants in full at any time.

The extension of the Notes from August 8, 2014 to August 8, 2015 was considered an extinguishment of the Notes for accounting purposes, with an associated issuance of new Notes. As consideration for the extension of the maturity date, the Company will issue to the Lenders an aggregate 27,500,000 transferable common share purchase warrants of the Company (the "Additional Warrants") and subject to receipt of requisite approval from the TSX and the Company's shareholders, amend the exercise price of the warrants as issued under the Notes from the current exercise price thereof to $0.05 per share. Each Additional Warrant shall entitle the holder to subscribe for one common share of the Company for a period of seven years from the date of issue at a price of $0.05. The warrants, and any shares issuable on the exercise thereof, will be subject to a hold period in Canada of four months from the date of issuance, plus additional restrictions under United States securities laws. The warrants issued under the extension were measured using the residual method in accordance with IAS 32, as described above.

At the 2014 AGM the Company obtained shareholder approval of the grant of the Additional Warrants, any change of control that may result from the holder exercising such Additional Warrants; and amendment of the exercise price of the Warrants as issued under the Notes from the current exercise price thereof to $0.05 per share. As acceptance of the Warrants re-pricing occurred during the Company's first quarter of 2015, a revaluation of the Warrants will occur in that same period. The Company does not expect the revaluation to result in a significant adjustment to the values recorded as at October 31, 2014.

## 7. SHORT TERM LOAN (Continued)

At October 31, 2014 and 2013, short-term loan is as follows:

| | 2014 | 2013 |
|---|---|---|
| **Short-term loan** | **$ 2,479,620** | **$ 6,331,988** |
| Warrant | (762,196) | (1,801,027) |
| Interest payable | 62,168 | 141,693 |
| Professional fees | (83,071) | (83,071) |
| Accretion expenses | 192,230 | 748,729 |
| **Balance at October 31, 2014 and 2013** | **$ 1,888,751** | **$ 5,338,312** |

## 8. CREDIT FACILITY

On December 5, 2013, the Company secured a USD 5.0 million line of credit (the "Credit Line") from the Lenders and on September 17, 2014 increased the Credit Line to USD 6.0 million (note 15).

The Credit Line reflects or includes all amounts advanced by the Lenders since the purchase of the Notes, interest due under the Notes and amounts to be advanced in the future. Interest is payable by the Company on the amount outstanding under the Credit Line from time to time at the rate of 10% per annum. The security granted by the Company in connection with the Notes will extend to all indebtedness of the Company under the Credit Line.

All amounts outstanding under the Credit Line are due and payable on or before January 5, 2016.

As consideration for the establishment and funding of the Credit Line, the Company has agreed to issue to the Lenders transferrable common share purchase warrants to purchase an aggregate 38,417,396 common shares of the Company (the "Warrants"). Of this number, 28,359,066 were issued to the Lenders on the closing of the Credit Line December 5, 2013. The issuance of the additional 10,058,330 Warrants was subject to shareholder approval, which was obtained at the 2014 AGM, and it is anticipated such warrants will be issued shortly. The Warrants have a term of seven years, and are exercisable at a price of $0.05 (reduced from $0.139 with the approval of the Company's shareholders and later reduced from $0.10 with the approval of the Company's shareholders obtained at the 2014 AGM). Re-pricing of the notes to $0.05 was measured in accordance with IFRS 2, and was expensed as interest expense when incurred.

As consideration for the increase in the Credit Line, the Company was to issue to the Lenders an aggregate 16,100,000 transferable common share purchase warrants of the Company (the "New Credit Warrants"), and subject to receipt of requisite approval from the TSX and the Company's shareholders, amend the exercise price of the Warrants as issued under the Credit Line from the current exercise price thereof to $0.05 per share. Each New Credit Warrant entitles the Holder to subscribe for one common share of the Company for a period of seven years from the date of issue at a price of $0.05. The warrants, and any shares issuable on the exercise thereof, will be subject to a hold period in Canada of four months from the date of issuance, plus additional restrictions under United States securities laws.

The Company obtained shareholder approval for the grant of the New Credit Warrants at the 2014 AGM, any change of control that may result from the holder exercising such New Credit Warrants; and amendment of the exercise price of the Warrants as issued under the Credit Line from the current exercise price thereof to $0.05 per share. As acceptance of the Warrants re-pricing occurred during the Company's first quarter of 2015, a revaluation of the Warrants will occur in that same period. The Company does not expect the revaluation to result in a significant adjustment to the values recorded as at October 31, 2014.

The Warrants were valued using the Black-Scholes option pricing model with the following assumptions: expected life of 6.96 years, interest rate of 2.02% and volatility of 82.24%. The value of the warrants of $4,938,933 has been recognized as a deferred financing cost. Of this amount, $3,722,336 was recognized as a transaction cost during the year ended October 31, 2014 as the Credit Line was drawn down.

## 8. CREDIT FACILITY (Continued)

At October 31, 2014, Credit Facility is as follows:

| | | |
|---|---|---|
| **Credit Facility** | **$** | **4,649,048** |
| Transaction costs | | (3,722,336) |
| Interest payable | | 324,961 |
| Accretion expenses | | 1,470,752 |
| **Balance at October 31, 2014** | **$** | **2,722,425** |

## 9. SHARE CAPITAL

### (a) Authorized

An unlimited number of common shares without par value.

### (b) Share issuances

During the year ended October 31, 2014:

i) On November 8, 2013, 400,000 stock options were exercised at a price of $0.11 for proceeds of $44,000.

ii) On December 12, 2013, the Company completed debt settlements with a number of arm's length creditors. The Company settled $1,652,105 of outstanding trade debts by issuing 3,219,617 common shares at a fair value of $0.16 per share.

iii) On January 7, 2014, 75,000 stock options were exercised at a price of $0.11 for proceeds of $8,250.

iv) On January 27, 2014, 136,000 stock options were exercised at a price of $0.11 for proceeds of $14,960.

v) On February 26, 2014, 100,000 stock options were exercised at a price of $0.11 for proceeds of $11,000.

During the year ended October 31, 2013:

vi) On December 19, 2012, the Company completed a non-brokered private placement pursuant to which the Company sold 7,966,794 shares for gross proceeds of $3,585,057. The Company paid cash finder's fees of $51,608 and issued 114,000 finder's warrants with each finder's warrant exercisable to purchase one share at a price of $0.50 until December 19, 2013.

vii) On December 28, 2012, the Company closed a non-brokered private placement of flow-through common shares. The Company issued 6,000,800 flow-through common shares at a price of $0.50 per share for gross proceeds of $3,000,400.. The Company paid aggregate finder's fees of $175,824 in cash plus 351,648 finder's warrants. Each finder's warrant was exercisable to purchase one non-flow-through common share at $0.55 until December 28, 2013. The Company recorded a flow-through premium liability in the amount of $420,056.

viii) On January 11, 2013, the Company issued 240,000 common shares on exercise of 240,000 warrants for gross proceeds of $30,000.

ix) On February 8, 2013, the Company closed the second and final tranche of the non-brokered private placement, issuing 2,472,222 common shares for gross proceeds of $1,112,500. The Company paid cash finder's fees of $55,626 and issued 123,610 finder's warrants with each finder's warrant exercisable to purchase one common share at a price of $0.50 until February 8, 2014.

## 9. SHARE CAPITAL (Continued)

### (b) Share issuances (continued)

x) On March 11, 2013, the Company issued 500,000 common shares with a fair value of $135,000 as a finder's fee in connection with the acquisition of the Sheini project in Ghana (note 5(c)).

xi) On April 19, 2013, the Company issued 400,000 common shares with a fair value of $68,000 in connection with the exercise by Cardero Coal of the option to acquire the Shares (note 5(d) (i)).

xii) On April 25, 2013, the Company issued 2,000,000 common shares to affiliates of Luxor as bonus shares in connection with a placement of senior secured notes in the aggregate principal amount of USD 5,500,000 to the Lenders (note 7).

xiii) On May 29, 2013, the Company issued 240,000 common shares on exercise of 240,000 warrants for gross proceeds of $30,000.

xiv) On June 3, 2013, the Company issued 200,000 common shares on exercise of 200,000 options for gross proceeds of $12,500.

### (c) 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:

| | 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Warrants outstanding, beginning of the year | 28,948,324 | $ 0.05* | 6,094,875 | $ 0.96 | 3,412,600 | $ 0.39 |
| Issued | 82,017,396 | $ 0.05 | 28,948,324 | $ 0.10 | 4,014,875 | $ 1.25 |
| | | | | $ | | |
| Exercised | - | $ - | (480,000) | $(0.125) | (1,332,600) | $ (0.34) |
| Expired | (589,258) | $ (0.53) | (5,614,875) | $ (1.25) | - | - |
| Warrants outstanding, end of the year | 110,376,462 | $ 0.05 | 28,948,324 | $ 0.10 | 6,094,875 | $ 0.96 |

*Re-priced to $0.05 per warrant effective September 17, 2014
The weighted average remaining contractual life of warrants outstanding at October 31, 2014 was 6.30 (2013 - 6.64) years.

## 9. SHARE CAPITAL (Continued)

### (c) Share purchase warrants (continued)

Warrants outstanding are as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Expiry Date | Exercise Price | Number of Warrants | Exercise Price | Number of Warrants |
| December 19, 2013 | $ - | - | $ 0.50 | 114,000 |
| December 28, 2013 | $ - | - | $ 0.55 | 351,648 |
| February 8, 2014 | $ - | - | $ 0.50 | 123,610 |
| August 8, 2020 | $ 0. 05 | 28,359,066 | $ 0.095 | 28,359,066 |
| December 5, 2020 | $ 0.05 | 28,359,066 | $ - | - |
| December 5, 2020 | $ 0.05 | 10,058,330 | $ - | - |
| August 8, 2021 | $ 0.05 | 27,500,000 | $ - | - |
| September 15, 2021 | $ 0.05 | 16,100,000 | $ - | - |
| | | 110,376,462 | | 28,948,324 |

### (d) 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 of grant. Stock option plan transactions are as follows:

| | 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Options outstanding, beginning of the year | 11,165,000 | $ 0.22 | 9,566,143 | $ 0.98 | 6,599,143 | $ 1.04 |
| Granted | 2,436,000 | $ 0.16 | 10,410,000 | $ 0.14 | 6,537,000 | $ 1.05 |
| Expired | (2,175,000) | $ 0.58 | (8,611,143) | $ 0.97 | (3,570,000) | $ 1.21 |
| Exercised | (711,000) | $ 0.11 | (200,000) | $ 0.07 | - | $ - |
| Options outstanding, end of the year | 10,715,000 | $ 0.14 | 11,165,000 | $ 0.22 | 9,566,143 | $ 0.98 |

The weighted average remaining contractual life of options outstanding at October 31, 2014 was 3.79 (2013 - 4.92) years.

The weighted average market price for 711,000 options exercised during the year ended October 31, 2014 was $0.11

## 9. SHARE CAPITAL (Continued)

### (d) Stock options (continued)

Stock options outstanding are as follows:

| | **2014** | | | **2013** | | |
|---|---|---|---|---|---|---|
| Expiry Date | Exercise Price | Number of Options | Exercisable at year End | Exercise Price | Number of Options | Exercisable at year End |
| November 9, 2013 | $ 1.10 | - | - | $ 1.10 | 400,000 | 400,000 |
| January 26, 2014 | $ 1.51 | - | - | $ 1.51 | 225,000 | 225,000 |
| March 23, 2014 | $ 1.16 | - | - | $ 1.16 | 25,000 | 25,000 |
| September 27, 2014 | $ 0.78 | - | - | $ 0.78 | 225,000 | 225,000 |
| January 4, 2015 | $ 0.45 | - | - | $ 0.45 | 200,000 | 200,000 |
| May 28, 2015 | $ 0.20 | 1,925,000 | 1,925,000 | $ 0.20 | 2,575,000 | 2,575,000 |
| July 3, 2020 | $ 0.11 | 6,354,000 | 6,354,000 | $ 0.11 | 7,515,000 | 7,515,000 |
| February 7, 2016 | $ 0.18 | 2,036,000 | 2,036,000 | - | - | - |
| October 22, 2016 | $ 0.06 | 400,000 | 400,000 | - | - | - |
| | | 10,715,000 | 10,715,000 | | 11,165,000 | 11,165,000 |

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:

| | **2014** | **2013** |
|---|---|---|
| Expected life (years) | 2.0 | 5.67 |
| Interest rate | 0.98% | 1.16% |
| Volatility | 97.51% | 74.62% |
| Dividend yield | 0.00% | 0.00% |

Share-based payment charges for the year ended October 31, 2014 totalled $197,468 (2013 - $671,036) (2012 – $3,350,460), allocated as follows:

| | **2014** | **2013** | **2012** |
|---|---|---|---|
| Consulting fees | $ - | $ 227,154 | $ 106,937 |
| Investor relations | - | 37,644 | 204,222 |
| Professional fees | - | 15,464 | 179,305 |
| Salaries and benefits | 197,468 | 390,774 | 2,859,996 |
| | $ 197,468 | $ 671,036 | $ 3,350,460 |

The weighted average fair value of options granted during the year was $0.08 (2013 - $0.06; 2012 - $0.32).

## 10. RELATED PARTY TRANSACTIONS

### (a) Related parties

The Company had entered into a retainer agreement dated May 1, 2007 with Lawrence W. Talbot Law Corporation ("LWTLC"), pursuant to which LWTLC agreed 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 was terminated, after giving one year's notice, by the Company effective August 23, 2014.

## 10. RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties

During the years ended October 31, 2014, 2013 and 2012, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Consulting fees | $ 64,000 | $ 185,000 | $ 255,000 |
| Directors fees | $ 27,015 | $ 132,000 | $ 160,000 |
| Exploration and evaluation assets | $ - | $ 49,000 | $ - |
| Professional fees | $ 88,272 | $ 87,511 | $ 87,500 |

Professional fees include amounts paid to a law firm of which an officer is a shareholder (note 10(a)).

### (c) Due from related parties

Amounts due from related parties are comprised as follows:

| | 2014 | 2013 |
|---|---|---|
| Unsecured promissory notes, 1% per annum, due the earlier of 30 days after demand or the due date, if applicable: | | |
| Wealth | $ 52,736 | $ 42,973 |
| Indico | - | 53,172 |
| Others | 64,562 | 60,986 |
| | $ 117,298 | $ 157,131 |

The Company recovered $574,608 during the year ended October 31, 2014 (2013 - $376,166) in rent and administration costs from Marvel Office Management, Wealth, Indico, Balmoral, Corvus and LWTLC, companies with common officers or directors.

Due to the current equity market condition, during the year ended October 31, 2014, the Company assessed the collectability of amounts due from related parties. The Company has concluded the amounts due from Indico (2013 - Indico; 2012 – Wealth and Indico) are unlikely to be collected in the foreseeable future and has recognized an impairment loss of $61,677 (2013 - $198,239; 2012 - $1,112,726).

### (d) Management compensation

Key management personnel compensation comprised:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Wages and benefits | $ 487,367 | $ 1,100,268 | $ 959,167 |
| Share-based payments | 165,530 | 253,599 | 1,481,212 |
| | $ 652,897 | $ 1,353,867 | $ 2,440,378 |

## 11. COMMITMENTS

The Company entered into a lease dated November 18, 2010 for office space located at 2300 – 1177 West Hastings Street, Vancouver, British Columbia, 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, British Columbia, 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. Cardero Coal has entered into sub-lease agreements, for 100% of the office space, dated September 27, 2013 for a term of four years and the rent is $42,016 per annum, plus operating costs and an agreement dated April 15, 2014 for a term of three years and six months and the rent is $77,726 per annum, to May 31, 2015 plus operating costs. Effective June 1, 2015 the rent will be $81,259 per annum plus operating costs.

Other commitments are disclosed elsewhere in these 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 and debt. 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 year ended October 31, 2014. The Company is not subject to externally imposed capital requirements.

The Company classified its accounts receivable and due from related parties as loans and receivables; and accounts payable and accrued liabilities, as other financial liabilities. The classification of investments is set out in note 4. The carrying values of cash and cash equivalents, accounts receivable 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. The short-term loan and credit facility are initially valued at fair value, and subsequently measured using effective interest rate method.

IFRS 13 *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

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

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

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

The 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.

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

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

| October 31, 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments | $ 127,870 | $ - | $ - | $ 127,870 |
| Short-term loan | $ - | $ - | $ (1,888,751) | $ (1,888,751) |
| Credit facility | $ - | $ - | $ (2,722,425) | $ (2,722,425) |

| October 31, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments | $ 409,276 | $ 87,470 | $ - | $ 496,746 |
| Short-term loan | $ - | $ - | $ (5,338,312) | $ (5,338,312) |

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 accordance with the Company's investment policy. In regard to amounts receivable, the Company is not exposed to significant credit risk, as they are primarily due from governmental agencies.

| | Oct 31, 2014 | Oct 31, 2013 |
|---|---|---|
| Bank accounts - Canada | $ 83,752 | $ 147,356 |
| Bank accounts - USA | - | 119,704 |
| Bank accounts - Others | 7,295 | 24,217 |
| | $ 91,047 | $ 291,277 |

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 $117,298 (2013 - $157,131) due from related parties at October 31, 2014, of which $117,298 (2013 - $144,517) were past due, the maximum exposure to credit risk is the carrying value of the receivables as the Company does not have any collateral for the receivables.

### (b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in settling its financial liabilities. 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 normally maintains sufficient cash to meet the Company's business requirements.

During the year-ended October 31, 2014, the Company further managed their liquidity risk by working with creditors to settle trade accounts payable in exchange for shares of the Company (note 9(b)) and reduced cash payments. In total, the Company settled outstanding trade payables in the amount of $4,575,538 by paying cash,$1,907,323 and exchanging for shares, $515,139, which resulted in a gain for accounting purposes of $2,153,078 (2013 - $nil; 2012 - $nil). However, at October 31, 2014, the cash balance of $91,047 (2013 - $291,277) would be insufficient to meet the cash requirements for the Company's administrative overhead, debt repayments, maintaining its mineral interests and continuing with its exploration program in the coming

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

### (b) Liquidity risk (continued)

year. Therefore, the Company will be required to raise additional capital in order to fund its operations in fiscal 2015 (notes 1 and 15). At October 31, 2014, the Company had accounts payable and accrued liabilities of $1,278,280 (2013 - $5,870,254), which are due within 30 days.

The Company and one of its subsidiaries have provided security against both the Credit Facility and the short-term loan. The security provides the debt holders a call against the assets of the Company, including the Carbon Creek mineral property to satisfy those debts should the Company be unable to meet their payment requirements at maturity of those instruments.

### (c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to 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 amount and short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of October 31, 2014.

The Company is not exposed to significant interest rate risk with respect to the Credit Facility and short-term loan, as these facilities have fixed interest rates over their respective terms to maturity.

ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary financial instruments are denominated in United States, Argentinean, Peruvian and Ghanaian currencies. The Company has not entered into any foreign currency contracts to mitigate this risk. 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 foreign exchange gain or loss by $351,573 (2013 - $333,811).

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 $1,278 (2013 - $4,967).

## 13. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Loss before income taxes | $ (79,902,420) | $ (29,947,850) | $ (10,507,323) |
| Canadian federal and provincial income tax rates | 26.00% | 25.57% | 25.25% |
| Income tax recovery | (20,774,629) | (7,657,665) | (2,653,099) |
| Increase (decrease) due to: | | | |
| Non-deductible expenses | 6,607 | 13,497 | 50,938 |
| Stock-based compensation | 51,342 | 167,630 | 845,991 |
| Non-taxable portion of capital gains | (766,410) | 184,967 | (686,660) |
| Reduction in tax assets from flow-through shares | - | 348,108 | - |
| Write-off of exploration and evaluation assets | 18,135,919 | 4,524,456 | 692,168 |
| Losses for which no tax benefit has been recorded | 1,664,956 | 2,631,056 | 2,869,339 |
| Change in enacted tax rates | - | (54,766) | 27,707 |
| Flow-through share premium reversal | (232,613) | (187,443) | - |
| Foreign exchange and other translation adjustments | 1,695,205 | 192,723 | 43,657 |
| Difference between Canadian and foreign tax rates | (13,590) | (350,750) | (103,265) |
| Income tax expense | $ (233,213) | $ (188,187) | $ 1,086,776 |

Effective April 30, 2013, the Canadian Federal corporate tax rate remained the same as 15% and the British Columbia provincial tax increased from 10% to 11%. The overall increase in tax rates has resulted in an increase in the Company’s statutory tax rate from 25.57% to 26.00%.

The components of unrecognized net deferred tax assets (liabilities) are as follows:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Non-capital loss carry-forwards | $ 13,492,386 | $ 14,882,988 | $ 10,559,384 |
| Property and equipment | 213,231 | 130,332 | 208,258 |
| Share issue costs | 86,062 | 151,427 | 65,643 |
| Exploration and evaluation assets | 20,117,005 | 3,405,934 | 1,348,251 |
| Resource related investments | 936,725 | 1,033,418 | 779,601 |
| Other | 766,410 | 123,060 | 779,113 |
| | $ 35,611,819 | $ 19,727,159 | $ 13,740,250 |

## 13. INCOME TAXES (Continued)

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

| Available to | Canada | Foreign | Total |
|---|---|---|---|
| 2015 | $ - | $ 262,479 | $ 262,479 |
| 2016 | - | 127,398 | 127,398 |
| 2017 | - | 120,186 | 120,186 |
| 2018 | - | 478,826 | 478,826 |
| 2019 | - | 512,497 | 512,497 |
| 2020 | - | 369,655 | 369,655 |
| 2021 | - | - | - |
| 2022 | - | - | - |
| 2023 | - | - | - |
| 2024 | - | - | - |
| 2025 | - | - | - |
| 2026 | 2,126,516 | - | 2,126,516 |
| 2027 | 3,086,818 | 8,817 | 3,095,635 |
| 2028 | 4,130,985 | 354,428 | 4,485,413 |
| 2029 | 2,259,119 | 230,673 | 2,489,792 |
| 2030 | 6,285,290 | 560,881 | 6,846,171 |
| 2031 | 947,602 | 659,878 | 1,607,480 |
| 2032 | 2,160,105 | 240,354 | 2,400,459 |
| 2033 | 11,769,806 | 168,369 | 11,938,175 |
| 2034 | 7,005,982 | 261,014 | 7,266,996 |
| Deferred expiry | - | 6,593,362 | 6,593,362 |
| | $ 39,772,223 | $ 10,948,817 | $ 50,721,040 |

During the year ended October 31, 2013, the Company recorded a flow-through premium liability in the amount of $420,056 pursuant to a private placement with a balance of $232,613. The Company had $1,661,521 of exploration expenditures to be incurred for flow-through purposes by December 31, 2013. The Company did not incur these expenditures and recorded a flow-through Part XII.6 interest and penalty in the amount of $166,152 and recorded a deferred tax recovery of $232,613. The Company entered into an agreement with one of the flow-through investors to absorb all of the reduction and accept a reduced renunciation, in consideration of the payment by the Company of the sum of $227,500 (paid).

## 14. SUPPLEMENTAL CASH FLOW INFORMATION

| | 2014 | 2013 |
|---|---|---|
| Accounts payable related to property expenditure | $ 193,478 | $ 3,129,537 |
| Interest payable | $ 387,129 | $ 141,693 |
| Shares issued for short-term loan | $ - | $ 420,000 |
| Shares issued for settlement of trade payable | $ 515,139 | $ - |

## 15. EVENTS AFTER THE REPORTING DATE

Subsequent to October 31, 2014:

**(a)** On September 17, 2014 the Company amended the maturity date of the Notes in the amount of USD 2.0 million plus interest of USD 0.2 million due August 8, 2014 with an extension of the maturity date to August 8, 2015.

As consideration for the extension of the maturity date, the Company will issue to the Lenders, an aggregate 27,500,000 transferable common share purchase warrants of the Company (the "Additional Warrants") and subject to receipt of requisite approval from the TSX and the Company's shareholders, amend the exercise price of the Warrants as issued under the Notes from the current exercise price thereof to $0.05 per share. Each Additional Warrant shall entitle the holder to subscribe for one common share of the Company for a period of seven years from the date of issue at a price of $0.05. The warrants, and any shares issuable on the exercise thereof, will be subject to a hold period in Canada of four months from the date of issuance, plus additional restrictions under United States securities laws.

The Company held a Special Annual General Meeting December 18, 2014 and obtained shareholder approval of the grant of the Additional Warrants, any change of control that may result from the holder exercising such Additional Warrants; and amendment of the exercise price of the Warrants as issued under the Notes from the current exercise price thereof to $0.05 per share. As acceptance of the Warrants re-pricing occurred during the Company's first quarter of 2015, a revaluation of the Warrants will occur in that same period. The Company does not expect the revaluation to result in a significant adjustment to the values recorded as at October 31, 2014.

**(b)** On September 17, 2014, the Company increased the Credit Line to USD 6.0 from USD 5.0 million.

As consideration for the increase in the Credit Line, the Company will issue to the Lenders, an aggregate 16,100,000 transferable common share purchase warrants of the Company (the "New Credit Warrants") and subject to receipt of requisite approval from the TSX and the Company's shareholders, amend the exercise price of the Warrants as issued under the Credit Line from the current exercise price thereof to $0.05 per share. Each New Credit Warrant shall entitle the holder to subscribe for one common share of the Company for a period of seven years from the date of issue at a price of $0.05. The warrants, and any shares issuable on the exercise thereof, will be subject to a hold period in Canada of four months from the date of issuance, plus additional restrictions under United States securities laws.

The Company held a Special Annual General Meeting December 18, 2014 and obtained shareholder approval of the grant of the New Credit Warrants, any change of control that may result from the holder exercising such New Credit Warrants; and amendment of the exercise price of the Warrants as issued under the Credit Line from the current exercise price thereof to $0.05 per share. As acceptance of the Warrants re-pricing occurred during the Company's first quarter of 2015, a revaluation of the Warrants will occur in that same period. The Company does not expect the revaluation to result in a significant adjustment to the values recorded as at October 31, 2014.

**CARDERO RESOURCE CORP.**
**Form 51-102F1**
**Management's Discussion and Analysis**
**For the year ended October 31, 2014**

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## INTRODUCTION

This Management Discussion and Analysis ("MD&A") for Cardero Resource Corp. ("Cardero" or the "Company") for the year ended October 31, 2014 has been prepared by management, in accordance with the requirements of National Instrument 51-102, as of January 26, 2015, and compares its financial results for the three months and year ended October 31, 2014 to the three months and year ended October 31, 2013. This MD&A provides a detailed analysis of the business of Cardero and should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes for the years ended October 31, 2014 and October 31, 2013. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars unless otherwise noted. The Company reports its financial position, results of operations and cash-flows in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### 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/reserve estimates and the economic analysis thereof contained in preliminary economic analyses or prefeasibility studies also may be deemed to be forward-looking statements in that they reflect a prediction of the mineralization that would be encountered, and the results of mining that mineralization, 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 the Carbon Creek Metallurgical Coal project in north-east British Columbia ("Carbon Creek");

- the potential for a production decision to be made concerning Carbon Creek, the potential commencement of any development of a mine at Carbon Creek following a production decision and the potential for any production from the Carbon Creek deposit;

- 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 and reserves at its mineral properties;

- the timing and cost of any proposed future work with respect to Carbon Creek, including with respect to the preparation of a bankable feasibility study in respect thereof;

- 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; and

- the Company's ability to negotiate acceptable option/joint venture or sale 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 raise the necessary capital to be able to continue in business and to implement its business strategies, 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, 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 Company's future cash requirements, and the ability of the Company to raise the funding necessary to carry out its planned activities and to meet its anticipated general and administrative expenses for the remainder of the fiscal year ending October 31, 2015;

- the level and volatility of the price of commodities, and coal 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 proposed work programs, particularly at Carbon Creek;

- conditions in the financial markets generally;

- the Company's ability to attract and retain key staff;

- the accuracy of the Company's resource/reserve estimates (including with respect to size and grade) and the geological, operational and price assumptions on which these are based;

- the ongoing relations of the Company with its underlying optionors/lessors, any joint venture and/or contractual partners, the applicable regulatory agencies, First Nations in British Columbia and indigenous groups in other countries; and

- that the metallurgy and recovery characteristics of samples from certain of the Company's mineral properties are reflective of the deposit as a whole.

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 deposit 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.

**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 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 January 26, 2015.

## 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 and, more recently, debt. The mineral exploration business is very high risk (See "Risk Factors").

#### Exploration Activities

*General*

Since 2010, Cardero has been focused on advanced stage projects, and on bulk commodities such as metallurgical coal, where it can add value through identification and acquisition of advanced projects. Metallurgical coal markets are experiencing a sustained downturn at present and Cardero's strategy is to maintain ownership of metallurgical coal assets, where holding costs are appropriate to market conditions, and to acquire additional coal resources where opportunities arise. In line with analyst opinion, Cardero management believes that the currently depressed market for metallurgical coal will recover in due course. While the timeline for a full recovery is neither assured nor certain, management believe that metallurgical coal assets could have significant future value and that the current downturn provides an excellent opportunity for acquisition of metallurgical coal assets.

In 2014, the Company acquired a 100% interest in approximately 15,000 hectares of applications for coal licenses from Anglo American. The licenses acquires are contiguous with the Carbon Creek joint venture property and could provide a growth opportunity for the Carbon Creek resource. The acquisition was made for $235,000, which management believes is good value for property prospective for metallurgical coal. Management are also seeking to make a number of additional metallurgical coal acquisitions in the coming year and believes that consolidation of the northeast coalfield could provide significant value in medium to long term (3 to 5 years). Discussions are in progress with several land holders.

The Company's strategy in respect of Carbon Creek is to maintain its interest only to the extent that it makes financial sense and the Company has the ability to do so. To this end, on May 31, 2014, the Company surrendered its interest in the Carbon Creek Coal Lease, as it could not justify making the approximately $12.5 million in advance royalties required in the next 5 years.

In addition to metallurgical coal assets, which should provide medium to long-term value, Cardero is also reviewing a number of opportunities outside of metallurgical coal. In particular, the Company is currently reviewing a number of copper and other base metal projects.

In the case of non-core assets such as precious metals projects in Argentina, the Company will seek to realize value for Cardero shareholders through joint ventures or dispositions.

| Property | Total Costs Capitalized at October 31, 2013 | Total Costs Capitalized at October 31, 2014 | Proposed Fiscal 2015 Expenditures[1] |
|---|---|---|---|
| Carbon Creek Metallurgical Coal Project, BC, Canada | $78,152,650 | $8,800,000 | $250,000 |

**Note:** 1. This amount represents the estimated exploration expenditures for the entire fiscal year ending October 31, 2015 and does not include property acquisition costs. **Estimated expenditures**

**are contingent upon ongoing successful results justifying further expenditures, as well as the Company raising the necessary financing to carry out its planned work, as it does not currently have the required funds to carry out the planned work.**

**Material Mineral Property**

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

The Carbon Creek property lies approximately 60 kilometres (km) northwest of the town of Chetwynd, BC and 40km west of the town of Hudson's Hope. Improved forest service roads connect the property with British Columbia Highway 29 between the towns of Chetwynd and Hudson's 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 northern end of the property is adjacent to the Williston Lake and is approximately 175km east of Mackenzie, BC by water.

The Property is in the Peace River Coalfield and, as at the effective date of this report, consists of four Coal Licenses (Licenses) covering 3,680 hectares (ha) and 25 applications for coal licenses (Applications) covering 26,910 ha, for a total area of 30,590 ha. Cardero holds a 75% interest in the Property through a joint venture ("JV") agreement with the Carbon Creek Partnership (CCP), which holds the remaining 25% interest in the JV. Any coal licenses issued pursuant to the Applications, and any coal leases issued pursuant to any coal licenses will, upon issuance, be subject to the JV and included as part of the Property.

From December 21, 2011 to May 30, 2014, Cardero held an interest in the coal located on 10 Crown Granted District Lots (CGDL or Freehold) via a coal lease (Lease) with the Peace River Partnership ("PRP"), which was part of the JV property. All previous public disclosures of coal resources and reserves for Carbon Creek by Cardero Resources were based upon the JV property as it existed at the time of such public disclosures, which included this additional 2,600 ha of coal tenure. Cardero withdrew from the Lease on May 30, 2014, at which time the CGDL ceased to be a part of the JV. Consequently, such previous public disclosures of coal resources and reserves may no longer be relied upon with respect to the Carbon Creek property as now constituted.

Pursuant to the JV, each joint venture partner is contributing its interest in the Property. The JV, known as the Carbon Creek JV, controls and operates the Property. The joint venture agreement provides that the CCP interest is a carried interest which requires Cardero to fund all of the exploration, development, construction and operation of the mine. However, CCP will not receive any of its share of the net proceeds of production from the Property until Cardero has recovered 100% of its investment including all development monies, exploration expenditures, and capital expenditures as well as the cost of acquiring the four Licenses. Following Cardero recovering its investment, the CCP is entitled to 25% of the net proceeds of production from the Property. Cardero is the manager of the Carbon Creek JV.

Carbon Creek is accessible by improved forest service roads that connect with British Columbia Highway 29 between the towns of Chetwynd and Hudson's Hope.

The nearest towns to the property are Chetwynd (population 2,500) located 60km southeast of the property and Hudson's Hope (population 1,200) located 40km east of the property. The nearest city is Fort St. John (population 18,300) located 110km east of property and is connected to the towns of Chetwynd and Hudson's Hope by Highway 29. 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 area has a continental highland climate featuring short, warm summers averaging 15.3°C (Chetwynd, July) and long, cold winters averaging -10.3°C (Chetwynd, January). Nearby Chetwynd averages 318 millimeters (mm) of rain and 1.69m of snow per year. Year-round mining operations are common in the region and winter conditions do not preclude surface or underground mining activities.

The property is located in the Inner Foothills of the Canadian Rocky Mountains. The regional topography is a belt of hills and low mountains. The highest elevation on the property is slightly over 1,600 meters (m) above sea level.

A watercourse called Carbon Creek flows from south to north through the property and enters the Williston Lake located in the north of the property.

During the period 1908 to 1951 coal exploration and evaluation at Carbon Creek was limited to surface mapping, trenching, and sampling along creek beds. From 1970 to 1981 Trend Exploration Limited conducted an aerial mapping survey and subsequently Utah International (now BHP Billiton) and its subsidiary, Utah Mines Ltd. ("Utah") completed comprehensive campaigns of exploration, including surface mapping, drilling, trenching, and bulk sampling.

There was a hiatus in coal exploration from the early 1980s to 2010 when Cardero Coal completed an eight-hole validation drilling program. The positive results permitted the Utah drilling data to be used in the completion of a resource estimate. Starting in August 2011 Cardero Coal initiated an in-fill drilling, surface mapping and bulk sampling program.

The Property lies within the Inner Foothills structural province of western Canada and contains medium volatile bituminous coals of the Gething Formation. The Foothills belt is characterized by folded and faulted Mesozoic sediments that are in transition between the relatively gently-dipping, non-deformed formations of the Alberta Plateau to the east and the highly-deformed Rocky Mountain Trend to the west. The subsequent structural deformation resulted in increased pressures and heat flows that have imparted metallurgical properties to the coal seams.

The Gething Formation consists of dark grey mudstone, siltstone, very-fine to coarse-grained sandstone, carbonaceous mudstone, silty and sandy mudstone, coaly plant debris, minor bentonite, black shale, occasional minor tuffs in the upper part, minor conglomerates and abundant but relatively thin coal seams.

Structural interpretations of the Property portray a doubly-plunging syncline lying between two anticlinal belts that straddle the western and eastern boundaries of the Property. The synclinal axis roughly parallels the course of Carbon Creek and plunges gently (less than 5°) to the south-southeast through the area. Dips in the central portion of the Property are nearly flat, ranging from 0º to 15º, increasing to up to 30º locally along the synclinal flanks in the east and west portions of the Property.

For coal deposits, "mineralization" refers to coal development and coal seam stratigraphy. The coals occurring within the Property are thought to occur in the upper to middle sections of the Gething Formation. The coal deposition found on the Property is typical of the Gething Formation, consisting of abundant coal seams, some showing favourable metallurgical properties. Although there are numerous seams throughout the Property, 61 identified coal seams are of sufficient thickness and extent to include in the geologic model and report as coal resources. The average thickness (m) and undiluted raw coal quality for the 61 coal seams within the Measured plus Indicated coal resource are outlined in Table 1.1.

**TABLE 1.1 AVERAGE THICKNESS AND UNDILUTED RAW COAL QUALITY OVER RESOURCE AREA**

| Resource Type | Average Thickness (m) | Coal Quality (Air Dried Basis) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Moisture (%) | Ash (%) | Sulphur (%) | Volatile Matter (%) | Fixed Carbon (%) | Calorific Value (kcal/kg) | FSI |
| Surface | 1.28 | 1.62 | 17.53 | 0.93 | 24.95 | 57.52 | 6,716 | 3.0 |
| Underground | 1.56 | 1.16 | 18.90 | 0.79 | 23.88 | 57.21 | 6,636 | 4.0 |

Values shown represent coal without out-of-seam dilution (OSD). Run-of-Mine (ROM) coal, including OSD, can be beneficiated using size specific density and froth flotation separating processes to improve coal quality. Coking properties such as Free Swelling Index (FSI) and dilation are typically improved as well through beneficiation. The washability testing and metallurgical analyses performed for Cardero and described in this report show this to be applicable to the coals on the Property.

The periods and types of coal exploration undertaken on the property are summarised in Table 1.2. The coal exploration methods can be separated into four types: regional mapping and field sampling, aerial surveys, coring and open-hole (rotary) drilling, and bulk sampling. Types by era are summarized below.

**TABLE 1.2 EXPLORATION METHODS**

| Year | Company/ Individual | Exploration Activity |
|---|---|---|
| 1908 -1945 | Various | Surface mapping, and sampling, trenching |
| 1970 | Trend Exploration | Aerial reconnaissance mapping |
| 1971 - 1981 | Utah | Surface mapping, drilling, 2D seismic program, bulk sampling |
| 2010 | Coalhunter | Validation drilling (coring) |
| 2011 - 2012 | Cardero | Surface mapping and drilling (geological, geotechnical and hydrogeological) |
| 2011 – 2012 | Cardero | Large diameter (6 inch) bulk sample drilling, (16) seams intersected |

Most drilling was vertically oriented, targeting coal seams that were usually dipping between 5$^{o}$ and 20$^{o}$ from horizontal. A 2D seismic program completed in 1975 focused on the mapping of surficial glacial till nearby Nine Mile Creek. Approximately half of the holes drilled on the Property were sampled core holes. The rotary holes were completed for the purposes of coal seam correlations and mapping depth of surface weathering or glacial till. The field recording of drillhole depth intervals were later reconciled with the aid of geophysical logs. Fifteen angled drillholes were completed by Cardero during 2011 to 2012 for the purposes of obtaining oriented core samples for detailed geotechnical logging and analyses. Bulk sampling was completed in 1976 by Utah from surface adits and by Cardero in 2011 and 2012 from vertically oriented large diameter (LD) drill cores. The LD holes comprise widely spaced bulk samples,

located both on the Property and the Freehold, which were subjected to a rigorous suite of washability and metallurgical testing, the results of which were extrapolated across the entire deposit.

The sample data used in the preparation of this report is restricted to analyses of slim core samples and bulk samples and excludes pre-1971 surface-derived samples.

Field sampling, handling and transport of drill core samples by Cardero were observed to be in accordance with industry best practice. Norwest believes that Utah used similar methods in their drill core sampling program in the 1970s and 1980s. The Utah samples predominantly went to coal laboratories in United States whereas the Cardero samples were sent to certified coal laboratories in both the United States and Canada.

The drill core samples were subject to a standard suite of raw proximate coal analyses that included FSI. The bulk samples and selected slim core samples were subjected to more detailed analyses specifically targeted for the evaluation of the coal's washability characteristics and metallurgical properties.

The 2011 and 2012 exploration programs conducted by Cardero included a select number of LD (6in/150mm) cores for the purpose of obtaining representative washability and carbonization data. Only one bulk sample per seam was obtained, with each sample ranging from 250kg to 325kg of coal. Analysis and discussion of mineral processing and metallurgical testing is contained in the PFS report (Norwest, 2012); however, some of the seam quality information has been either updated or expanded.

Each bulk sample, representing 16 of the key seams exhibiting metallurgical characteristics, was subjected to a comprehensive washability study program. Applying Limn® simulations to a process design typifying the washing of high value coking coals, a plausible product for each seam was developed. With this information, a physical *simulated seam product* (SSP) was assembled in the laboratory. These SSPs were then subjected to a wide range of quality tests including petrographics, plasticity and sole heated oven testing. A summary of key test results are listed in Table 1.4, composited as either hard coking coal (HCC) or semi-soft coking coal (SSCC).

**TABLE 1.4 SUMMARY OF COKING COAL CHARACTERISITICS**

| Resource Type | Moisture (%, ad) | Ash (%, ad) | Sulphur (%, ad) | Volatile Matter (%, ad) | Volatile Matter (%, ddmf) | FSI | CSR[1] | VR[2] ($Ro_{max}$) | P[3] (%, ad) |
|---|---|---|---|---|---|---|---|---|---|
| HCC | 0.71 | 4.33 | 0.71 | 25.98 | 27.43 | 6.5 | 62.00 | 1.17 | 0.056 |
| SSCC | 1.12 | 4.95 | 0.93 | 29.64 | 31.58 | 3 | 42.00 | 0.94 | 0.033 |

[1]Coke Strength after Reaction (SSCC represents Seam 40 only)
[2]Vitrinite Reflectance
[3]Phosphorus Content

A resource estimation of the coal on the 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 coal resources were reported from a 3D block model generated using MineSight™ software. Numeric seam identifiers, ore volumes and resource limiting criteria were coded into the 3D block model from gridded surface files representing the extent of the surface and underground coal resource in accordance with GSC Paper 88-21 guidelines. The mineral resource estimates for surface and underground moderate geology-type coal reported from the current Carbon Creek geologic model are outlined in Table 1.5. The effective date of the resource statement is November 1, 2014.

The Property has an estimated 290Mt of in-place coal resources in the measured and indicated categories plus 161Mt in the inferred category. Table 1.5 breaks these resources into surface and underground tonnes. Figure 1.2 illustrates the extent of the coal resource across the Property.

**TABLE 1.5 CLASSIFICATION OF RESOURCE – CARBON CREEK PROPERTY – NOVEMBER 1, 2014**

| Deposit Type | ASTM Coal Rank | Measured (Mt) | Indicated (Mt) | Inferred (Mt) |
|---|---|---|---|---|
| Surface | mvB-hvB | 145 | 46 | 82 |
| Underground | mvB | 63 | 36 | 79 |
| **Total** | **mvB** | **290** | | **161** |

The geologic model used in the resource estimate provided in this report was completed in early 2013 and includes data from the entire Carbon Creek deposit, including the CGDL held under the Lease. For calculation of the resource estimate provided in this report, resource volumes within the 2013 geologic model were cut at the current property boundary due to the fact that Cardero withdrew from the Lease in May 2014. For clarity, no resources from the CGDL are included in the resource estimate presented in this report.

While resource volumes were truncated at the boundary of the Property, data extrapolated from the CGDL has been allowed to influence the characterization of the coal seams within the Property, including seam elevation, thickness, and numerous coal quality parameters. The author believes this is a valid approach and the inclusion of this data presents a more accurate representation of the coals occurring within the Property, as opposed to modeling the Property's data in isolation.

Mineral resources are not mineral reserves and there is no assurance that any mineral resources in this report will ultimately be reclassified as proven or probable reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability. There is no certainty that the results of an economic assessment would demonstrate that any of the reported resources would qualify as reserves.

**Other Mineral Properties**

Sheini Hills Iron Ore Project, Ghana

On July 2, 2014, Cardero Ghana sent a formal Notice of Withdrawal to Emmaland withdrawing from the North, Middle and South Sheini Joint Ventures. The withdrawal from such joint ventures became effective 60 days thereafter.

Organullo Project, Argentina

The Company's Argentinean subsidiary ("Cardero Argentina") holds the Organullo property directly, and there are no underlying agreements.

The Company is actively investigating ways to bring shareholders some value from this gold exploration project. **There can be no certainty that the Company will be successful in completing a deal**.

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

Keith Henderson, P.Geo., Cardero's Executive Vice President and a qualified person as defined by NI 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 and has approved the disclosure herein. Mr. Henderson is not independent of the Company, as he is an employee and holds incentive stock options.

Lawrence D. Henchel, P.G., of Norwest Corporation, is responsible for the preparation of the Carbon Creek 43-101 Report incorporated by reference into this AIF. Mr. Henchel is independent of the Company and does not hold more than 1% of the Common Shares.

**Risk Factors**

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties, primarily in British Columbia, Canada. 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 Carbon Creek, which has estimated reserves and resources, with no known resources and or known reserves), the following risk factors, among others, will apply:

*Lack of Operating Funds*: **At the present time, the Company is experiencing significant difficulty in raising additional capital to continue its operations. The Company has taken steps to conserve cash by reducing staffing, halting/delaying further work on its properties, including the Environmental Assessment Application and planned BFS for Carbon Creek, and shutting down its subsidiaries in Ghana, Peru and the United States. Although the Company continues to pursue potential funding opportunities, there can be no assurance that it will be successful in doing so. If the Company is not successful in raising funds it may be forced to further curtail or cease operations and may lose its interest in some or all of its properties, including Carbon Creek, which is its only material property at this time.**

*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.

**Other than at Carbon Creek, there are no known reserves or 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*: Since 2008, 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 2012/13, 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 commodity prices may impact the Company's future revenues, profits and cash flow

- volatile energy prices, commodity and consumables prices and currency exchange rates impact potential production costs

- the devaluation and volatility of global stock markets impacts the valuation of the Common Shares, which may impact the Company's ability to raise funds through the issuance of Common Shares

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

*Share Price Volatility:* In 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 placees 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 in obtaining, 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 can be a very detailed and time-consuming process. Title to, and the area of, mineral properties 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 Argentina and Ghana, where blockades of access to the Company's properties, hostile actions by local communities and indigenous peoples 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. Such issues can also occur in Canada, especially in connection with actions concerning resource development projects and involving first nations and environmental protest groups.

*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, with the exception of Carbon Creek, 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, the sale or optioning of a portion of its interest in its mineral properties or debt financing, none of which may be available at any particular time. 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, through the sale or possible syndication of its properties, or through short-term debt facilities, there is no assurance that any such funds will be available through any of such methods 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 Argentina. In other 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, 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 other countries, the Company also maintains accounts in U.S. dollars and Argentinean pesos. The Company's operations in Argentina 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.

*Minimum Throughput Payments:* The Company has an agreement with Ridley Terminals to provide port services that contain minimum throughput charges. In the event the Company is unable to produce and sell coal to meet these commitments, and it is unable to sell port services to a third party, it may have to pay minimum throughput charges to Ridley Terminals without making use of the port services made available by Ridley Terminals. As of October 27, 2014 the Company declared Force Majeure due to government inaction as defined in sections 14.2 of the 2012 Terminal Services Agreement. The Company is currently committed to ship 12.2 million tonnes of coal through Ridley Terminals over the course of 17 years.

*Environmental Restrictions*: The activities of the Company are subject to environmental regulations promulgated by government agencieson 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;
- reserve, 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 (with the exception of Carbon Creek) 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 coal, iron ore and other commodities, 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.**

*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 or 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 rateably 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 year ended October 31, 2014, the Company incurred a net loss of $79,669,207 (2013 – $29,759,663).

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.

***Year ended October 31, 2014 compared to year ended October 31, 2013***

The Company's general and administrative costs were $77,075,382 (2013- $25,987,263), and reviews of the major items are as follows:

- Consulting fees decreased to $225,363 (2013 - $1,517,453), primarily due to a reduction in activity in the Company's subsidiaries and cost reductions implemented by the Company due to less activity;

- Insurance costs decreased to $98,178 (2013 - $195,431), primarily due to a reduction in activity in the Company's subsidiaries and an adjustment of $35,774 to the understated insurance expenses related to 2013;

- Investor relations costs decreased significantly to $11,056 (2013 - $143,355) due to a decrease in share based payments to $Nil (2013 - $37,644), as well as a significant reduction in investor relations activities due to the lack of corporate funds and reduction in the Company's activities. For the same reason, corporate development costs declined to $60,836 (2013 - $266,723) as did travel costs, which fell to $59,791 (2013 - $276,024);

- Office costs of $435,112 (2013 - $794,124) decreased primarily due to a slow-down of activities in the Company, the curtailing of operations in Cardero Coal, and significant reductions in the activities of the Company's Ghanaian, Peruvian and Argentinean subsidiaries due to a curtailing of exploration activities in these countries;

- Professional fees of $501,457 (2013 - $1,963,715), decreased due to significant reduction in the Company's overall activities and the fact that significant legal fees incurred in the prior year due to a loan facility that did not close and renegotiation of short term loan structure were not repeated in the current period;

- Salaries and benefits of $1,020,565 (2013 - $3,001,438) decreased due to the termination of all of the employees of Cardero Coal, a significant reduction in work force at the Ghanaian

subsidiary and a salary reduction for remaining employees of the Company. Share-based payments of $197,468 (2013 - $671,036) is included in salaries and benefits;

- Impairment losses on exploration and evaluation assets of $69,753,529 (2013 - $16,447,113). The Company identified that indicators of impairment existed for the Carbon Creek Property as a result of the depressed price of coal, the Company's market capitalization being significantly below the carrying value of net assets, and the withdrawal from the Burns Lease. The fair value of the Carbon Creek property was calculated using the value implied based on that asset being the primary security to settle the Company's short-term debt and credit facility. The fair value resulting from that calculation was $8,800,000, which resulted in the Company impairing the property by a $48,749,059 write-down. This write-down was calculated in accordance with level 3 of the fair value hierarchy, and is in addition to the Burns Lease impairment of $21,004,470, resulting from the aforementioned withdrawal from the Burns Lease. In 2013 the Company determined that the carrying value of TiTac and Longnose property in the USA and the Sheini property in Ghana were impaired and wrote off cumulative costs incurred to date of, $3,775,254 and $12,671,859 respectively, as an impairment charge in the condensed consolidated statement of loss; and

Impairment losses on deposits of $4,500,000 (2013 - $Nil) as a result of the uncertainties being experienced with the Carbon Creek property. The Company paid $4,500,000 (2013 - $4,500,000) as a non-refundable commitment deposit to Ridley Terminals Inc. (the "Terminal"), pursuant to a terminal services agreement dated May 14, 2012 (the "Terminal Agreement"). Pursuant to the Terminal Agreement, the Terminal agrees to provide services to the Company consisting of receiving and storing coal and loading coal onto ships at the Terminal's bulk materials handling and loading facilities during the period commencing January 1, 2014 and expiring December 31, 2028. The commitment deposit will be applied against the Terminal's charges for the shipping of the Company's coal at a rate of $1 per tonne for the first 4,500,000 tonnes. As at October 31, 2014, the Company wrote-down the deposit by $4,500,000 to a value of $Nil as a result of the uncertainties (detailed below) being experienced with the Carbon Creek property and the write-down to fair value of that property, which were viewed as indicators of impairment. The write-down was completed in accordance with IAS 36, *Impairment of assets*, and was for the full value of the deposit, as it was not practicable to estimate a value in use of the deposit as at October 31, 2014. Further, as the deposit is not assignable, fair value less costs to sell was estimated to be $nil in accordance with level 3 of the fair value hierarchy.

Other items showed a loss of $2,827,038 (2013 - $3,960,587). 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 expenses increased significantly to ($4,229,134) (2013 - $1,389,964), representing the interest on the USD 5.7M secured notes issued in August, 2013 and on the USD 5.0M line of credit established in December, 2013 (of which USD 4.1M has been drawn down);

- The realized loss on Trevali warrants in the current period of $87,470 (2013 - $Nil). These warrants expired, unexercised, on January 16, 2014;

- Due to an other-than-temporary decrease in the fair value of available-for-sale investments the Company recorded a loss of $231,427 (2013 – $1,437,030). These changes are due to market fluctuations which are entirely outside of the Company's control;

- The Company recognized a gain of $2,153,078 (2013 - $Nil) on the settlement of certain debts to trade creditors., The Company settled outstanding trade payables in the amount of $4,575,323 by paying cash, $1,907,323 and exchanging for shares, $515,139, which resulted in the gain of $2,153,078;

- The Company received a facilitation fee of $670,080 (2013 - $Nil) in connection with services rendered by the Company so as to enable Cardero Argentina to proceed with the sale of its interest in the Minas Pirquitas property in Argentina;

- As a consequence of a flow-through share private placement completed in December, 2012 (“Placement”), the Company was required to incur certain exploration expenditures for flow-through purposes on or before December 31, 2013. The Company did not incur $1,661,521 of these expenditures and was therefore required to pay to the Canada Revenue Agency Flow-Through Part XII.6 interest and penalties in the amount of $166,152 (2013 $Nil); and

- The Company entered into an agreement with one of the investors in the Placement to absorb all of the reduction in required expenditures and thereby accept a reduced renunciation, in consideration of the payment by the Company of the sum of $227,500.

***Three Months ended October 31, 2014 compared to three months ended October 31, 2013***

The Company’s operating expenses were $54,860,217 (2013 - $2,353,526), and reviews of the major items are as follows:

- Consulting fees decreased to $5,989 (2013 - $519,057), primarily due to a reduction in activity in the Company’s subsidiaries and cost reductions implemented by the Company due to less activity;

- Corporate development of $7,976 (2013 – 98,781) decreased due to less activity as a result of slowdown of the equity market in the current period;

- Professional fees decreased significantly to $192,591 (2013 - $488,982), due to significant reduction in the Company’s overall activities and the fact that significant legal fees incurred in the prior year due to a loan facility that did not close and renegotiation of short term loan structure were not repeated in the current period;

Impairment losses on deposits of $4,500,000 (2013 - $Nil) as a result of the uncertainties being experienced with the Carbon Creek property. The Company paid $4,500,000 (2013 - $4,500,000) as a non-refundable commitment deposit to Ridley Terminals Inc. (the “Terminal”), pursuant to a terminal services agreement dated May 14, 2012 (the “Terminal Agreement”). Pursuant to the Terminal Agreement, the Terminal agrees to provide services to the Company consisting of receiving and storing coal and loading coal onto ships at the Terminal’s bulk materials handling and loading facilities during the period commencing January 1, 2014 and expiring December 31, 2028. The commitment deposit will be applied against the Terminal’s charges for the shipping of the Company’s coal at a rate of $1 per tonne for the first 4,500,000 tonnes. As at October 31, 2014, the Company wrote-down the deposit by $4,500,000 to a value of $Nil as a result of the uncertainties (detailed below) being experienced with the Carbon Creek property and the write-down to fair value of that property, which were viewed as indicators of impairment. The write-down was completed in accordance with IAS 36, *Impairment of assets*, and was for the full value of the deposit, as it was not practicable to estimate a value in use of the deposit as at October 31,

2014. Further, as the deposit is not assignable, fair value less costs to sell was estimated to be $nil in accordance with level 3 of the fair value hierarchy;

- Office costs of $73,141 (2013 - $170,694), decreased primarily due to a slow-down of activities in the Company, the curtailing of operations in Cardero Coal, and significant reductions in the activities of the Company's Ghanaian, Peruvian and Argentinean subsidiaries due to a curtailing of exploration activities in these countries; and

- Impairment losses on exploration and evaluation assets of $48,749,059 (2013 - $64,650). The Company identified that indicators of impairment existed for the Carbon Creek Property as a result of the depressed price of coal, the Company's market capitalization being significantly below the carrying value of net assets, and the withdrawal from the Burns Lease. The fair value of the Carbon Creek property was calculated using the value implied based on that asset being the primary security to settle the Company's short-term debt and credit facility. The fair value resulting from that calculation was $8,800,000, which resulted in the Company impairing the property by a $48,749,059 write-down. This write-down was calculated in accordance with level 3 of the fair value hierarchy.

Other items showed a loss of $1,101,922 (2013 - $1,693,936). 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 expenses increased significantly to $1,374,387 (2013 - $781,452), representing the interest on the USD 5.7M secured notes issued in August, 2013 and on the USD 5.0M line of credit established in December, 2013 (of which USD 4.1M has been drawn down);

- Due to a decrease in the fair value of available-for-sale investments the Company recorded a loss of $100,766 (2013 -$83,041). These changes are due to market fluctuations which are entirely outside of the Company's control; and

- The Company recognized a gain on settlement of accounts payable of $590,062 (2013 - $Nil) on the settlement of debts to a trade creditor in the amount of $820,176 and adjusted for a $50,000 deposit.

## SELECTED ANNUAL INFORMATION

The Company's consolidated financial statements for the year ended October 31, 2014 have been prepared in accordance with IFRS. The following selected financial information for the year ended October 31, 2014 is taken from the Company's audited consolidated financial statements for the year ended October 31, 2014. The information for the years ended October 31, 2013 and 2012 are taken from the audited consolidated financial statements for the years ended October 31, 2013 and 2012. This information should be read in conjunction with those statements. Selected annual financial information appears below.

| | October 31, 2014 | October 31, 2013 | October 31, 2012 |
|---|---|---|---|
| Interest (expense) revenue | $(4,229,134) | $(1,389,964) | $149,434 |
| Loss for the year | $(79,669,207) | $(29,759,663) | $(11,594,099) |
| Net loss per share | $(0.68) | $(0.27) | $(0.13) |
| Total assets | $11,179,018 | $89,114,381 | $106,301,442 |

## SUMMARY OF QUARTERLY RESULTS

The table below sets out the quarterly results for the past eight quarters:

**Fiscal 2014**

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Interest income (expenses) | $ (1,508,216) | $ (1,022,605) | $ (599,668) | $ (1,098,645) |
| Gain (loss) on sale of investments | (4,589) | (4,024) | 71 | 6,754 |
| Impairment (losses) on available-for-sale investments | (10,144) | (61,985) | (58,532) | (100,766) |
| Write-off of exploration and evaluation assets | - | (21,000,947) | (3,523) | - |
| Net loss | ( 1,438,413) | (23,109,332) | (261,245) | (54,860,217) |
| Net loss per share | (0.01) | (0.20) | (0.01) | (0.46) |
| Comprehensive loss | $ (1,419,290) | $ (23,089,013) | $ (307,027) | $ (54,866,712) |

**Fiscal 2013**

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Interest income (expenses) | $ 16,705 | $ (49,385) | $ (575,832) | $ (781,452) |
| Gain (loss) on sale of investments | 17,230 | - | - | (56,792) |
| Impairment losses on available-for-sale investments | (596,766) | (515,769) | (241,454) | (83,041) |
| Write-off of exploration and evaluation assets | (3,775,254) | - | (12,736,509) | 64,650 |
| Net loss | ( 6,456,276) | (3,303,693) | (16,091,678) | (3,908,016) |
| Net loss per share | (0.06) | (0.03) | (0.14) | (.04) |
| Comprehensive loss | $ (6,384,719) | $ (3,383,243) | $ (15,851,258) | $ (3,961,245) |

**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 and these are the factors that account for material variations in the Company's quarterly net losses, none of which are predictable. While the Company may seek, in the future, to sell some or all of the interests in other of its exploration and evaluation assets, the timing and potential effect of any such sale is impossible to predict. The write-off of exploration and evaluation assets 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. General operating costs other than the specific items noted above tend to be quite similar from period to period. Interest expense is dependent to a large degree upon the necessity of the Company to secure funding through long or short term debt (until April, 2013, the Company did not have any short or long-term debt or the associated interest expense) and the success of the Company in securing such debt financing, as well as the relative

interest rate negotiated, which cannot be predicted in advance. However, the increasing reliance by the Company on short-term debt/lines of credit, will have the effect of significantly increasing interest expense for the fiscal year ended October 31, 2014 and this is not expected to change for the foreseeable future.

## LIQUIDITY AND CAPITAL RESOURCES

The Company has no revenue generating operations from which it can internally generate funds. Over the past three fiscal years, 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. The Company has also successfully generated operating funds through the sale of certain of its resource related investments, some of which had 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. As illustrative of this, the current market conditions for junior resource equities have resulted in a significant decline in the market value, and hence the price at which the Company can sell, any of its remaining resource related investments, and the Company does not presently envision raising any further significant funds through the sale of such investments. In addition, the Company has already disposed of the bulk of its resource-related investments and therefore does not anticipate being able to generate material funds through further sales in the foreseeable future. The Company can raise funds through the sale of interests in its mineral properties, and negotiations in this regard are underway, although there can be no assurance that it will be successful in doing so.

In 2013 the Company successfully secured funding through the sale of senior secured notes and establishing secured lines of credit, which, while they generate working capital, also bring with them significant interest expense. In addition, as such financings are denominated in US dollars, they increase the foreign exchange loss risk to the Company as the US-Canadian exchange rate may be significantly lower upon repayment that when the funding was initially secured or advanced.

On August 9, 2013 the Company completed a private placement of senior secured notes (the "Kopple Notes") in the aggregate principal amount of USD 5,700,000 with entities controlled by Robert C. Kopple of Los Angles, California, USA (the "Kopple Lenders"). The full proceeds of the Kopple Notes were used to pay off the indebtedness owing to the holders of certain senior secured notes issued in April 2013 immediately following closing of the Kopple Note transaction.

Kopple Notes in the amount of USD 3,700,000 were due no later than March 14, 2014, while USD 2,000,000 of the Kopple Notes is due on August 8, 2014. Interest accrues at the rate of 10 per cent per year, payable quarterly. The Kopple Notes are secured by a general security agreement over the assets of the Company, as well as a specific pledge of the shares of Cardero Coal. Cardero Coal also provided a corporate guarantee. The Kopple Notes may be redeemed by the Company at any time at par plus accrued interest. Should there be a change of control of the Company or Cardero Coal while the Kopple Notes remain outstanding, other than a change of control caused by the Kopple Lenders or their associates or affiliates, the holders of the Kopple Notes will have the right to put the Kopple Notes to the Company for an amount equal to 110% of par plus accrued interest.

As additional consideration for purchasing the Kopple Notes, the Kopple Lenders were issued transferrable warrants ("August Kopple Warrants") to purchase an aggregate of 28,359,066 common shares of the Company. The August Kopple Warrants have a term of seven years, and are exercisable at a price of 9.5 cents.

On December 5, 2013 the Company completed the implementation of a USD 5,000,000 line of credit ("Credit Line") from the Kopple Lenders. The Credit Line reflects or includes all amounts advanced by the Kopple Lenders since the purchase of the Kopple Notes, interest due under the Kopple Notes, and amounts to be advanced in the future. Interest is payable by the Company on the amount outstanding under the Credit Line from time to time at the rate of 10% per annum. The security granted by the Company in connection with the Kopple Notes will extend to all indebtedness of the Company under the Credit Line. In conjunction with the establishment of the Credit Line, the maturity date for USD 3,700,000 million of the Kopple Notes was extended from December 31, 2013 subsequently to February 28, 2014 and further extended to March 31, 2014. All amounts outstanding under the Credit Line are due and payable on or before January 5, 2016. The Kopple Lenders will have the right to seek representation on the Company's board of directors.

In March, 2014, the Company received a total of $3,774,651 (including interest) in connection with its application for the BC Mineral Exploration Tax Credit ("BCMETC"). On receipt, the BCMETC funds were used to make part of the payment of USD 3,920,986 (representing the USD 3,700,000 principle amount plus USD 220,986 in interest) due on or before March 14, 2014 under the Kopple Notes, with the balance of USD 560,029 in excess of the BCMETC being paid from the Credit Line. On August 25, 2014, the Company made a payment of USD 480,000 under the Credit Line, thereby reducing the amount owing and interest thereon.

As additional consideration for the establishment and funding of the Credit Line, the Company agreed to issue to the Lenders transferrable common share purchase warrants to purchase an aggregate of 38,417,398 common shares of the Company (the "December Kopple Warrants"). Of this number, 28,359,066 were issued to the Kopple Lenders on the closing of the Credit Line on December 5, 2013. The issuance of the additional 10,058,330 December Kopple Warrants is subject to the approval thereof by the Company's shareholders (subsequently obtained, see below). The December Kopple Warrants have a term of seven years, and are exercisable at a price of $0.139 (subsequently reduced, see below).

At its 2014 Annual General Meeting held April 4, 2014 in Vancouver, British Columbia ("AGM"), the Company's shareholders approved, by 95.12% of the votes cast (excluding any votes cast by Robert C. Kopple or his affiliates or associates), each of the following matters:

1. the issuance of additional December Kopple Warrants to purchase an additional 5,029,165 common shares to E.L. II Properties Trust and warrants to purchase an additional 5,029,165 common shares to the Kopple Family Partnership, LP., and thereby resulting in the Company having made issuable, within a three month period, a number of common shares in excess of 25% of the number of common shares outstanding at the commencement of such three month period;

2. the reduction in the exercise price, from $0.139 to $0.10, of the issued, and to be issued, December Kopple Warrants;

3. the extension of the expiry date of certain incentive stock options to purchase 3,600,000 common shares of the Company at $0.10 held by Robert C. Kopple ("Kopple Options") to July 3, 2020 (unless sooner exercised) notwithstanding that Mr. Kopple sooner ceases, for any reason, to be qualified to hold incentive stock options under the 2012 Incentive Stock Option Plan of the Company; and

4. the exercise, by Mr. Robert C. Kopple, and any of his associates or affiliates, including, without limitation, the Lenders, of the Kopple Option, the August Kopple Warrants, the December Kopple Warrants, which exercises may result in Robert C. Kopple, together with his associates and affiliates (including the Lenders), holding in excess of 19.99% of the then issued common shares of the Company, and the consequent creation of Robert C. Kopple as a control person of the Company.

In September 2014 the Company amended the maturity date of the Notes in the amount of USD 2.0 million plus interest of USD 0.2 million due August 8, 2014 with an extension of the maturity date to August 8, 2015. As consideration for the extension of the maturity date, the Company issued to the Lenders, an aggregate 27,500,000 transferable common share purchase warrants of the Company (the "Additional Warrants") and subject to receipt of requisite approval from the TSX (received) and the Company's shareholders (received), amend the exercise price of the Warrants as issued under the Notes from the current exercise price thereof to $0.05 per share. Each Additional Warrant shall entitle the holder to subscribe for one common share of the Company for a period of seven years from the date of issue at a price of $0.05.

In September 2014 the Company increased the Credit Line to USD 6.0 from USD 5.0 million. As consideration for the increase in the Credit Line, the Company will issue to the Lenders, an aggregate 16,100,000 transferable common share purchase warrants of the Company (the "New Credit Warrants") and subject to receipt of requisite approval from the TSX (received) and the Company's shareholders (received), amend the exercise price of the Warrants as issued under the Credit Line from the current exercise price thereof to $0.05 per share. Each New Credit Warrant shall entitle the holder to subscribe for one common share of the Company for a period of seven years from the date of issue at a price of $0.05.

In December 2014 at the Company's extraordinary general meeting held in Vancouver, BC on December 18, 2014, shareholders approved, by a 97% margin, the following matters:

1. the issuance to affiliates of Robert C. Kopple ("Lenders") of 43,600,000 share purchase warrants, having an exercise price of $0.05 and a term of 7 years, in connection with the one-year extension of the maturity date of an existing secured note held by a Lender and the increase in the existing credit line granted to the Company by the Lenders;

2. the reduction in the exercise price, from $0.095 to $0.05, of 28,359,066 outstanding share purchase warrants held by the Lenders; and

3. the reduction in the exercise price, from $0.10 to $0.05, of 38,417,398 share purchase warrants held by, or to be issued to, the Lenders.

The issuance of the additional share purchase warrants, and the repricing of the existing or to be issued warrants is, in each case, subject the acceptance thereof filing thereof by the TSX.

The Lenders have requested that the Company amend the August Kopple Warrants and the December Kopple Warrants to include a "cashless" exercise feature and the Company has agreed to do so, subject to settling approved wording in respect thereof. The amendment of the warrants to include such a feature does not require TSX acceptance, provided that an exercise formula acceptable to the TSX is used and it is the intention of the parties to use such a formula.

In December 2013, the Company successfully completed a number of debt settlements with a number of arm's length creditors. Pursuant to such settlements, on December 12, 2013, the Company settled an aggregate of $2,690,473 of outstanding trade debts in consideration of the payment, either on closing or over time, of an aggregate of $1,038,367 in cash plus the issuance of 3,219,617 common shares at a deemed price of $0.16 per share. During the year ended October 31, 2014, in total, the Company settled outstanding trade payables in the amount of $4,575,538 by paying cash, $1,907,323 and exchanging for shares, $515,139, which resulted in a gain for accounting purposes of $2,153,078.

The Company expects that it will operate at a loss for the foreseeable future. While the Company has secured financing through the establishment of the Credit Line, the Company requires additional funding in order to carry on business and meet its objectives of advancing the Carbon Creek project. The Company is focussed on securing additional funding but, at this time, currently has no funding commitments or arrangements for additional financing beyond the Credit Line and there can be no assurance that it will be successful in doing so.

As October 31, 2014, the Company reported cash and cash equivalents of $91,047 compared to $291,277 at October 31, 2013. The change in cash and cash equivalents over the year is comprised of funds used by investing activities of $3,177,563 and ($4,801,696) from operations, and $1,423,903 provided by financing activities due to drawdowns under the Credit Line and repayment of loan. As at October 31, 2014, the Company had a working capital deficit of $1,519,456 compared to working capital of $6,498,875 at October 31, 2013.

Over the past year, the Company has taken steps to reduce its cash requirements, including terminating all of the employees of Cardero Coal and several of the Company's employees, terminating certain consulting agreements, implementing a 20% reduction in the salaries of the remaining employees of the Company, stopping work on the BFS and determining not to proceed with application for an EAC for Carbon Creek, selling off or shutting down the operations of its subsidiaries in Mexico(sold), Peru, Argentina and Ghana and reducing its office space and concurrent expenses. The Company also disposed of its materials testing laboratory, including all laboratory equipment, in South Carolina, in consideration of receiving public company securities valued at USD 100,000 (subsequently sold by the Company) and the forgiveness of USD 35,000 owing by the Company.

The Company anticipates that its monthly burn rate for general and administrative expenses is approximately $57,300, and that the undrawn amount available under its current secured line of credit is approximately USD 1,356,335 as at January 29, 2015. This amount is sufficient to fund the Company's anticipated general and administrative expenditures for the balance of the fiscal year ending October 31, 2015. However to carry out any work on any of its properties, including Carbon Creek, the Company will be required to raise additional funding. If the Company is unsuccessful in doing so, then it will not be able to proceed with any meaningful activities at Carbon Creek.

Other than cash held by its subsidiaries for their immediate operating needs in Argentina all of the Company's cash reserves are on deposit with major financial institutions or invested in Government of Canada Treasury Bills or Banker's Acceptances issued by major Canadian chartered banks. The Company does not believe that the credit, liquidity or market risks with respect thereto have increased as a result of the current market conditions. However, in order to achieve greater security for the preservation of its capital, the Company has, of necessity, been required to accept lower rates of interest which has also lowered its potential interest income.

The following table discloses the Company's contractual obligations for mineral property lease and option payments and committed operating lease obligations. The Company does not have any long-term debt or loan obligations. Under the terms of certain option agreements and mineral property leases, the

Company is required to make certain scheduled acquisition payments, incur certain levels of expenditures, and make lease and/or advance royalty payments as summarized in the table below in order to maintain and preserve the Company's interests in the related mineral properties. If the Company is unable or unwilling to make any such payments or incur such expenditures, the Company would lose or forfeit its rights to acquire or hold the related mineral properties. However, such payments are optional, and the Company can choose not to make such payments.

| | **Payments Due by Period** | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | ***Total*** | ***Prior to October 31, 2014 (9 months)*** | ***November 1, 2014 to October 31, 2017 (36 months)*** | ***November 1, 2017 to October 31, 2020 (36 months)*** | ***November 1, 2020 to October 31, 2023 (36 months*** |
| *Carbon Creek Mineral Property Volume commitment (*)* | $60,200,000 | $3,500,000 | $18,900,000 | $18,900,000 | $18,900,000 |
| *Operating Lease Obligations* | $2,223,740 | $479,896 | $1,468,669 | $1,237,609 | - |
| *Total Contractual Obligations* | $63,386,174 | $3,979,896 | $20,368,669 | $20,137,609 | $18,900,000 |

(*) The Company's agreement with Ridley Terminals Inc. subjects the Company to annual minimum volume commitments for shipping coal through the port facility. As a result of various delays on obtaining the necessary regulatory approvals, licenses and permits for the Carbon Creek property the Company declared force majeure due to government inaction as of October 27, 2014 as defined in sections 14.2 of the Terminal Agreement. Specifically, the force majeure event constitutes "acts or refusals to act of any government or government agency in.. its sovereign… capacity". By virtue of the delays and refusal to issue the relevant approvals, licenses and permits the Company has been required to defer the opening of its planned new mine. The Company cannot reasonably expect to have any further Coal Licenses nor work permits until at least 2016. As a result the Company cannot expect to be in a position to ship coal until 2020, at the earliest. The force majeure declaration is expected to mitigate from 2015 until 2020, payments the Company would have otherwise had to pay. Ridley has advised it disputes the Company's declaration of Force Majeure. At this time no further action has been taken by Ridley other than sending the 2014 commitment invoice.

## OFF BALANCE-SHEET ARRANGMENTS

The Company has no off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

During the three and twelve months ended October 31, 2014, 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:

| **Name** | **Relationship** | **Purpose of transaction** | **Three Months Ended** | **Twelve Months Ended** |
|---|---|---|---|---|
| Hendrik van Alphen | CEO, President & a Director of the Company | Wages and Salaries | $ 52,000 | $ 208,000 |
| Lawrence W Talbot | VP & General Counsel of the Company | Wages and Salaries | $ 20,000 | $ 80,000 |
| Keith Henderson | Executive Vice President of the Company | Wages and Salaries | $ 48,000 | $ 128,000 |
| Blaine Bailey | CFO of the Company | Wages and Salaries | $ 25,000 | $ 115,000 |
| Glenn Hoffman | CEO of Cardero Iron Ore | Wages and Salaries($US) | $ - | $ 26,666 |

| Name | Relationship | Purpose of transaction | Three Months Ended | Twelve Months Ended |
|---|---|---|---|---|
| Marla Ritchie | Corporate Secretary of the Company | Wages and Salaries | $ 15,000 | $ 69,000 |
| Stephan Fitch | Director of the Company | Director's fees | $ 3,000 | $ 10,000 |
| Stephan Fitch | Director of the Company | Consulting fees | $ - | $ 6,000 |
| Robert Van Doorn | Director of the Company | Director's fees | $ 3,000 | $ 7,000 |
| Leonard Harris | Director of the Company | Director's fees | $ 3,000 | $ 10,000 |
| Lawrence W. Talbot Law Corporation | Company controlled by an officer of the Company | Professional fees | $ 22,068 | $ 88,272 |
| Acuitas Consulting Ltd. | Company controlled by Executive Vice President of the Company | Consulting fees | $ - | $ 64,000 |

During the three and twelve months ended October 31, 2014, the following stock options where granted to related parties:

(a) On February 7, 2014, there were 2,036,000 stock options, exercisable at $0.18 per share until February 7, 2016, granted to related parties, as follows:

| Name | Relationship | Options |
|---|---|---|
| Hendrik van Alphen | CEO & President of the Company | 600,000 |
| Keith Henderson | Executive Vice-President of the Company | 600,000 |
| Stephan Fitch | Director of the Company | 336,000 |
| Blaine Bailey | CFO of the Company | 150,000 |
| Marla Ritchie | Corporate Secretary of the Company | 150,000 |

(b) On October 21, 2014, there were 400,000 stock options, exercisable at $0.06 per share until October 21, 2016, granted to related parties, as follows:

| Name | Relationship | Options |
|---|---|---|
| Robert van Doorn | Director of the Company | 400,000 |

## PROPOSED TRANSACTIONS

Except as noted elsewhere in this MD&A, although the Company is currently investigating/negotiating with a number of potential financing sources for equity or debt financings 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 previously or herein.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements.

### Mineral property impairment

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. The Company identified that indicators of impairment existed for the Carbon Creek Property as a result of the depressed price of coal, the Company's market capitalization being significantly below the carrying value of net assets, and the withdrawal from the Burns Lease. The indicators of impairment necessitated an impairment test in accordance with IAS 36, Impairment of assets. The impairment test focused on fair value of the Carbon Creek property, less costs to sell, because the Carbon Creek property is not sufficiently advanced to create a meaningful calculation of value in use. The fair value of the Carbon Creek property was calculated using the value implied based on that asset being the primary security to settle the Company's short-term debt and credit facility. The fair value resulting from that calculation was $8,800,000, which resulted in the Company impairing the property by a $69,753,529 write-down.

### Valuation of debt

Carrying value at amortized cost of the short-term loan and credit facility is estimated using an effective interest rate. Estimation of the effective interest rate includes uncertainties such as: the discount rate used and the fair value of common share purchase warrants issued as consideration. These estimates are subject to management judgments in setting the Company's discount rate. These uncertainties may result in the actual value of the obligations differing from the carrying value.

### Share-based payments

Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and are expensed to net loss over each award’s vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option/warrant. Changes in these input assumptions can significantly affect the fair value estimate.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company’s cash at October 31, 2014 was $91,047 of which $39,714 was held in US, Argentinean, Ghanaian and Peruvian currencies.

The Company’s receivables and payables at October 31, 2014 were normal course business items. The accounts receivable are settled on a regular basis. The Company’s investments in Abzu, Wealth, Artha, and Xiana are carried at quoted market value or an estimate thereof, and are classified as “available-for-sale” 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, although the current market prices and lack of liquidity for certain of such investments seriously affects the Company’s ability to so dispose of those investments.

## 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 October 31, 2014 as required by Canadian and US securities laws. Based on that evaluation and as a result of the material weakness in the Company's internal control over financial reporting discussed below, the Chief Executive Officer and the Chief Financial Officer also concluded that, as of October 31, 2014, that the disclosure controls and procedures were not effective as of October 31, 2014.

## 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 accounting policies 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 accounting policies, 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's management, including the CEO and CFO, have evaluated the effectiveness of the Company's internal control over financial reporting as of October 31, 2014. This evaluation was based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on that assessment, management concluded that the Company's internal control over financial reporting was not effective as of October 31, 2014.

Material Weakness

A material weakness is a deficiency or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

As of October 31, 2014, the Company identified the following material weakness that applies to both disclosure controls and procedures and internal controls over financial reporting;

Due to the significantly reduced number of employees over prior years the Company does not have sufficient resources for reviewing the financial statements and cannot maintain adequate segregation of duties as is necessary to ensure complete and accurate financial reporting. Specifically, the Company's Chief Financial Officer is responsible for preparing, authorizing and reviewing information that is integral to the preparation of financial reports. He is also responsible for preparing and reviewing the resulting financial reports. The weakness has the potential to result in material misstatements in the Company's consolidated financial statements that would not be prevented or detected, and as such has been determined to be a material weakness in internal controls over financial reporting which also impacts the Company's disclosure controls and procedures.

As of the date of this report, management has not yet developed a plan to remediate the material weakness. Management has concluded that, taking into account the present stage of the Company's development and the significant difficulty in securing ongoing operating funding, the Company does not have sufficient size and scale to warrant, and cannot realistically afford, the hiring of the additional staff that would be required to correct the weakness at this time.

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer have concluded that there has been a change in the Company's internal control over financial reporting during the period beginning on November 1, 2013 and ended on October 31, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The change is a result of a lack of segregation of duties due to the significant staff reductions during the year and has been noted above.

## DISCLOSURE OF OUTSTANDING SHARE DATA

1. Authorized and Issued capital stock:

As at October 31, 2014:

| Authorized | Issued | Book Value |
|---|---|---|
| An unlimited number of common shares without par value | 117,366,887 | $126,163,632 |

As at January 26, 2015:

| Authorized | Issued | Book Value |
|---|---|---|
| An unlimited number of common shares without par value | 117,366,887 | $126,163,632 |

2. Options Outstanding:

As at October 31, 2014:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 1,925,000 | $ 0.20 | May 28, 2015 |
| 6,354,000 | $ 0.11 | July 3, 2020 |
| 2,036,000 | $ 0.18 | February 6, 2016 |
| 400,000 | $ 0.068 | October 22, 2016 |
| 10,715,000 | | |

As January 26, 2015:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 1,925,000 | $ 0.20 | May 28, 2015 |
| 6,354,000 | $ 0.11 | July 3, 2020 |
| 2,036,000 | $ 0.18 | February 6, 2016 |
| 400,000 | $ 0.068 | October 22, 2016 |
| 10,715,000 | | |

3. Warrants Outstanding:

As at October 31, 2014:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 28,359,066(1) | $ 0.095 | August 9, 2020 |
| 28,359,066(1) | $ 0.10 | December 5, 2020 |
| 10,058,330(1) | $ 0.10 | December 5, 2020 |
| 27,500,000 | $ 0.05 | August 8, 2021 |
| 16,100,000 | $ 0.05 | September 15, 2021 |
| 110,376,462 | | |

(1) Repriced to $0.05 per warrant effective September 17, 2014.

As at January 26, 2015:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 28,359,066 | $ 0.05 | August 9, 2020 |
| 28,359,066 | $ 0.05 | December 5, 2020 |
| 10,058,330 | $ 0.05 | December 5, 2020 |
| 27,500,000 | $ 0.05 | August 8, 2021 |
| 16,100,000 | $ 0.05 | September 15, 2021 |
| 110,376,462 | | |

## 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 or on the Company’s website at www.cardero.com. Readers are urged to review these materials, including the technical reports filed with respect to the Company's mineral properties.