CARDERO RESOURCE CORP.

(An Exploration Stage Company)

Unaudited Consolidated Financial Statements
Prepared by Management

July 31, 2011

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Financial Statements
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CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Balance Sheets
(Unaudited – Prepared by management)

	July 31, 2011	October 31, 2010 (audited)
ASSETS		
Current		
Cash and cash equivalents	$ 8,245,994	$ 52,264,003
Accounts receivable	138,384	267,431
Due from related parties (note 9)	800,015	1,361,550
Loan receivable (note 9)	8,417,490	-
Prepaid expenses	411,682	335,493
Total Current Assets	18,013,565	54,228,477
Fixed Assets (note 4)	931,163	197,737
Resource Related Investments (note 5)	59,509,840	60,685,650
Equity Investments (note 6)	-	5,236,540
Resource Property Advances	166,788	-
Resource Properties (notes 3 and 7)	77,436,714	15,856,750
Reclamation Deposit	115,000	-
Total Assets	$ 156,173,070	$ 136,205,154
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 9)	$ 373,327	$ 832,087
Income taxes payable	-	26,847,314
Total Current Liabilities	373,327	27,679,401
Future income tax liability (note 3)	11,713,033	-
Total Liabilities	12,086,360	-
SHAREHOLDERS' EQUITY		
Capital Stock (note 8)	107,207,624	69,890,947
Contributed Surplus (note 3)	19,690,812	14,726,585
Accumulated Other Comprehensive Income	25,841,606	30,227,593
Deficit	(8,653,332)	(6,319,372)
Total Shareholders' Equity	144,086,710	108,525,753
Total Liabilities and Shareholders' Equity	$ 156,173,070	$ 136,205,154

Nature of operations and going concern (note 1)
Commitments (note 12)
Subsequent events (note 17)

Approved on behalf of the Board:

"Hendrik Van Alphen"
Hendrik Van Alphen, Director

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

See Notes to Consolidated Financial Statements

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Operations
(Unaudited – Prepared by management)

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	**2010**	**2011**	**2010**
Administrative Expenses				
Amortization	$ 29,060	$ 17,942	$ 71,142	$ 51,522
Bad debts	-	-	-	104,835
Consulting fees (notes 8 and 9)	403,602	646,832	993,808	1,379,268
Corporate development	99,738	76,535	508,870	267,577
Insurance	22,465	44,795	77,593	134,629
Investor relations (note 8)	134,914	264,814	535,121	604,468
Office costs	156,047	276,478	577,027	705,569
Professional fees (notes 8 and 9)	180,973	212,739	617,567	678,236
Property evaluations	214,269	111,833	540,524	192,665
Regulatory and transfer agent fees	45,542	12,075	113,374	69,631
Salaries and benefits (note 8)	487,238	1,479,687	1,635,593	2,528,965
Travel	90,992	79,442	186,534	129,044
Loss Before Other Items and Income Taxes	(1,864,840)	(3,223,172)	(5,857,153)	(6,846,409)
Other Gain (Loss) Items				
Foreign exchange gain (loss)	(253,344)	691,714	(1,884,934)	(3,506,735)
Interest income (loss)	165,254	426	356,523	(156)
Realized gain on sale of available-for-sale investments	2,474,833	-	4,983,827	298,609
Unrealized gain (loss) on derivative investments (note 5)	(1,442,320)	73,685	298,789	206,583
Unrealized gain (loss) on held-for-trading investments (note 5)	25,000	(2,500)	90,500	12,500
Gain (adjustment) on sale of resource property (note 7(c)(ii))	-	(891,388)	-	87,734,213
Write-off of resource properties (note 7)	-	(299,546)	-	(8,480,288)
Loss on equity investments (note 6)	(454,307)	(20,124)	(793,194)	(20,124)
	515,116	(447,733)	3,051,511	76,244,602
Income (Loss) Before Income Taxes	(1,349,724)	(3,670,905)	(2,805,642)	69,398,193
Income Taxes				
Current recovery (expense)	-	66,415	1,245,680	(26,455,954)
Future recovery (expense) (note 11)	(2,474,550)	(487,538)	(773,998)	1,174,213
	(2,474,550)	(421,123)	471,682	(25,281,741)
Net Income (Loss) for Period	$ (3,824,274)	$ (4,092,028)	$ (2,333,960)	$ 44,116,452
Basic and Diluted Income (Loss) Per Share	$ (0.05)	$ (0.07)	$ (0.04)	$ 0.75
Weighted Average Number of Shares Outstanding	74,934,021	58,616,511	64,249,533	58,631,078

See Notes to Consolidated Financial Statements

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Shareholders' Equity
Unaudited – Prepared by management)

	Capital Stock						
	Shares	**Amount**	**Obligation to issue shares**	**Deficit**	**Contributed Surplus**	**Accumulated Other Comprehensive Income**	**Total Shareholders' Equity**
Balance, October 31, 2008 (audited)	**57,782,847**	**$ 68,824,822**	**$ 795,000**	**$ (51,015,714)**	**$ 11,912,309**	**$ 2,617,740**	**$ 33,134,157**
Net loss for the year	-	-	-	(254,628)	-	-	(254,628)
Other comprehensive loss							
Unrealized loss on available-for-sale investments	-	-	-	-	-	12,043,882	12,043,882
Transfer to income of realized gain on sale of resource related investments	-	-	-	-	-	(1,658,126)	(1,658,126)
Comprehensive income for the year							10,131,128
Shares issued for cash							
Exercise of options	25,000	36,750	-	-	-	-	36,750
Exercise of warrants	92,500	127,500	-	-	-	-	127,500
Shares issued for non-cash							
Reclassification of contributed surplus on exercise of options	-	14,088	-	-	(14,088)	-	-
Reclassification of contributed surplus on exercise of warrants	-	32,059	-		(32,059)	-	-
Investment acquisition	500,000	795,000	(795,000)	-	-	-	-
Obligation to issue shares	-	-	111,500	-	-	-	111,500
Debt settlement	143,130	204,676	-	-	-	-	204,676
Stock-based compensation	-	-	-	-	1,192,109	-	1,192,109
Balance, October 31, 2009 (audited)	**58,543,477**	**70,034,895**	**111,500**	**(51,270,342)**	**13,058,271**	**13,003,496**	**44,937,820**

See Notes to Consolidated Financial Statements

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Shareholders' Equity (Continued)
(Unaudited – Prepared by management)

	Capital Stock						
	Shares	**Amount**	**Obligation to Issue Shares**	**Deficit**	**Contributed Surplus**	**Accumulated Other Comprehensive Income**	**Total Shareholders' Equity**
Balance, October 31, 2009 (carried forward)	**58,543,477**	**$ 70,034,895**	**$ 111,500**	**$ (51,270,342)**	**$ 13,058,271**	**$ 13,003,496**	**$ 44,937,820**
Net income for the year	-	-	-	44,950,970	-	-	44,950,970
Other comprehensive income							
Unrealized gain on available-for-sale investments	-	-	-	-	-	17,686,472	17,686,472
Transfer to income of realized gain on sale of resource related investments	-	-	-	-	-	(462,375)	(462,375)
Comprehensive income for the year							62,175,067
Shares issued for cash							
Exercise warrants	67,125	90,619	-	-	-	-	90,619
Shares purchased pending return to treasury	(312,300)	(374,760)	-	-	1,066	-	(373,694)
Shares issued for non-cash							
Reclassification of contributed surplus on exercise of warrants	-	28,693	-	-	(28,693)	-	-
Property acquisition	75,000	111,500	**(111,500)**	-	-	-	-
Stock-based compensation	-	-	-	-	1,695,941	-	1,695,941
Balance, October 31, 2010 (audited)	**58,373,302**	**69,890,947**	**-**	**(6,319,372)**	**14,726,585**	**30,227,593**	**108,525,753**
Net loss for the period	-	-	-	(2,333,960)	-	-	(2,333,960)
Other comprehensive income							
Unrealized loss on available-for-sale investments	-	-	-	-	-	(441,945)	(441,945)
Transfer to income of realized gain on sale of resource related investments	-	-	-	-	-	(3,944,042)	(3,944,042)
Comprehensive income for the period							(6,719,947)
Shares issued for cash							
Exercise options	840,000	1,026,150	-	-	-	-	1,026,150
Exercise warrants	424,200	159,468					159,468
Shares issued for non-cash							
Reclassification of contributed surplus on exercise of options	-	556,406	-	-	(556,406)	-	-
Reclassification of contributed surplus on exercise of warrants	-	479,150	-	-	(479,150)	-	-
Acquisition of Coalhunter (note 3)	23,397,002	35,095,503	-	-	5,342,487	-	40,437,990
Stock-based compensation	-	-	-	-	657,296	-	657,296
Balance, July 31, 2011	**83,034,504**	**$ 107,207,624**	**$ -**	**$ (8,653,332)**	**$ 19,690,812**	**$ 25,841,606**	**$ 144,086,710**

See Notes to Consolidated Financial Statements

CARDERO RESOURCE CORP.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Cash Flows
(Unaudited – Prepared by management)

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	**2010**	**2011**	**2010**
Operating Activities				
Net income (loss) for period	$ (3,824,274)	$ (4,092,028)	$ (2,333,960)	$ 44,116,452
Items not involving cash				
Amortization	29,060	17,942	71,142	51,522
Bad debts	-	-	-	104,835
Stock-based compensation (note 8)	51,913	661,135	657,296	1,271,998
Write-off resource properties (note 7)	-	299,546	-	8,480,288
Realized gain on sale of available-for-sale Investments	(2,474,833)	-	(4,983,827)	(298,609)
Unrealized (gain)loss on held-for-trading investment	(25,000)	2,500	(90,500)	(12,500)
Loss (gain) on equity investment	454,307	20,124	793,194	20,124
Unrealized (gain)loss on derivative investment (note 5)	1,442,320	(73,685)	(298,789)	(206,583)
Gain on sale of resource property	-	891,388	-	(87,734,213)
Future income tax (recovery) expense	2,474,550	487,538	773,998	(1,174,213)
Unrealized foreign exchange (gain) loss	287,682	(451,920)	409,432	2,524,176
Changes in Non-Cash Working Capital Items				
Accounts receivable	532,550	(64,271)	217,037	(112,361)
Due from related parties	68,783	(855,271)	561,535	(718,913)
Loan receivable	(162,605)	-	(8,417,490)	-
Prepaid expenses	(123,746)	(120,080)	(71,023)	(138,751)
Accounts payable and accrued liabilities	(895,185)	(476,710)	(729,530)	(191,457)
Income taxes payable	-	(148,594)	(25,601,634)	24,337,889
Cash Used in Operating Activities	(2,164,478)	(3,902,386)	(39,043,119)	(9,680,316)
Investing Activities				
Acquisition of Coalhunter (note 3)	2,348,873	-	2,348,873	-
Investment in and expenditures on resource properties	(1,048,924)	(1,541,702)	(4,900,843)	(5,572,837)
Increase in reclamation deposit	(110,000)	-	(110,000)	-
Proceeds from resource property transactions, net of costs	-	(890,915)	-	88,370,581
Proceeds from sale of resource related investments	3,255,250	-	6,497,042	447,909
Purchase of resource related investments	(812,498)	(1,543,954)	(3,840,623)	(10,046,130)
Purchase of equity investment	-	(4,100,000)	(3,882,443)	(4,750,000)
Purchase of fixed assets	177,252	(30,676)	(617,402)	(38,648)
Cash Provided by (Used in) Investing Activities	3,809,953	(8,107,247)	(4,505,396)	68,410,875
Financing Activities				
Proceeds from shares issued	159,468	-	1,185,618	90,619
Shares purchased pending return to treasury	-	(316,143)	-	(316,143)
Cash Provided by (Used in) Financing Activities	159,468	(316,143)	1,185,618	(225,524)
Effect of foreign exchange on cash	(287,685)	451,920	(1,655,112)	(2,524,176)
Increase (Decrease) in Cash and Cash Equivalents	1,517,258	(11,873,856)	(44,018,009)	55,980,859
Cash and Cash Equivalents, Beginning of period	6,728,736	73,677,911	52,264,003	5,823,196
Cash and Cash Equivalents, End of period	$ 8,245,994	$ 61,804,055	$ 8,245,994	$ 61,804,055

Supplemental cash flow information (note 16)

See Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS AND GOING CONCERN

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

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company incurred a loss of $2,333,960 for the nine months ended July 31, 2011 (July 31, 2010 – income of $44,116,452). The Company has working capital as at July 31, 2011 of $17,640,238 (October 31, 2010 - $26,549,076), has a deficit of $8,653,332 (October 31, 2010 - $6,319,372).

As the equity market improves, with the fair value of the Company's investments, Management believes it has sufficient funding for operations in the near future, which results in the going concern assumption being an appropriate underlying concept for the preparation of these consolidated financial statements.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars. As described in note 15, accounting principles generally accepted in Canada differ in certain material respects from accounting principles generally accepted in the United States ("US GAAP").

These consolidated financial statements include the accounts of Cardero Resource Corp. ("Cardero") and its wholly-owned integrated subsidiaries, Cardero Argentina, S.A. ("Cardero Argentina"), Minerales Y Metales California, S.A. de C.V. ("MMC"), Cardero Iron Ore Company Ltd., Cardero Peru S.A.C. ("Cardero Peru"), Cardero Hierro Del Peru S.A.C. ("Cardero Iron Peru"), Cerro Colorado Development Ltd., Compania Minera Cardero Chile Limitada ("Cardero Chile"), Cardero Iron Ore (USA) Inc. ("Cardero Iron US"), Cardero Iron Ore Management (USA) Inc., Cardero Iron Ore Company (BVI) Ltd., Cardero Hierro Peru (BVI) Ltd., Coalhunter Mining Corporation ("Coalhunter"), Cardero Ghana Ltd. and Cardero Iron Ore Ghana (BVI) Ltd. (collectively, the "Company"). All significant inter-company transactions and balances have been eliminated.

(b) Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for fixed assets, the recoverability of resource property interests, the recoverability of accounts receivable and amounts due from related parties, the recoverability of equity investments, the assumptions used in the determination of the fair value of financial instruments and stock-based compensation, and the determination of the valuation allowance for future income tax assets and accruals. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(d) Amortization

Amortization of equipment is recorded at the following annual rates:

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

Additions during the year are amortized at one-half the annual rates.

(e) Investments

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

(f) Resource properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Resource properties (Continued)

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

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

(g) Foreign currency translation

The functional and reporting currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

i. Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;

ii. Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

iii. Interest income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the transaction date.

Gains and losses arising from this translation of foreign currency are included in the determination of net income (loss) for the period.

(h) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the option is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached, or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to capital stock.

(i) Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(j) Revenue recognition

Interest income is recorded as earned at the effective rate of interest of the term deposits over the terms to maturity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Asset retirement obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the consolidated financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(l) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(m) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

(n) Future accounting changes

i. International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its January 31, 2012 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended October 31, 2011. The Company is currently evaluating the impact of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Future accounting changes (Continued)

ii. Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

iii. Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements", which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

iv. Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1602, "Non-Controlling Interests", which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to IFRS on consolidated and separate financial statements. This standard is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

The preceding three new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

3. ACQUISITION OF COALHUNTER

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

The fair value of the common shares of the Company issued in connection with the Acquisition has been determined at $1.50 per share. The fair values of the Company's share purchase options and warrants issued as replacement options and warrants granted were $2,416,470 and $4,354,140. The Company options vest on December 1, 2011 (25%), June 1, 2012 (25%), and December 1, 2012 (50%). The fair values were calculated using the Black-Scholes pricing model. Of the aggregate fair value, $988,347 represents the value of the Coalhunter options at May 31, 2011 and was allocated to the total purchase price. The remaining $1,428,123 will be allocated to salaries and benefits over the vesting term.

The assumptions used in the calculation are as follows:

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

The purchase consideration is comprised of the following:

Total purchase price:		
Initial investments in Coalhunter to acquire a 45.5% interest	$	7,205,311
Issuance of 23,397,002 Cardero common shares for 54.5% interest		35,095,503
Fair value of 2,029,143 Cardero options as replacement options		988,347
Fair value of 3,856,400 Cardero warrants as replacement warrants		4,354,140
Transaction costs		922,392
	$	48,565,693

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

Purchase price allocation:		
Cash	$	2,626,895
Accounts receivable		87,990
Due from Cardero		644,370
Prepaid expenses		5,166
Property, plant and equipment		187,166
Mineral property advances		166,788
Reclamation deposit		5,000
Mineral property interests (note 7)		57,021,938
Accounts payable and accrued liabilities		(466,587)
Future income tax liability		(11,713,033)
	$	48,565,693

4. FIXED ASSETS

	July 31, 2011			October 31, 2010 (audited)		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer equipment	$ 225,035	$ 138,365	$ 86,670	$ 171,624	$ 122,128	$ 49,496
Computer software	141,190	36,970	104,220	-	-	-
Office equipment	205,077	61,924	143,153	99,853	48,402	51,451
Vehicle	20,874	1,042	19,832	-	-	-
Metallurgy lab (in progress)	451,103	-	451,103	-	-	-
Leasehold improvements	265,423	139,238	126,185	210,530	113,740	96,790
	$ 1,308,702	$ 377,539	$ 931,163	$ 482,007	$ 284,270	$ 197,737

5. RESOURCE RELATED INVESTMENTS

	Shares		Warrants		
July 31, 2011	**Number**	**Fair Value**	**Number**	**Fair Value**	**Total**
International Tower Hill Mines Ltd.	3,998,523	$ 28,789,366	-	$ -	$ 28,789,366
Trevali Mining Corporation	11,159,432	16,850,742	5,268,866	2,546,424	19,397,166
Wealth Minerals Ltd.	5,022,806	2,385,833	-	-	2,385,833
Dorato Resources Inc.	2,536,000	443,800	-	-	443,800
Indico Resources Ltd.	50,000	24,000	-	-	24,000
Balmoral Resources Ltd.	240,000	312,000	-	-	312,000
Corvus Gold Inc.	1,880,711	977,970	-	-	977,970
Abzu Gold Inc.	8,934,007	6,521,825	3,782,000	340,380	6,862,205
Ethos Capital Corp.	250,000	317,500	-	-	317,500
		$ 56,623,036		$ 2,886,804	$ 59,509,840

	Shares		Warrants		
October 31, 2010(audited)	**Number**	**Fair Value**	**Number**	**Fair Value**	**Total**
International Tower Hill Mines Ltd.	4,591,223	$ 34,847,383	-	$ -	$ 34,847,383
Trevali Mining Corporation	7,032,432	9,986,053	2,855,866	1,243,942	11,229,995
Wealth Minerals Ltd.	5,022,806	3,164,368	-	-	3,164,368
Dorato Resources Inc.	2,416,000	3,020,000	-	-	3,020,000
Indico Resources Ltd.	50,000	31,000	-	-	31,000
Kria Resources Ltd.	15,000,000	3,150,000	15,000,000	2,400,000	5,550,000
Corvus Gold Inc.	880,711	871,904	-	-	871,904
Totem Minerals Inc.	3,782,000	1,891,000	-	-	1,891,000
Ethos Capital Corp.	100,000	80,000	-	-	80,000
		$ 57,041,708		$ 3,643,942	$ 60,685,650

All resource related investments in shares are classified as available-for-sale, unless otherwise indicated. All resource related investments in warrants are classified as held-for-trading.

(a) International Tower Hill Mines Ltd. ("ITH")

ITH is considered to be a related party as a result of common officer and director relationships (note 9).

During the year ended October 31, 2009, the Company sold 1,481,800 common shares for net proceeds of $3,752,030, realizing a gain of $2,637,280, and purchased 120,000 common shares at a cost of $423,849.

During the year ended October 31, 2010, the Company sold 99,000 shares of ITH for net proceeds of $640,244 resulting in a gain on sale of $460,094. Meanwhile, the Company acquired 1,207,423 shares of ITH at a cost of $7,328,514.

5. RESOURCE RELATED INVESTMENTS (Continued)

(a) International Tower Hill Mines Ltd. ("ITH") (Continued)

During the period ended July 31, 2011, the Company sold 592,700 shares of ITH for net proceeds of $4,899,801, resulting in a gain on sale of $3,821,087.

At July 31, 2011, the quoted market value of ITH common shares was $7.20 (October 31, 2010 - $7.59) per share, or a total market value for the Company's ITH shares of $28,789,366 (October 31, 2010 - $34,847,383). The Company held 3,998,523 common shares (October 31, 2010 – 4,591,223), or 4.61 % (October 31, 2010 – 6.79%) of the issued and outstanding common shares of ITH as of July 31, 2011. Fair value adjustments for the period ended July 31, 2011 amounted to unrealized loss of $818,851 (October 31, 2010 – unrealized gain of $10,340,676) on the shares, net of tax, as other comprehensive income.

(b) Trevali Mining Corporation ("Trevali")

On May 11, 2009, the Company purchased 1,250,000 units of Trevali at $0.80 per unit and allocated $0.60 and $0.20 to each common share and warrant, respectively. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant was exercisable to acquire one common share of Trevali at a price of $1.30 until May 11, 2011.

On May 29, 2009, the Company purchased 134,000 units of Trevali from a company related by virtue of common officers and directors at a price of $0.75 per unit and allocated $0.57 and $0.18 to each common share and warrant, respectively. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant was exercisable to acquire one common share of Trevali at a price of $1.20 until December 29, 2010. The Company exercised 67,000 warrants on the expiry day.

On August 31, 2009, the Company purchased 300,000 Trevali common shares at a cost of $185,732.

On October 9, 2009, the Company settled an outstanding $1,000,000 loan to Trevali (advanced on July 30, 2009) on the basis of 1,470,588 units at a price of $0.68 per unit and allocated $0.51 and $0.17 to each common share and warrant, respectively. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant is exercisable to acquire an additional common share of Trevali at a price of $1.00 until October 9, 2011.

On September 1, 2010, the Company purchased 2,857,144 units of Trevali at a price of $1.05 per unit and allocated $0.85 and $0.20 to each common share and half-warrant, respectively. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of Trevali at a price of $1.50 until September 1, 2012.

During the year ended October 31, 2010, the Company also acquired 175,500 common shares of Trevali on the open market at a cost of $213,563. Meanwhile, the Company sold 155,000 shares of Trevali for net proceeds of $239,387 resulting in a gain on sale of $169,638.

On December 29, 2010, the Company exercised 67,000 Trevali warrants at a cost of $80,400. Fair value adjustments upon exercise amounted to an unrealized gain of $38,860 (October 31, 2010 - unrealized loss of $12,060).

On April 7, 2011, Trevali acquired all of the issued and outstanding common shares of Kria (note 5(f)). 20,875,000 Kria common shares owned by the Company were converted on a 5:1 basis to 4,175,000 Trevali common shares.

On May 11, 2011, the Company exercised 625,000 Trevali warrants at a cost of $812,500. Fair value adjustments upon exercise amounted to an unrealized gain of $350,000 (October 31, 2010 - unrealized loss of $62,500).

5. RESOURCE RELATED INVESTMENTS (Continued)

(b) Trevali Mining Corporation ("Trevali") (Continued)

During the period ended July 31, 2011, the Company acquired 50,000 shares of Trevali on the open market at a cost of $73,566. Meanwhile, the Company sold 790,000 shares of Trevali for net proceeds of $1,597,240 resulting in a gain on sale of $1,162,740.

At July 31, 2011, the quoted market value of the Trevali common shares was $1.51 per share (October 31, 2010 - $1.42), or a total market value for the Company's shares of $16,850,742 (October 31, 2010 - $9,986,053). Fair value adjustments for the period ended July 31, 2011 amounted to an unrealized gain of $2,641,219 (October 31, 2010 - $3,927,133), net of tax, recorded as other comprehensive income. The Company held 11,159,432 common shares (October 31, 2010 – 7,032,432), or 11.38 % (October 31, 2010 – 12.44%) of the issued and outstanding common shares of Trevali as of July 31, 2011.

At July 31, 2011, the fair value of 735,294 Trevali warrants (purchased on October 9, 2009) was $382,353 (October 31, 2010 - $397,059). Fair value adjustments for the period ended July 31, 2011 amounted to an unrealized loss of $14,706 (October 31, 2010 – unrealized gain of $73,529).

At July 31, 2011, the fair value of 1,428,572 Trevali warrants (purchased on September 1, 2010) was $628,572 (October 31, 2010 - $657,143). Fair value adjustments for the period ended July 31, 2011 amounted to an unrealized loss of $28,571 (October 31, 2010 – unrealized gain of $85,714).

After the merger of Trevali and Kria, 9,125,000 Kria warrants the Company previously owned were converted to 1,825,000 Trevali warrants, which were faired valued at $1,131,500 at July 31, 2011 and amounted to an unrealized loss of $72,593 (October 31, 2010 - $nil). Before the merger, the Company received 6,400,000 Kria bonus warrants, which were converted to 1,280,000 Trevali warrants. These bonus warrants were fair valued at $403,999 at July 31, 2011 (October 31, 2010 – $nil) and amounted to an unrealized gain of $403,999 (October 31, 2010 – $nil).

(c) Wealth Minerals Ltd. ("Wealth")

On June 2, 2009, the Company purchased 2,841,400 common shares of Wealth, a related party (note 9), at $0.30 per share.

On October 23, 2009, the Company purchased 2,380,953 units at $1,000,000 and allocated $0.26 and $0.16 to each common share and warrant, respectively. Each unit consisted of one common share and one non-transferable common share purchase warrant, with each warrant being exercisable to acquire one additional common share until October 23, 2011 at an exercise price of $0.60.

During the last quarter of 2009, the Company sold 2,580,500 common shares of Wealth for net proceeds of $855,124 resulting in a gain on sale of $80,974.

On August 25, 2010, the Company exercised 2,380,953 warrants of Wealth at $0.60 per share, totalling $1,428,572. A fair value loss of $537,937 was recognized on exercise of the warrants.

At July 31, 2011, the quoted market value of Wealth common shares was $0.475 per share (October 31, 2010 - $0.63), or a total market value for the Company's shares of $2,385,833 (October 31, 2010 - $3,164,368). Fair value adjustments for the period ended July 31, 2011 amounted to an unrealized loss of $661,755 (October 31, 2010 – unrealized gain of $310,586), net of tax, recorded as other comprehensive income. The Company held 5,022,806 shares (October 31, 2010 - 5,022,806), or 9.9% (October 31, 2010 - 12.08%) of the issued and outstanding common shares of Wealth as of July 31, 2011.

5. RESOURCE RELATED INVESTMENTS (Continued)

(d) Dorato Resources Inc. ("Dorato")

In October 2009, the Company purchased 596,000 common shares of Dorato, a related party (note 9), at a cost of $311,825.

During the year ended October 31, 2010, the Company purchased 2,045,000 common shares of Dorato at a cost of $1,702,725. Meanwhile, the Company sold 225,000 shares of Dorato for net proceeds of $255,671 resulting in a gain on sale of $89,621.

During the period ended July 31, 2011, the Company purchased 120,000 common shares of Dorato at a cost of $68,855.

At July 31, 2011, the Company held 2,536,000 common shares (October 31, 2010 - 2,416,000), or 3.32% (October 31, 2010 – 3.49%) of the issued and outstanding common shares of Dorato. The quoted market value of Dorato common shares was $0.175 (October 31, 2010 - $1.25), or a total market value for the Company's shares of $443,800 (October 31, 2010 - $3,020,000). Fair value adjustment at the period ended July 31, 2011 amounted to an unrealized loss, net of tax, of $2,248,296 (October 31, 2010 – unrealized gain of $1,015,023).

(e) Indico Resources Ltd. ("Indico")

During the year ended October 31, 2010, the Company purchased 50,000 common shares of Indico, a related party (note 9), at a cost of $29,954.

At July 31, 2011, the quoted market value of Indico common shares was $0.48 (October 31, 2010 - $0.62), or a total market value for the Company's shares of $24,000 (October 31, 2010 - $31,000). Fair value adjustment at the period ended July 31, 2011 amounted to an unrealized loss, net of tax, of $5,950 (October 31, 2010 – unrealized gain of $889).

The Company held 50,000 common shares (October 31, 2010 – 50,000), or 0.21% (October 31, 2010 - 0.39%) of issued and outstanding common shares of Indico as of July 31, 2011.

(f) Kria Resources Ltd. ("Kria")

During the year ended October 31, 2010, the Company acquired 15,000,000 units of Kria at a cost of $1,500,000 (allocation - $900,000 and $600,000 to common shares and warrants, respectively). Each unit consisted of one common share and one warrant. Each warrant entitles the holder thereof to acquire one common share at a price of $0.20 until July 29, 2012.

During the period ended July 31, 2011, the Company exercised 5,875,000 Kria warrants at a cost of $1,175,000.

On April 7, 2011, Trevali acquired all of the issued and outstanding common shares of Kria on the basis of 0.2 of a common share of Trevali for each one Kria Share (the "Exchange Ratio"). Kria's outstanding stock options, warrants and bonus warrants were adjusted to be exercisable for Trevali Shares on the basis of the Exchange Ratio. On completion of the transaction, Kria became a wholly-owned subsidiary of Trevali. At the same time, the Company's investments in Kria became investments in Trevali (note 5(b)) and resulted in fair value adjustments amounting to an unrealized loss of $1,912,500 for the period ended July 31, 2011.

5. RESOURCE RELATED INVESTMENTS (Continued)

(g) Corvus Gold Inc. ("Corvus")

During the year ended October 31, 2010, ITH transferred its non-Livengood Alaska and Nevada assets to Corvus through a plan of arrangement under the Business Corporations Act (B.C.) ("Arrangement"). Under the Arrangement, each shareholder of ITH received one Corvus common share for every two ITH common shares held as at the effective date of the Arrangement. The Company received 2,295,611 common shares of Corvus upon the completion of the Arrangement. The shares were initially recorded at $0.75 per share with a corresponding reduction in the carrying value of the ITH shares.

During the year ended October 31, 2010, the Company sold 1,414,900 common shares of Corvus for net proceeds of $1,281,474 resulting in a gain on sale of $220,298.

During the period ended July 31, 2011, the Company acquired 1,000,000 common shares of Corvus from the open market at a cost of $880,000.

At July 31, 2011, the quoted market value of Corvus common shares was $0.52 per share (October 31, 2010 -$0.99), or a total market value for the Company's Corvus shares of $977,970 (October 31, 2010 - $871,904). Fair value adjustments for the period ended July 31, 2011 amounted to unrealized loss of $657,844 (October 31, 2010 – unrealized gain of $179,665) on the shares, net of tax, as other comprehensive loss. At July 31, 2011, the Company held 1,880,711 (October 31, 2010 - 880,711) common shares, or approximately 4.51% (October 31, 2010 - 2.62%) of the issued and outstanding common shares of Corvus.

(h) Totem Minerals Inc. ("Totem")

On September 10, 2010, the Company participated in a private placement in Totem and subscribed for 3,782,000 Subscription Receipts of Totem at an aggregate cost of $1,891,000. The Subscription Receipts were not exercised until the acquisition by Totem of all of the issued shares of Abzu Resources Ltd ("Abzu") on December 21, 2010. Upon completion of the Abzu acquisition, Totem changed its name to "Abzu Gold Inc." (note 5(i)) and the Company received 3,782,000 common shares and warrants to purchase an additional 3,782,000 common shares of Abzu Gold. This investment was valued at cost at October 31, 2010.

(i) Abzu Gold Inc. ("Abzu Gold")

During the period ended January 31, 2011, the Company acquired an aggregate of 8,934,007common shares of Abzu Gold Ltd. ("Abzu Gold"), of which included 3,782,000 shares of Abzu Gold were issued upon exercise of 3,782,000 previously purchased Totem subscription receipts (note 5(h)); 352,006 shares from a debt settlement at a cost of $105,602; 300,000 shares on the open market at a cost of $317,495 and the balance from the purchase by Abzu Gold of the Company's 9,000,002 shares of Abzu.

At July 31, 2011, the quoted market value of Abzu Gold common shares was $0.73 per share, or a total market value for the Company's shares of $6,521,825 (October 31, 2010 - $nil). Fair value adjustment at the period ended July 31, 2011, amounted to an unrealized gain, net of tax, of $3,234,957 (October 31, 2010 - $nil).

On December 21, 2010, the Company received 3,782,000 Abzu Gold warrants from previously purchased Totem subscription (note 5(h)). At July 31, 2011, the fair value of Abzu Gold warrants was $340,380 (October 31, 2010 – $nil). Fair value adjustments for the period ended July 31, 2011 amounted to an unrealized loss of $378,200 (October 31, 2010 - $nil).

5. RESOURCE RELATED INVESTMENTS (Continued)

(j) Balmoral Resources Ltd. ("Balmoral")

During the period ended July 31, 2011, the Company acquired 240,000 common shares of Balmoral on the open market at a cost of $327,207.

At July 31, 2011, the quoted market value of Balmoral common shares was $1.50 per share, or a total market value for the Company's shares of $312,000 (October 31, 2010 - $nil). Fair value adjustment at the period ended July 31, 2011, amounted to an unrealized loss, net of tax, of $12,925 (October 31, 2010 - $nil).

(k) Ethos Capital Corp. ("Ethos")

During the year ended October 31, 2009, the Company received 100,000 common shares of Ethos valued at $17,000 pursuant to a property option agreement (note 7(a)(iv)).

During the period ended July 31, 2011, the Company received another 150,000 common shares of Ethos valued at $147,000 pursuant to the same property option agreement. This investment is classified as held-for-trading.

At July 31, 2011, the quoted market value of Ethos common shares was $317,500 (October 31, 2010 - $80,000). Fair value adjustments for the period ended July 31, 2011 amounted to an unrealized gain of $90,500 (October 31, 2010 - $52,000).

6. EQUITY INVESTMENTS

	July 31, 2011	October 31, 2010 (audited)
Abzu Resources Ltd.	$ -	$ 1,131,253
Coalhunter Mining Corporation (Ownership interest 42%)	-	4,105,287
	$ -	$ 5,236,540

(a) Abzu Resources Ltd. ("Abzu")

During the year ended October 31, 2010, the Company acquired 9,000,002 shares of Abzu at a gross cost of $1,350,000. The Company's proportionate share of the net book value of Abzu's assets at the acquisition date totaled $1,220,272. The difference between investment cost and the Company's share of net assets is attributed to resource properties. The Company accounted for its investment in Abzu using the equity method and recorded the investment at a gross cost of $1,350,000. For the year ended October 31, 2010, the Company's share of Abzu's results of operations amounted to a loss of $218,748 based upon Abzu's financial statements as of October 31, 2010. As at October 31, 2010, the Company held approximately 31.36% of the outstanding common shares of Abzu.

On December 21, 2010, Totem acquired Abzu and changed its name to "Abzu Gold Inc." (note 5(h)). Between November 1, 2010 and December 20, 2010, the Company's share of Abzu's results of operations amounted to a loss of $10,775 based upon Abzu's financial statements as of December 31, 2010.

Following the above acquisition, the Company held 16.32% of Abzu Gold and changed this investment classification to "available-for-sale" from the equity method (note 5(i)).

6. EQUITY INVESTMENTS (Continued)

(b) Coalhunter Mining Corporation ("Coalhunter")

During the year ended October 31, 2010, the Company acquired 14,200,000 shares of Coalhunter at a gross cost of $4,370,000. The Company's proportionate share of the net book value of Coalhunter's assets (liabilities) at the acquisition dates totaled $(60,669). The difference between investment cost and the Company's share of net assets was attributed to resource properties. The Company accounted for its investment in Coalhunter using the equity method and recorded the investment at a gross cost of $4,370,000. For the year ended October 31, 2010, the Company's share of Coalhunter's results of operations amounted to a loss of $264,713 based upon Coalhunter's financial statements as of October 31, 2010. As at October 31, 2010, the Company held approximately 42% of the outstanding common shares of Coalhunter.

During the period ended July 31, 2011, the Company participated in a private placement in Coalhunter and acquired 5,600,000 special warrants of Coalhunter ("Special Warrants") at a cost of $2,800,000 on December 16, 2010. Each Special Warrant was exercisable to acquire one common share of Coalhunter, and would be automatically exercised upon the third business day after the issuance of a receipt for a prospectus of Coalhunter qualifying the issuance of the common shares upon the exercise of the Special Warrants. If such receipt was not issued by June 27, 2011, each Special Warrant would thereafter be exercisable to acquire 1.1 common shares, and if such receipt has not been issued by September 27, 2011, each Special Warrant would thereafter be exercisable to acquire 1.11 common shares.

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

During the period ended July 31, 2011, the Company acquired the balance of Coalhunter's outstanding securities pursuant to a plan of arrangement, effective June 1, 2011 (note 3).

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

(c) IMM Gold Ltd. ("IMMG")

Pursuant to a Memorandum of Understanding dated August 8, 2008 (but effective as and from April 25, 2008) between the Company and International Minerals and Mines Ltd. ("IMM"), a private Gibraltar company, the Company had the right to acquire up to a 30% interest in IMMG, a subsidiary of IMM, which is presently engaged in reconnaissance exploration programs in the Caucasian Region. The Company is the manager of the exploration programs, but no properties have yet been acquired by IMMG. A director of Cardero is a director and significant shareholder of a private company, which is the major shareholder (67%) of IMM (note 9).

The Company acquired a 15% interest in IMMG by issuing to IMM 500,000 common shares on November 24, 2008 valued at $795,000. The Company received 123,530 ordinary shares of IMMG, representing a 15% interest. The Company may also be required to issue up to an additional 250,000 common shares as consideration for the initial 15% interest in IMMG if, on November 24, 2009, the volume weighted average trading price for the Company's common shares on the TSX for the five trading days immediately prior to such date ("Final VWAP") is less than $1.83. In such case, the Company is then required to issue to IMM such number of additional common shares of the Company (up to a maximum of 250,000 additional shares) as is equal to the difference between the $1.83 and the Final VWAP, multiplied by 500,000 and divided by the Final VWAP.

6. EQUITY INVESTMENTS (Continued)

(c) IMM Gold Ltd. ("IMMG") (Continued)

The Company had the option to acquire an additional 15% of IMMG by issuing an additional 1,000,000 shares to IMM on or before December 31, 2009.

For the year ended October 31, 2009, the Company's share of IMMG's results of operations amounted to a loss of $199,677 (2008 - $Nil) based upon IMMG's audited financial statements for the year then ended. After consideration of current market conditions and IMMG's operating loss, the Company recorded an impairment charge of $595,323 to reduce the carrying value of the investment to $Nil.

The Company has determined that it has an obligation to issue an additional 214,843 common shares to IMM pursuant to the acquisition of its 15% investment in IMMG, the final issuance of which is currently the subject of on-going negotiations with IMM. The Company determined not to acquire an additional 15% interest in IMMG and did not, therefore, issue the additional 1,000,000 common shares on or before December 31, 2009.

7. RESOURCE PROPERTIES

The Company's capitalized acquisition and exploration expenditures on its resource properties are as follows:

	Mexico (note 7(a))			Argentina (note 7(b))	Peru (note 7(c))	U.S.A. (note 7(d))	Africa (note 7(e))	Canada (note 7(f))	
	Baja	Other	Total		Iron Sands/ Marcona	Longnose/ TiTac	Ghana Sheinie Iron Ore	Carboon Creek	**Total**
Balance, October 31, 2009	**$ 7,336,527**	**$ 231,978**	**$ 7,568,505**	**$ 894,114**	**$ 8,727,626**	**$ 309,347**	**$ -**	**$ -**	**$ 17,499,592**
Acquisition costs –cash	302,911	10,966	313,877	4,887	649,772	70,714	-	-	1,039,250
Deferred exploration costs:									
Camp	111,473	12,075	123,548	298,536	658,584	318,650	-	-	1,399,318
Drilling and analysis	654,228	-	654,228	784,761	27,097	1,614,088	-	-	3,080,174
Personnel and geology	92,944	6,108	99,052	489,337	191,016	336,178	220,916	-	1,336,499
Total exploration costs	858,645	18,183	876,828	1,572,634	876,697	2,268,916	220,916	-	5,815,991
Total expenditures for the year	1,161,556	29,149	1,190,705	1,577,521	1,526,469	2,339,630	220,916	-	6,855,241
Write-offs – Acquisition costs	(3,567,578)	-	(3,567,578)	-	-	-	-	-	(3,567,578)
Write-offs – Exploration costs	(4,930,505)	-	(4,930,505)	-	-	-	-	-	(4,930,505)
Total write-offs	(8,498,083)	-	(8,498,083)	-	-	-	-	-	(8,498,083)
Balance, October 31, 2010	**-**	**261,127**	**261,127**	**2,471,635**	**10,254,095**	**2,648,977**	**220,916**	**-**	**15,856,750**
Acquisition costs:									
Acquisition costs – shares (note 3)	-	-	-	-	-		-	57,021,938	57,021,938
Acquisition costs - cash	-	3,419	3,419	5,701	836,038	-	560,175	-	1,405,333
Total acquisition costs	-	3,419	3,419	5,701	836,038	-	560,175	57,021,938	58,427,271
Deferred exploration costs:									
Camp	-	-	-	60,438	568,463	202,874	921,618	341,227	2,094,620
Drilling and analysis	-	17,504	17,504	95,568	107,206	575,387	65,651	13,397	874,713
Personnel and geology	-	-	-	61,525	26,616	202,653	145,034	44,915	480,743
Total exploration costs	-	17,504	17,504	217,531	702,285	980,914	1,132,303	399,539	3,450,076
Total expenditures for the period	-	20,923	20,923	223,232	1,538,323	980,914	1,692,478	57,421,477	61,877,347
Costs recovered – Exploration	-	(222,000)	(222,000)	-	-	(75,383)	-	-	(297,383)
Balance, July 31, 2011	**$ -**	**$ 60,050**	**$ 60,050**	**$ 2,694,867**	**$ 11,792,418**	**$ 3,554,508**	**$ 1,913,394**	**$ 57,421,477**	**$ 77,436,714**
Represented by:									
Acquisition costs	$ -	$ 60,050	$ 60,050	$ 192,113	$ 4,341,531	$ 243,036	$ 560,175	57,021,938	$ 62,418,843
Exploration costs	-	-	-	2,502,754	7,450,887	3,311,472	1,353,219	399,539	15,017,871
Balance, July 31, 2011	**$ -**	**$ 60,050**	**$ 60,050**	**$ 2,694,867**	**$ 11,792,418**	**$ 3,554,508**	**$ 1,913,394**	**$ 57,421,477**	**$ 77,436,714**

7. RESOURCE PROPERTIES (Continued)

(a) Mexico

The properties in Mexico consist of the following:

i. Baja IOCG Project, Baja California State, Mexico

Pursuant to an agreement dated December 1, 2002 (as amended by agreements dated November 26, 2003 and June 30, 2005) between the Company and Anglo (the "Anglo Agreement"), Anglo agreed to manage and fund exploration expenditures for the identification and acquisition of not less than one mineral concession within an area of interest measuring approximately 50,050 square kilometres in size. Anglo could earn a 70% interest in the mineral concession(s) so acquired, as well as in certain previously acquired mineral concessions held by the Company, and a 70% interest in a new Mexican company to be formed to hold such concessions, by incurring aggregate exploration expenditures of not less than USD 3,700,000, as follows:

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

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

Pursuant to an amending agreement dated June 30, 2005 between the Company and Anglo, the Company assumed operation of the project. Under the terms of the amending agreement, the Company was required to incur exploration expenditures of not less than USD 500,000 within a 12-month period and, upon doing so, earned an additional 10% interest, thereby increasing its retained interest in the project to 40% upon the exercise by Anglo of its option. Upon having incurred the required USD 500,000 in exploration expenditures, the Company could either elect to terminate its expenditure period by delivering a resumption notice to Anglo, or to elect to remain as operator and continue to incur exploration expenditures. If the Company elected to continue incurring exploration expenditures following the USD 500,000 having been incurred, it would earn an additional 0.1% interest for each additional USD 10,000 of exploration expenditures incurred. If the Company elected to continue incurring exploration expenditures, at such time as it has incurred an aggregate of USD 1,400,000 (and has thereby increased its retained interest to 49% upon the exercise by Anglo of its option), it was required to deliver an election request notice to Anglo. Upon receipt by Anglo of a resumption notice or an election request notice, Anglo was required (unless it otherwise so elected) to immediately resume incurring aggregate exploration expenditures of USD 3,700,000 in order to earn its interest in the project (which will range from 60% to 51%, depending upon the amount of exploration expenditures incurred by the Company prior to the delivery of a resumption notice) with the original exploration expenditure dates extended to take into account the time the Company acted as operator. If the Company delivered a resumption notice, or if the Company delivered an election request notice and Anglo elected to continue incurring exploration expenditures, and thereafter Anglo fails to maintain its option in good standing, the Company could terminate the agreement. If the Company delivered an election request notice and Anglo did not elect to resume incurring exploration expenditures, the agreement would be automatically terminated. In either case, in the event of termination, the Company would retain its 100% interest in the project, with Anglo having no residual interest therein.

7. RESOURCE PROPERTIES (Continued)

(a) Mexico (Continued)

i. Baja IOCG Project, Baja California State, Mexico (Continued)

Effective May 30, 2006, Anglo elected to terminate the Anglo Agreement and thereby forfeited any interest in, or rights to earn any interest in, the mineral concessions that were the subject of that agreement. Accordingly, the Company is now the owner of a 100% interest in the concessions comprising the Baja IOCG Project.

On May 20, 2004, Western Telluric Resources Inc. ("WTR") and Minera Olympic, S. de R.L. de C.V. ("Minera") (collectively, the "Plaintiffs") commenced an action (the "Action") in the British Columbia Supreme Court (Vancouver Registry, No. S042795) against the Company and James Dawson, Murray McClaren and their respective companies, Dawson Geological Consultants Ltd. and 529197 B.C. Ltd. (carrying on business as Crockite Resources). The relief claimed against the Company is the setting aside of an agreement dated December 12, 2001 between the Company and Minera regarding the acquisition of mineral concessions. The Company filed a Statement of Defence, in which it denied any liability, as well as a counterclaim (the "Counterclaim") against the Plaintiffs. Pursuant to an agreement dated October 17, 2007 ("Settlement Agreement") among the Plaintiffs, the Company and all other parties to the various actions, all actions (including the Action and the Counterclaim) have been settled. As its part of the settlement, the Company has agreed to issue an aggregate of 500,000 shares to WTR and to grant to WTR a 1.5% net smelter return ("NSR") royalty over its existing and future acquired Baja California properties, of which the Company can acquire one-half (0.75%) for $2,000,000. Fulfillment by the Company of its obligations under the Settlement Agreement was subject to the acceptance for filing thereof by the TSX (received on November 20, 2007) and the NYSE-A (formerly, the American Stock Exchange) (received on November 13, 2007). Effective May 23, 2008, the transaction closed and the 500,000 shares were released to WTR.

During the year ended October 31, 2010, the Company wrote-off its remaining investment in the property in the amount of $8,498,084.

ii. Corrales Property, Chihuahua State, Mexico

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

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

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

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

7. RESOURCE PROPERTIES (Continued)

(a) Mexico (Continued)

iii. Santa Teresa Property, Coahuila State

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

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

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

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

(a) paying to the Company the sum of $500,000 (subsequently amended to $300,000), as follows :

- (i) $100,000 by July 17, 2009 (the "Acceptance Date"), which is five days after the LOI is accepted for filing by the TSXV (received August 18, 2009);
- (ii) an additional $150,000 (subsequently amended to $75,000) by the day, which is one year after the Acceptance Date (received on December 10, 2010);
- (iii) an additional $250,000 (subsequently amended to $125,000) by the day, which is two years after the Acceptance Date (not paid, currently under negotiation);

(b) delivering to the Company 1,434,000 (subsequently amended to 1,100,300) Ethos common shares, as follows:

- (i) 100,000 shares with a fair value of $17,000 on the Acceptance Date (received);
- (ii) 266,800 (subsequently amended to 150,000 with a fair value of $147,000) shares by the day, which is one year after the Acceptance Date (received on December 10, 2010);
- (iii) an additional 466,900 (subsequently amended to 250,000) shares by the day, which is two years after the Acceptance Date (not issued, currently under negotiation); and
- (iv) an additional 600,300 shares by the day, which is three years after the Acceptance Date; and

(c) maintaining the properties (including making all required payments pursuant to the underlying option agreements) in good standing during the option period.

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

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

During the period ended July 31, 2011, the Company received $222,000 in option payments from Ethos.

7. RESOURCE PROPERTIES (Continued)

(b) Argentina

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

- Cavok Property, Jujuy Province, Argentina

Pursuant to an agreement dated May 22, 2002 between the Company and a private Argentinean company, the Company has the right to acquire a 100% interest in three mineral concessions in Jujuy Province, Argentina, by making a payment of USD 10,000 on or before October 18, 2002 (paid) and issuing an aggregate of 250,000 common shares, as follows:

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

Two of these concessions form part of the Olaroz Silver Project and, during the fiscal year ended October 31, 2004, these two concessions were written down by $4,381,701 to a nominal value of $1. The third concession forms part of the Chingolo Silver Project. During the year ended October 31, 2009, the Company relinquished or abandoned, or commenced the process of relinquishing or abandoning, all properties relating to its investment in the Chingolo Project, resulting in a charge to operations of $679,055.

ii. Huachi Property, Argentina

Pursuant to an agreement dated June 13, 2005 between the Company and a private Argentinean company, the Company can acquire a 100% interest in 30 mining concessions referred to as the Huachi Property in the Province of San Juan, Argentina. In order to maintain the option in good standing and to be permitted to carry out exploration activities prior to such exercise, the Company is required to make payments and incur exploration expenditures as follows:

Payments of USD 5,500,000, as follows:

- USD 70,000 on June 13, 2005 (paid);
- USD 70,000 on or before April 13, 2006 (paid);
- USD 200,000 on or before June 13, 2007 (paid);
- USD 600,000 on or before April 13, 2008 (renegotiated to USD 110,000, which was paid);
- USD 1,000,000 on or before June 13, 2009 (see below); and
- USD 3,560,000 on or before June 13, 2010.

Exploration expenditures of USD 2,000,000, as follows:

- USD 750,000 on or before December 13, 2007 (incurred); and
- USD 1,250,000 on or before June 13, 2010 (see below).

Pursuant to an agreement dated November 30, 2006 between the Company and an Argentinean individual, the Company can acquire a 50% interest in one mining concession (mina) adjacent to the 30 Huachi concessions noted above. In order to maintain the option in good standing, to be permitted to carry out exploration activities prior to such exercise, and to exercise the option, the Company is required to make aggregate payments of USD 965,000 to the vendor, as follows:

7. RESOURCE PROPERTIES (Continued)

(b) Argentina (Continued)

ii. Huachi Property, Argentina (Continued)

- USD 5,000 on signing (paid);
- USD 10,000 on November 30, 2007 (paid);
- USD 50,000 on November 30, 2008 (see below);
- USD 150,000 on November 30, 2009;
- USD 250,000 on November 30, 2010; and
- USD 500,000 on November 30, 2011.

The Company has relinquished or abandoned, or is in the process of relinquishing or abandoning, all properties relating to its investment in the Huachi Project, resulting in a charge to operations of $1,917,437 during the year ended October 31, 2009.

iii. Other Argentinean Properties

(a) Organullo Property, Salta Province, Argentina

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

(b) Los Manantiales Property (formerly "Mina Angela"), Chubut Province, Argentina

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

- USD 50,000 on or before April 25, 2005 (paid);
- USD 50,000 on or before April 25, 2006 (renegotiated, with $10,000 paid on April 25, 2006 and the balance of USD 40,000 paid in October 2006);
- USD 150,000 on or before April 25, 2007 (paid); and
- USD 150,000 on or before April 25, 2008 (paid).

The Company has the option to purchase the 1% NSR royalty from the vendor for the sum of USD 500,000 at any time.

Pursuant to a binding LOI dated March 12, 2007, the Company has granted to a public company the option to acquire up to a 70% interest in the property. Pursuant to the LOI, the optionee had a period of 60 days to carry out due diligence. The Company received a payment of USD 40,000 on signing of the LOI, which was refundable to the optionee if it declined to proceed. The optionee elected to proceed. The optionee may earn an initial 60% interest in the property by incurring an aggregate of USD 3,500,000 in expenditures over four years (including making all payments required pursuant to the underlying agreement). Upon the optionee having earned an initial 60% interest, the Company may elect to either participate at its 40% interest level, or request the optionee to fund the preparation of a bankable feasibility study within four years of such request and thereby earn an additional 10% interest in the joint venture. Upon such request being made by the Company, the optionee may elect to fund the bankable feasibility study. If it does so, it will earn the additional 10% interest upon completion of the bankable feasibility

7. RESOURCE PROPERTIES (Continued)

(b) Argentina (Continued)

iii. Other Argentinean Properties (Continued)

(b) Los Manantiales Property (formerly "Mina Angela"), Chubut Province, Argentina (Continued)

study. Following the formation of the joint venture and the completion of its earn-in requirements by the optionee, each participant is responsible for funding its share of joint venture expenditures. If it does not do so, its interest will be diluted. Upon the interest of a participant being diluted to less than 10%, such interest will be converted to a 2% NSR.

In June 2007, the optionee elected to make all remaining payments required under the underlying agreement, and thereby permit the Company to exercise the option and acquire the property (subject to the 1% NSR royalty). The property has been transferred to the Company. On December 3, 2008, the optionee terminated the option and returned all interest in the property to the Company.

(c) Pirquitas Property, Jujuy Province, Argentina

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

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

(c) Peru

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

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

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

7. RESOURCE PROPERTIES (Continued)

(c) Peru (Continued)

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

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

ii. Pampa de Pongo Property, Caraveli Province, Peru

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

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

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

Payments aggregating USD 130,900 as follows:

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

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

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

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

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

7. RESOURCE PROPERTIES (Continued)

(c) Peru (Continued)

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

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

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

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

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

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

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

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

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

7. RESOURCE PROPERTIES (Continued)

(c) Peru (Continued)

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

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

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

- USD 80,000 on or before December 16, 2006 (paid);
- USD 100,000 on or before December 16, 2007 (paid);
- USD 150,000 on or before December 16, 2008 (paid);
- USD 500,000 on or before December 16, 2009 (paid); and
- USD 6,000,000 on or before December 16, 2011;

- USD 50,000 on or before December 16, 2007 (incurred);
- USD 50,000 on or before December 16, 2008 (incurred);
- USD 50,000 on or before December 16, 2009 (incurred);
- USD 50,000 on or before December 16, 2010 (incurred); and
- USD 50,000 on or before December 16, 2011 (incurred).

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

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

7. RESOURCE PROPERTIES (Continued)

(c) Peru (Continued)

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

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

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

iv. Amable Maria Property, Peru

The Amable Maria Property consists of 37 mining concessions (approximately 29,620 hectares) located in the Provinces of Chanchamayo and Jauja, Department of Junin, Peru, and acquired by the Company through staking and application therefor. After an unsuccessful search for a joint venture partner, the property was abandoned in July 2009, and the Company has written off the associated costs of $473,795 at October 31, 2009.

(d) United States of America

i. TiTac Property, Minnesota

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

The option agreement requires an initial payment of USD 5,000 on execution (paid) plus an extension payment of USD 25,000 due on the first anniversary of the agreement in order to extend the option for an additional year (option exercised). There are no work commitments under the option, but the Company is required to comply with all laws and to maintain specified insurance in place during the option term. The Company exercised the option to enter into the mineral lease on July 1, 2009.

7. RESOURCE PROPERTIES (Continued)

(d) United States of America (Continued)

i. TiTac Property, Minnesota (Continued)

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

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

ii. Longnose Property, Minnesota

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

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

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

During the year ended October 31, 2010, the Company issued 75,000 common shares valued at $111,500 as a finder's fee in connection with the acquisition of its interests in the TiTac and Longnose properties in Minnesota.

7. RESOURCE PROPERTIES (Continued)

(e) Africa - Ghana

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

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

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

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

Based on the size of the area for which a prospecting license has been applied for, it is anticipated that Cardero Ghana will make the following option payments to the private Ghanaian company in order to acquire its interest in the joint venture:

- USD 50,000 on or before September 16, 2010 (paid);
- USD 500,000 upon the execution of the agreement (paid);
- USD 1,000,000 on or before November 22, 2011;
- USD 1,000,000 on or before November 22, 2012;
- USD 1,000,000 on or before November 22, 2013;
- USD 1,000,000 on or before November 22, 2014; and
- USD 1,000,000 on or before November 22, 2015.

Should the area for which the prospecting license is ultimately issued be materially larger than that applied for, the option payments will be increased by a negotiated amount. Following the issuance of the prospecting license and the formation of the joint venture (which requires the consent of the Government of Ghana), Cardero Ghana is responsible for providing 100% of the funding required for the exploration and, if warranted, development and mining of the property subject to the prospecting license and any subsequent mining license.

(f) Canada – Carbon Creek Property, British Columbia

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

i. Johnson Agreement

On May 18, 2010, Coalhunter entered into a Coal Tenure Option Agreement ("Johnson Agreement") to acquire, upon issuance, certain coal licenses ("Johnson Licenses") located in the Peace River Land District of British Columbia. Consideration for a 100% interest in the licenses consists of the following payments and share issuances:

- payments to date of $350,000 and an additional payment of $5,000,000 due within four months of the date the coal licenses are issued by the Government of British Columbia and transferred to the Coalhunter. Coalhunter can extend the payment date by paying a $20,000 monthly fee for up to three additional months.

7. RESOURCE PROPERTIES (Continued)

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

i. Johnson Agreement (Continued)

- issuance of 500,000 common shares of Coalhunter. Such issuance is to be made concurrently with the $5,000,000 final payment and will be satisfied by the issuance of 400,000 common shares of the Company.
- issuance of an option to acquire 1,000,000 common shares of Coalhunter at an exercise price of $0.15 per share (issued). The option was exercised by March 9, 2011.

ii. Burns Agreement

On June 15, 2010, Coalhunter entered into an option agreement ("Burns Agreement") to acquire a lease of the coal situated on 10 crown granted district lots ("CGDL") located in the Peace River Land District of British Columbia. To maintain its option, Coalhunter has paid $3,500,000 to date and is required to make a further $2,500,000 payment on or before December 30, 2011. Upon making the final payment, Coalhunter may exercise the option upon payment of $1.

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

iii. Joint Venture Agreement

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

To acquire its interest in the joint venture, Coalhunter was required to issue 2,000,000 common shares (issued) plus warrants to purchase an additional 2,000,000 common shares (issued) and make total payments of $6,000,000, of which it has paid a total of $3,500,000 to date and is required to make a final payment of $2,500,000 on or before December 30, 2011.

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

7. RESOURCE PROPERTIES (Continued)

(g) Title and environmental

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

(h) Asset retirement obligations

The Company is not aware of any AROs as of July 31, 2011 and October 31, 2010.

8. CAPITAL STOCK

(a) Authorized

An unlimited number of common shares without par value.

During the year ended October 31, 2010, the Company launched a normal course issuer bid to purchase up to 4,500,000 of its common shares through the facilities of the TSX. During the year ended October 31, 2010, the Company purchased 312,300 common shares for cancellation. At July 31, 2011, these common shares are still pending return to treasury.

(b) Share purchase warrants

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

	July 31, 2011		**October 31, 2010 (audited)**	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	-	$ -	4,303,100	$ 1.47
Issued pursuant to Acquisition (note 3)	3,856,400	$ 0.39	-	$ -
Exercised	(424,200)	$ (0.38)	(67,125)	$ (1.35)
Expired	-	$ -	(4,235,975)	$ 1.48
Warrants outstanding, end of period	3,432,200	$ 0.39	-	$ -

8. CAPITAL STOCK (Continued)

(b) Share purchase warrants (Continued)

Warrants outstanding are as follows:

	July 31, 2011		October 31, 2010 (audited)	
Expiry Date	Exercise Price	Number of Shares	Exercise Price	Number of Shares
December 17, 2011	$ 0.63	448,000	$ -	-
March 1, 2012	$ 0.06	240,000	$ -	-
March 29, 2012	$ 0.16	5,600	$ -	-
April 6, 2012	$ 0.16	12,600	$ -	-
May 20, 2012	$ 0.06	120,000	$ -	-
June 14, 2012	$ 0.38	336,000	$ -	-
June 15, 2012	$ 0.06	120,000	$ -	-
September 22, 2012	$ 0.44	70,000	$ -	-
June 1, 2013	$ 0.50	1,600,000	$ -	-
January 12, 2013	$ 0.13	240,000		
May 29, 2013	$ 0.13	240,000	$ -	-
		3,432,200		-

(c) Stock options

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

A summary of the status of the stock option plan as of July 31, 2011 and October 31, 2010 and changes during the periods ended on those dates is presented below:

	July 31, 2011		October 31, 2010 (audited)	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of period	5,310,000	$ 1.23	5,500,000	$ 1.77
Expired and cancelled	-	$ -	(3,700,000)	$ (2.01)
Exercised	(840,000)	$ 1.22	-	$ -
Granted pursuant to Acquisition (note 3)	2,029,143	$ 0.32	-	$ -
Granted	1,100,000	$ 1.83	3,510,000	$ 1.21
Options outstanding, end of period	7,599,143	$ 1.08	5,310,000	$ 1.23

The weighted average remaining contractual life of options outstanding at July 31, 2011 was 1.12 year (October 31, 2010 – 1.3 year).

8. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

Stock options outstanding are as follows:

	July 31, 2011			**October 31, 2010 (audited)**		
Expiry Date	Exercise Price	Number of Options	Exercisable at Period-End	Exercise Price	Number of Options	Exercisable at Year-End
December 9, 2010	$ 1.16	-	-	$ 1.16	575,000	575,000
April 9, 2011	$ 1.39	-	-	$ 1.39	225,000	225,000
September 11, 2011	$ 1.30	1,000,000	1,000,000	$ 1.30	1,000,000	1,000,000
December 1, 2011	$ 1.31	360,000	360,000	$ 1.31	360,000	360,000
February 2, 2012	$ 1.41	500,000	500,000	$ 1.41	500,000	500,000
July 29, 2012	$ 1.16	1,485,000	1,485,000	$ 1.16	1,525,000	1,525,000
August 11, 2012	$ 1.16	1,125,000	1,125,000	$ 1.16	1,125,000	1,125,000
September 8, 2010	$ 1.28	100,000	100,000	$ -	-	-
January 28, 2013	$ 1.83	1,000,000	1,000,000	$ -	-	-
June 1, 2013	$ 0.06	280,000	-	$ -	-	-
June 1, 2013	$ 0.16	100,000	-	$ -	-	-
June 1, 2013	$ 0.31	320,000	-	$ -	-	-
June 1, 2013	$ 0.38	980,000	-	$ -	-	-
June 1, 2013	$ 0.44	349,143	-	$ -	-	-
		7,599,143	5,570,000		5,310,000	5,310,000

At July 31, 2011, the aggregate intrinsic value of outstanding and exercisable stock options is $234,900 (October 31, 2010 - $258,000).

The Company uses the fair value method for determining stock-based compensation for all options granted during the fiscal years. The fair value was determined using the Black-Scholes option pricing model based on the following assumptions:

	Period ended July 31, 2011	**Year ended October 31, 2010 (audited)**	**Year ended October 31, 2009 (audited)**
Expected life (years)	2.0	2.0	2.0
Interest rate	1.35%	1.43%	1.32%
Volatility (average)	61.21%	72.33%	102.04%
Dividend yield	0.00%	0.00%	0.00%

Stock-based compensation charges for the nine months ended July 31, 2011 totalled $657,296 (2010 - $1,271,998), allocated as follows:

	2011	**2010**
Consulting fees	$ 15,135	$ 217,132
Investor relations	294,066	371,965
Salaries and benefits	348,095	682,901
	$ 657,296	$ 1,271,998

The weighted average fair value of options granted during the period was $0.60 (October 31, 2010 - $0.48).

9. RELATED PARTY TRANSACTIONS

(a) Due to related parties

During the periods ended July 31, 2011and 2010, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

		2011		2010
Consulting fees	$	67,500	$	97,500
Professional fees	$	61,875	$	66,431
Investor relations	$	-	$	51,450

At July 31, 2011, there was $8,030 (October 31, 2010 - $7,700) included in accounts payable and accrued liabilities. Professional fees include amounts paid to a law firm of which a director is a shareholder.

(b) Due from related parties

Amounts due from related parties are comprised as follows:

		July 31, 2011		October 31, 2010 (audited)
Unsecured promissory notes, 1% per annum, due the earlier of 30 days after demand or the due date, if applicable:				
Trevali	$	158,170	$	78,227
Wealth		298,306		305,871
Dorato		207,831		143,193
Indico		11,723		468,819
Abzu		35,154		208,345
IMM		18,805		18,820
ITH		7,038		11,185
Balmoral		15,461		4,207
Directors, employees and other		47,527		122,883
	$	800,015	$	1,361,550

The Company recovered $973,252 during the period ended July 31, 2011 (July 31, 2010 - $601,160) in rent and administration costs from Wealth, ITH, Dorato, Indico, Trevali, Balmoral, Abzu , Corvus and Lawrence W. Talbot Law Corporation ("LWTLC"), companies with common officers or directors.

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

(c) Loan receivable

The Company entered into a loan agreement with Kria whereby the Company advanced Kria $8,064,000 (the "Loan") to fund the USD 8,000,000 property payment due by Kria to Xstrata Canada Corporation ("Xstrata") on or before January 16, 2011 under the terms of the revised Halfmile and Stratmat property purchase agreement dated July 15, 2009, between Kria and Xstrata. The Loan bears interest at 10% per annum, calculated monthly, not in advance and is due on or before January 14, 2012. As security for the Loan, Kria has granted in favour of the Company a first charge, mortgage and security interest over all its assets and undertakings. In connection with the Loan, Kria issued to the Company 6,400,000 common share purchase

9. RELATED PARTY TRANSACTIONS (Continued)

(c) Loan receivable (Continued)

warrants of Kria (the "Bonus Warrants"). Each Bonus Warrant entitles the holder to acquire a common share of Kria at an exercise price of $0.25 until January 14, 2012. On April 7, 2011, Trevali acquired Kria and the 6,400,000 Kria bonus warrants were exchanged to 1,280,000 Trevali warrants on 5:1 exchange ratio. The interest rate of the Loan was retroactively reduced to 8% to be calculated monthly, and not in advance (note 5(f)). Accrued interest of $353,490 is included in the loan balance presented.

(d) Related parties

Mr. Stephan Fitch, a director of the Company, is a director and significant shareholder of a private company that is the major shareholder (67%) of IMM. The Company has acquired a 15% interest in IMMG, a subsidiary of IMM (note 6(c)). This transaction was approved by the Company's audit committee and Board of Directors (other than Mr. Fitch, who abstained from voting in each case). The Company considered the collectability of advances totalling $468,099 to IMMG to be doubtful and, accordingly, wrote them off during the year ended October 31, 2009.

Effective October 1, 2005, the Company retained Mr. Carlos Ballon of Lima, Peru, to provide management services on behalf of the Company in Peru through his private Peruvian company, Koripampa, for a fee of USD 10,000 per month (reduced to USD 7,500 per month starting from March 2007), which has been expensed to consulting fees. Mr. Ballon became President of Cardero Peru in April 2006. Accordingly, Mr. Ballon is a related party with respect to the Company. Prior to Mr. Ballon becoming a related party, the Company entered into a number of mineral property acquisition/option agreements with either Koripampa or Sudamericana de Metales Peru S.A., another private Peruvian company controlled by Mr. Ballon. Such property transactions include those with respect to the Carbonera and Daniella Properties (note 7(c)(i)), the Pampa de Pongo Property (note 7(c)(ii)), the Katanga Property and the Corongo Property.

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

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

10. GEOGRAPHIC SEGMENTED DATA

The Company operates in one industry segment, the mineral resources industry, and in six geographical segments, Canada, Peru, Mexico, Argentina, Africa and the United States. All current exploration activities are conducted in the affected jurisdictions outside of Canada. The significant asset categories identifiable with these geographical areas are as follows:

	July 31, 2011				
	Canada/US/ Africa	Peru	Argentina	Mexico	Total
Resource properties	$ 62,889,379	$ 11,792,418	$ 2,694,867	$ 60,050	$ 77,436,714
Cash	8,208,864	6,577	11,442	19,111	8,245,994
Investments	59,509,840	-	-	-	59,509,840
Other	10,521,297	97,470	102,360	259,395	10,980,522
	$ 141,129,380	$ 11,896,465	$ 2,808,669	$ 338,556	$ 156,173,070

10. GEOGRAPHIC SEGMENTED DATA (Continued)

	October 31, 2010 (audited)				
	Canada/US/ Ghana	Peru	Argentina	Mexico	Total
Resource properties	$ 2,869,893	$ 10,254,095	$ 2,471,635	$ 261,127	$ 15,856,750
Cash	6,192,603	46,042,361	16,496	12,543	52,264,003
Investments	65,922,190	-	-	-	65,922,190
Other	1,027,574	930,802	47,991	155,844	2,162,211
	$ 76,012,260	$ 57,227,258	$ 2,536,122	$ 429,514	$ 136,205,154

11. INCOME TAXES

	2011	2010
Income tax expense (benefits)	$ (973,777)	$ 22,529,128
Permanent difference	31,979	(259,101)
Stock- based compensation	708,312	365,699
Non-taxable portion of capital gains	(668,664)	(42,925)
Write-down of properties	-	2,438,083
Other temporary differences	62,660	901,647
Effect of tax rates in other jurisdictions	(63,301)	(41,122)
Effect of rate reduction	28,845	(213,248)
Unrecognized (utilized) tax losses	1,345,630	(396,420)
	$ 471,682	$ 25,281,741

The components of future income tax assets (liabilities) are as follows:

	July 31, 2011	October 31, 2010 (audited)
Future income tax assets		
Non-capital loss carry-forwards	$ 10,442,576	$ 9,584,878
Difference between undepreciated capital cost over net book value of property and equipment	79,946	56,628
Cumulative eligible capital deduction	13,678	13,678
Share issue costs	192,237	154,416
Tax value of resource property in excess of book	2,046,573	-
Other	1,478,383	297,085
Total future income tax assets	14,253,393	10,106,685
Valuation allowance	(10,267,056)	(586,039)
Net future income tax assets	$ 3,986,337	$ 9,520,646
Future income tax liabilities		
Book value of investments in excess of tax values	$ (3,986,337)	$ (4,649,040)
Book value of resource properties in excess of tax values	(11,713,033)	(4,871,606)
Total future income tax liabilities	(15,699,370)	(9,520,646)
Net income tax assets (liabilities)	$ (11,713,033)	$ -

11. INCOME TAXES (Continued)

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

The Company has available approximate non-capital losses 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
2011	$ -	$ 600,000	$ 600,000
2012	-	1,465,000	1,465,000
2013	-	894,000	894,000
2014	-	694,000	694,000
2015	-	511,000	511,000
2016	-	1,723,000	1,723,000
2017	-	357,000	357,000
2018	-	918,000	918,000
2019	-	477,000	477,000
2020	-	1,067,000	1,067,000
2021	-	461,000	461,000
2026	1,658,000	-	1,658,000
2027	3,087,000	70,000	3,157,000
2028	4,131,000	354,000	4,485,000
2029	2,259,000	231,000	2,490,000
2030	6,446,000	559,000	7,005,000
2031	946,000	372,000	1,318,000
Deferred expiry	-	8,663,000	8,663,000
	$ 18,527,000	$ 19,416,000	$ 37,943,000

12. COMMITMENTS

The Company was committed to monthly lease payments of $11,907 for its premises at 1901 – 1177 West Hastings Street, Vancouver, under its current lease, which expired August 31, 2010. On September 8, 2008, the Company sub-leased the premises to another company for the remaining term of the lease with the landlord's consent. The Company entered into a sub-lease dated May 14, 2008 for new office space located at 1920 – 1188 West Georgia Street, Vancouver. The new sub-lease commenced August 1, 2008 for a term of 51 months. The initial lease payments are $14,654 per month for basic rent and $9,623 per month for estimated operating costs, commencing in September 2008.

The Company entered into a lease dated November 18, 2010 for office space located on the 23rd floor of 1177 West Hastings Street for a term commencing on 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 year is $312,579, plus operating costs.

Other commitments are disclosed elsewhere in these consolidated financial statements as appropriate.

13. RISK AND CAPITAL MANAGEMENT; FINANCIAL INSTRUMENTS

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

The Company currently has no source of revenues; as such, the Company is dependent upon external financings or the sale of assets (or an interest therein) to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its

13. RISK AND CAPITAL MANAGEMENT; FINANCIAL INSTRUMENTS (Continued)

capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended July 31, 2011. The Company is not subject to externally imposed capital requirements.

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

CICA Handbook Section 3862 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 following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy.

July 31, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 8,245,994	$ -	$ -	$ 8,245,994
Resource related investments	56,623,036	-	-	56,623,036
Resource related investments	-	2,886,804	-	2,886,804
	$ 64,869,030	$ 2,886,804	$ -	$ 67,755,834

October 31, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 52,264,003	$ -	$ -	$ 52,264,003
Resource related investments	57,041,708	-	-	57,041,708
Resource related investments	-	3,643,942	-	3,643,942
	$ 109,305,711	$ 3,643,942	$ -	$ 112,949,653

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

(a) Credit risk

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

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

13. RISK AND CAPITAL MANAGEMENT; FINANCIAL INSTRUMENTS (Continued)

	July 31, 2011	October 31, 2010 (audited)
Bank accounts - Canada	$ 7,886,438	$ 6,035,679
Bank accounts - Peru	6,577	46,042,361
Bank accounts - Others	352,979	185,963
	$ 8,245,994	$ 52,264,003

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 $800,015 (October 31, 2010 - $1,361,550) due from related parties, the credit risk has been assessed as low by management as the Company has strong working relationships with the related parties involved.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in setting its commitments. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company maintains sufficient cash and cash equivalents at July 31, 2011 of $8,245,994 (October 31, 2010 - $52,264,003) in order to meet short-term business requirements. At July 31, 2011, the Company had accounts payable and accrued liabilities of $373,327 (October 31, 2010 - $832,087), which are due within 30 days.

(c) Market risk

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

i. Interest rate risk

The Company's cash and cash equivalents consists of cash held in bank accounts and guaranteed investment certificates that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of July 31, 2011 Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

ii. Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary financial instruments are denominated in United States, Mexican, Argentinean and Peruvian currencies. The Company has not entered into any foreign currency contracts to mitigate this risk as it believes this risk is minimized by the amount of cash held in these foreign jurisdictions. The Company's sensitivity analysis suggests that a consistent 5% change in the rate of exchange in all foreign jurisdictions where it has assets employed would change mineral properties and foreign exchange gain or loss by $7,548 (October 31, 2010 - $2,332,000).

13. RISK AND CAPITAL MANAGEMENT; FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

iii. Other price risk

Other price risk is the risk that the fair 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 $595,098, and the change on resource related investments in warrants cannot be predicted.

14. COMPARATIVE FIGURES

Certain of the figures for 2010 have been reclassified to conform to the presentation adopted for the current period.

15. DIFFERENCES BETWEEN CANADIAN AND US GAAP

(a) Differences in accounting principles

i. Exploration expenditures

Under Canadian GAAP, acquisition costs and exploration expenditures are capitalized. Under US GAAP, exploration costs incurred in locating areas of potential mineralization are expensed as incurred.

Commercial feasibility is established in compliance with the Securities and Exchange Commission ("SEC") Industry Guide 7, which consists of identifying that part of mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination. After an area of interest has been assessed as commercially feasible, expenditures specific to the area of interest for further development are capitalized. In deciding when an area of interest is likely to be commercially feasible, management may consider, among other factors, the results of pre-feasibility studies, detailed analysis of drilling results, the supply and cost of required labour and equipment, and whether necessary mining and environmental permits can be obtained.

Under US GAAP, mining projects are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. If estimated future cash flows expected to result from the use of the mining project or property, and their eventual disposition are less than the carrying amount of the mining project or property, an impairment is recognized based upon the estimated fair value of the mining project or property. Fair value generally is based on the present value of estimated future net cash flows for each mining project, property, calculated using estimated mineable reserves, mineral resources, based on engineering reports, projected rates of production over the estimated mine, recovery rates, capital requirements, remediation costs and future prices considering the Company's hedging and marketing plans. At July 31, 2011, all mineral properties considered active under US GAAP had a book value of $62,425,671 (October 31, 2010 - $3,179,687) (note 7), after all applicable impairment charges.

15. DIFFERENCES BETWEEN CANADIAN AND US GAAP (Continued)

(a) Differences in accounting principles (Continued)

ii. Reconciliation of total assets, liabilities and shareholders' equity as of July 31, 2011 and October 31, 2010:

	July 31, 2011	October 31, 2010 (audited)
Total assets per Canadian GAAP	$ 156,173,070	$ 136,205,154
Exploration expenditures on resource properties expensed under US GAAP	(15,017,871)	(12,677,063)
Total assets per US GAAP	$ 141,155,199	$ 123,528,091
Total liabilities per Canadian and US GAAP	$ 12,086,360	$ 27,679,401
Total shareholders' equity per Canadian GAAP	144,086,710	108,525,753
Exploration expenditures on resource properties expensed under US GAAP	(15,017,871)	(12,677,063)
Total shareholders' equity per US GAAP	129,068,839	95,848,690
Total liabilities and shareholders' equity per US GAAP	$ 141,155,199	$ 123,528,091

iii. Reconciliation of net income/(loss) and comprehensive income/(loss) reported in Canadian GAAP and US GAAP:

Statements of operations for the nine months ended:

	2011	2010
Reconciliation of net income/(loss) from Canadian to US GAAP		
Net income per Canadian GAAP	$ (2,333,960)	$ 44,116,452
Exploration and development costs	(3,450,076)	(5,011,638)
Reverse exploration and developments costs written-off	-	4,911,692
Exploration and development costs recovered	297,383	11,599
Total difference	(3,152,693)	(88,347)
Net income (loss) per US GAAP	$ (5,486,653)	$ 44,028,105
Weighted average number of common shares outstanding	64,249,533	58,631,078
Basic and diluted income/(loss) per share in accordance with Canadian GAAP	$ (0.04)	$ 0.75
Total differences	(0.05)	0.00
Basic and diluted income/(loss) per share in accordance with US GAAP	$ (0.09)	$ 0.75

15. DIFFERENCES BETWEEN CANADIAN AND US GAAP (Continued)

(a) Differences in accounting principles (Continued)

Statements of comprehensive income (loss) for the nine months ended:

		2011		2010
Comprehensive income in accordance with Canadian GAAP	$	(6,719,947)	$	50,770,323
Total difference in net income between Canadian and US GAAP		(3,152,693)		(88,347)
Total comprehensive income in accordance with US GAAP	$	(9,872,640)	$	50,681,976

iv. Reconciliation of cash flows in accordance with Canadian GAAP and US GAAP:

Statements of cash flows for the nine months ended:

		2011		2010
Net cash provided (used) in operating activities of continuing operations in accordance with Canadian GAAP	$	(39,043,119)	$	(9,680,316)
Adjustments to net loss involving use of cash				
Write-off of capitalized resource property exploration costs		(3,645,893)		(4,534,476)
Net cash provided (used) in operating activities of continuing operations in accordance with US GAAP		(42,689,012)		(14,214,792)
Net cash provided by (used in) investing activities of continuing operations in accordance with Canadian GAAP		(4,505,396)		68,410,875
Reclassification of capitalized resource property exploration costs		3,645,893		4,534,476
Net cash provided by (used in) investing activities of continuing operations in accordance with US GAAP		(859,503)		72,945,351
Net cash flows provided by financing activities of continuing operations in accordance with Canadian and US GAAP		1,185,618		(225,524)
Effect of foreign exchange on cash in accordance with Canadian and US GAAP		(1,655,112)		(2,524,176)
Net increase in cash and cash equivalents in accordance with Canadian and US GAAP		(44,018,009)		55,980,859
Cash and cash equivalents, beginning of period in accordance with Canadian and US GAAP		52,264,003		5,823,196
Cash and cash equivalents, end of period in accordance with Canadian and US GAAP	$	8,245,994	$	61,804,055

15. DIFFERENCES BETWEEN CANADIAN AND US GAAP (Continued)

(a) Differences in accounting principles (Continued)

v. Cumulative Development Stage Reporting

The Company is not required and has opted to not report such information for Canadian reporting and for US GAAP purposes; the Company is considered an exploration stage company. Statement of Financial Accounting Standards No. 7 – "Accounting and Reporting by Development Stage Enterprises" requires the disclosure of cumulative-to-date information for each line item on the statements of operations and cash flow plus annual summaries of each component of shareholders' equity since inception. Under Canadian GAAP, Accounting Guideline "AcG 11 – Enterprises in the Development Stage", issued by the Canadian Institute of Chartered Accountants, does not require reporting of this information. Had the consolidated financial statements been prepared in accordance with US GAAP such information would have been disclosed.

vi. Income Taxes

Under Canadian GAAP, future tax assets and liabilities are recorded at substantively enacted tax rates. Under US GAAP, deferred tax assets and liabilities are recorded at enacted tax rates. There were no significant differences between enacted and substantively enacted tax rates for any of the periods presented.

In 2006, FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109". This interpretation prescribes a recognition threshold and measurement criteria for the financial statement recognition of a tax position taken or expected to be taken in a tax return. This interpretation was effective for the Company on February 1, 2008. The Company is required to determine whether it is more likely than not that a tax position will be sustained upon examination and such positions that meet this threshold will be measured at the most likely amount to be realized upon settlement.

The Company has reviewed its tax positions and determined that the application of FIN 48 does not result in any material adjustment for US GAAP purposes

vii. Derivatives

Under US GAAP the company is required to adopt EITF Issue No. 07-5, "Determining Whether an Instrument (or embedded Feature) is Indexed to an Entity's Own Stock". The standard provides guidance on when certain contingent and other adjustment features in equity-linked financial instruments are indexed solely to an entity's own stock. Such adjustment features also include strike prices which are denominated in a foreign currency. The adoption of this Statement did not have a material impact on the consolidated financial statements.

viii. Marketable Securities

Prior to June 1, 2007, under Canadian GAAP marketable securities and long-term investments were carried at the lower of cost or market, and adjustments to the carrying value are shown as an expense on the statement of operations. Under US GAAP marketable equity securities are carried at market value, and changes to the market value are shown as a component of shareholder's equity (if the securities are classified as available-for-sale securities) or as gain or loss in the statement of operations (if the securities are classified as trading securities). Effective June 1, 2007, the Company's accounting for financial instruments, equity and comprehensive income under US GAAP is substantially equivalent to the accounting under Canadian GAAP.

15. DIFFERENCES BETWEEN CANADIAN AND US GAAP (Continued)

(b) Recent US accounting pronouncements

i. In May 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 855-10, *Subsequent Events* ("ASC 855-10") (formerly Statement of Financial Accounting Standards ("SFAS") Statement No 165), which establishes principles and requirements for subsequent events. In particular, ASC 855-10 sets forth: (a) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (b) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and (c) the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. ASC 855-10 also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. As a result of the adoption of this new standard, the Company evaluated subsequent events to September 13, 2011, the day before these consolidated financial statements were issued.

ii. In June 2009, the FASB issued new guidance, which is now a part of ASC 860-10 (formerly SFAS Statement No 166), to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The FASB undertook this project to address (1) practices that have developed since the issuance of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (which is now a part of ASC 860-10), that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This new guidance is effective for fiscal years beginning after November 15, 2009 and is not expected to have a material impact on the Company's consolidated financial statements.

iii. In June 2009, the FASB issued new guidance, which is now part of ASC 810-10 (formerly SFAS Statement No. 167), to improve financial reporting by enterprises involved with variable interest entities. The FASB undertook this project to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (which is now part of ASC 810-10), as a result of the elimination of the qualifying special-purpose entity, and (2) constituent concerns about the application of certain key provisions of ASC 810-10, including those in which the accounting and disclosures under ASC 810-10 do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This new guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. This new guidance is not expected to have a material impact on the Company's consolidated financial statements.

iv. In June 2009, the FASB issued new guidance, which is now part of ASC 105-10 (the "Codification") (formerly Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles), which will become the source of authoritative US GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of the Codification, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the Codification only had the effect of amending references to authoritative accounting guidance in the Company's consolidated financial statements.

15. DIFFERENCES BETWEEN CANADIAN AND US GAAP (Continued)

(b) Recent US accounting pronouncements (Continued)

v. In August 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-05, Measuring Liabilities at Fair Value ("ASU 2009-05"). This update provides amendments to ASC 820, Fair Value Measurements and Disclosure, for the fair value measurement of liabilities when a quoted price in an active market is not available. ASU 2009-05 is effective for reporting periods beginning after August 28, 2009. This new guidance does not have a material impact on the Company's consolidated financial statements.

vi. In January 2010, the FASB issued ASU No. 2010-06 ("ASU 2010-06") applicable to FASB ASC 820-10, Fair Value Measurements and Disclosures. The guidance requires entities to disclose significant transfers in and out of fair value hierarchy levels and the reasons for the transfers and to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant unobservable inputs (Level 3). Additionally, the guidance clarifies that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). This guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which will be effective for interim and annual periods beginning after December 15, 2010. As this guidance provides only disclosure requirements, the adoption of this standard will not impact the Company's consolidated results of operations, cash flows or financial positions.

vii. In February 2010, the FASB issued ASU No. 2010-09, Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements ("ASU 2010-09"), which amends ASC Topic 855 ("ASC 855") to address certain implementation issues related to an entity's requirement to perform and disclose subsequent events procedures. The amendments in ASU 2010-09 remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The new guidance did not have an impact on the Company's consolidated financial statements or results of operations.

viii. In April 2010, the FASB issued ASU 2010-13, Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades ("ASU 2010-13"). ASU 2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance or service condition. Therefore, an entity would not classify such an award as liability if it otherwise qualifies as equity. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company does not expect the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended July 31		Nine Months ended July 31	
	2011	2010	2011	2010
Supplemental Cash Flow Information				
Accounts payable related to property expenditure	$ 97,161	$ 680,713	$ 97,161	$ 680,713
Shares issued on Acquisition of Coalhunter (note 3)	$ 35,095,503	$ -	$ 35,095,503	$ 111,500
Shares issued for debt settlement	$ -	$ -	$ -	$ -
Shares issued for brokers' commission	$ -	$ -	$ -	$ -
Interest paid	$ -	$ -	$ -	$ -
Income taxes paid	$ -	$ 2,118,065	$ 25,601,634	$ 2,118,065

17. SUBSEQUENT EVENTS

Subsequent to July 31, 2011:

(a) The Company issued 19,600 common shares pursuant to the exercise of warrants at a price of $0.625 per share for total proceeds of $12,250.

(b) On September 9, 2011, the Company entered into an Option Agreement with Artha Resources Corporation ("Artha") whereby Artha can earn an undivided 55% working interest in the Organullo Project (note 7(b)(iii)(a)), and thereafter form a Joint Venture with Cardero Argentina, subject to TSXV acceptance on behalf of Artha. Artha has the option to earn an undivided 55% right, title and working interest in and to the Organullo property by incurring an aggregate of USD 1,500,000 in exploration expenditures over three years (USD 250,000 by September 9, 2012) and by issuing an aggregate of 350,000 common shares in the capital of Artha, also over three years (50,000 shares within 15 days of TSXV acceptance). Upon Artha having earned its initial 55% interest, Cardero has a right to maintain its 45% interest through pro rata funding of exploration work going forward. Alternatively, Cardero may choose to be diluted down to a minimum of 10%, at which point its interest will be converted to a 2% NSR royalty.

CARDERO RESOURCE CORP.
Form 51-102F1
Management's Discussion and Analysis
For the nine month period ended July 31, 2011

INTRODUCTION

This Management Discussion and Analysis ("MD&A") for Cardero Resource Corp. ("Cardero" or the "Company") for the three and nine month periods ended July 31, 2011 has been prepared by management, in accordance with the requirements of National Instrument 51-102, as of September 13, 2011, and compares its financial results for the three and nine month periods ended July 31, 2011 to the previous periods. This MD&A provides a detailed analysis of the business of Cardero and should be read in conjunction with the Company's unaudited consolidated financial statements for the period ended July 31, 2011 as well as the audited consolidated financial statements for the year ended October 31, 2010. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The Company reports its financial position, results of operations and cash-flows in accordance with Canadian generally accepted accounting principles.

Forward-Looking Statements

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

- the Company's strategies and objectives, both generally and specifically in respect of Pampa el Toro property, the Minnesota Iron/Titanium properties and the Carbon Creek Metallurgical Coal property;

- the ability of the Company to convert portions of the existing resource at Carbon Creek into the Measured & Indicated categories

- the ability of the Company to increase the global resource at Carbon Creek by including additional coal seams in the resource estimation;

- the potential for the expansion of the estimated resources at Pampa el Toro;

- the timing of decisions regarding the timing and costs of exploration programs with respect to, and the issuance of the necessary permits and authorizations required for, the Company's ongoing exploration programs on its properties;

- the Company's estimates of the quality and quantity of the resources at its mineral properties;

- the timing and cost of the planned future exploration programs at the Minnesota Iron/Titanium and Carbon Creek Coal properties, and the timing of the receipt of results therefrom;

- the Company's future cash requirements;

- the potential for further upgrading of the concentrate from Pampa el Toro and the potential for the commercial production of pig iron from Pampa el Toro concentrate;
- the potential for the commercial recovery of titanium and vanadium from the slag resulting from the processing of Pampa el Toro concentrate to make pig iron;
- 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 agreements for some or all of its "non-core" properties.

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

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

- the anticipated terms of the consents, permits and authorizations necessary to carry out the planned exploration programs at the Company's properties and the Company's ability to comply with such terms on a safe and cost-effective basis;

- the ongoing relations of the Company with its underlying optionors/lessors and the applicable regulatory agencies;

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

- the Company's ability to negotiate and enter into appropriate off-take agreements for the potential products from any operation at Pampa el Toro, and Carbon Creek; and

- the Company's ability to overcome any potential difficulties in adapting pilot scale operations and testing to commercial scale operations.

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

Caution Regarding Adjacent or Similar Mineral Properties

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

Caution Regarding Reference to Resources and Reserves

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

The terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" are Canadian mining terms as defined in accordance with NI 43-101 and the CIM Standards. These definitions differ from the definitions in SEC Industry Guide 7 under the United States Securities Act of

1933, as amended (the "Securities Act"). Under SEC Industry Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

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

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

Caution Regarding Historical Results

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

All of the Company's public disclosure filings, including its most recent management information circular, material change reports, press releases and other information, may be accessed via www.sedar.com 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 September 13, 2011.

RESULTS OF OPERATIONS

Background

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

Exploration Activities

General

Through 2011 Cardero is focussed on the migration from high-risk, early-stage grassroots exploration projects and will focus on bulk commodities such as metallurgical coal and iron, where it can add value through identification and acquisition of advanced projects.

In recent years, Cardero's focus has increasingly been on iron ore and iron-making technologies. The sale of Cardero's wholly-owned Pampa de Pongo iron deposit in late 2009 for US$100 million cash represented an early success in the iron market. Cardero continues to hold significant iron ore resources at the Iron Sands Project in Peru and iron-titanium interests in Minnesota, USA.

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

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

Property	Total Costs to October 31, 2010	Total Costs to July 31, 2011	Estimated Fiscal 2011 Expenditures(1)
Pampa el Toro Iron Sands, Marcona, Peru	$10,254,095	$11,792,418	$2,000,000
Minnesota Iron-Titanium Projects, USA	$2,869,892	$3,554,508	$1,000,000
Carbon Creek Metallurgical Coal Project, BC, Canada	$3,138,691	$57,421,477	$4,000,000

Note: 1. This amount represents the estimated exploration expenditures for fiscal year ending October 31, 2011 and does not include property acquisition costs. Estimated expenditures are contingent upon ongoing successful results justifying further expenditures.

During the quarter ended July 31, 2011 and to September 13, 2011, the Company was primarily focussed on the Carbon Creek Metallurgical Coal deposit, including preparations for the field program and the beginning of the field program in August, completing the drilling programs for the Longnose and TiTac properties, and promoting the Pampa el Toro Iron Sands program as a viable project for the production of iron ore concentrate and/or pig iron to serve the needs of the People's Republic of China ("PRC"), together with its ongoing efforts to investigate and evaluate additional potential acquisitions.

Carbon Creek Metallurgical Coal Deposit, British Columbia, Canada

On June 1, 2011, the Company completed the acquisition of all of the issued and outstanding shares of Coalhunter not already owned by the Company.

Coalhunter, now a wholly owned subsidiary of the Company, has successfully negotiated agreements to explore and, if warranted, develop, the Carbon Creek Metallurgical Coal deposits in the Peace River Coal Field located in the northeast region of British Columbia.

Coalhunter has received regulatory approval to commence the 2011 field program which began in mid-August. The program is primarily aimed at continued definition drilling as well as collection of feasibility-level engineering and environmental data.

The program will include approximately 14,000 metres of core (46 holes) and rotary (19 holes) drilling as well as 3,000 metres of large diameter core drilling for coal quality analysis. The 2011 program is designed to upgrade all deposit-related data to feasibility level. Highlights of work proposed to be completed in 2011 are outlined below:

- *Resource Definition Drilling* - data collection to update the existing NI 43-101 resource estimate:
    - Aiming to convert portions of the existing resource into the Measured & Indicated categories
    - Intending to increase the global resource by including additional coal seams in the resource estimation
- *Geological Studies* - collection of surface, structural and drillhole data to enhance the current geological model
- *Coal Analysis & Marketing* - obtain a large coal sample from drill core for coal quality analysis to:
    - Determine clean coal product specifications
    - Estimate potential market and pricing
- *Engineering Studies* - Undertake detailed work for inclusion in feasibility-level mine design, including:
    - Geotechnical studies to fully assess surface and underground mining ground conditions utilizing consulting engineers and advanced down-hole geophysical methods
    - Hydrogeological assessment of fault structures and groundwater conditions
- *Environmental Baseline* - data will be collected over the coming 12 months designed to meet and exceed regulatory requirements for environmental baseline data
- *Stakeholder Engagement* - ongoing consultations with stakeholders, including First Nations' groups
-

The Company estimates that the 2011 program will cost approximately $10 million and will take approximately 5 months to complete. Results will be released as they are received, compiled and interpreted.

Longnose and Titac Iron Titanium Projects, Minnesota, USA

In May, 2011 the Company completed the exploration program recommended in the NI 43-101 technical report dated January 27, 2011 entitled "Longnose and Titac Iron Titanium Exploration Project, Minnesota, USA – Exploration Results 2010" prepared by EurGeol Keith J. Henderson, P.Geo (the Company's Vice-President, Exploration) and Stephen (Jayson) Ripke, QP, MMSA (the Vice-President, Technical, of Cardero Iron Ore Management (USA) Inc.) (the "Minnesota Report"). Readers are encouraged to review the Minnesota Report, which is filed on SEDAR at www.sedar.com.

During the quarter and to the date of this MD&A the Company received the final drill results from the 2011 winter drilling program at Longnose and Titac and has completed its interpretation and analysis of those results.

Longnose Project

Cardero completed an initial six-hole drill program in 2010 (984.4 metres). In 2011, Cardero completed an additional 9 holes (2,526.2 metres) and collected sufficient data to complete a resource estimate (Figure 1). Results have been received for the final drillholes LNG-012 to LNG-015 (Table 1). Drilling results demonstrate that the main mineralized intrusion at Longnose is a thick, laterally continuous intrusion of iron-titanium oxide-bearing ultramafic rocks and is open to the southeast.

LNG-012 was drilled vertically from the same platform as LNG-011 (157.6m of 19.3% TiO_2; news release dated April 11, 2011) to test the down dip extension of the mineralization. At 177m it intersected massive oxide mineralization that continued for 91m (19.1% TiO_2 and 51.3% Fe_2O_3). This hole demonstrates that mineralization remains open to the south east. LNG-013 was drilled 165m to the west of LNG012, in order to test the SW extent of the intrusion. Mineralized feldspar peridotite was intersected from 15m to 82m, grading 19.5% TiO_2 and 33.8% Fe_2O_3. LNG-014 was drilled 130m to the north of LNG012 with a dip of -45 towards the NW. The hole intersected pyroxenite at 178m and encountered intermittent local oxide mineralization throughout and to the base of the hole. Continuation of the intrusion to the southeast of drillhole LNG-009 (news release dated April 11, 2011) was tested with drillhole LNG-015. Excellent mineralization was intersected at 118m depth over 110.2 metres thickness: 20.2% TiO_2 and 31.3% Fe_2O_3.

Table 1: Final 2011 Longnose Drill results

Drillhole		From	To	Thickness	Weighted Average (%)		
		(m)	(m)	(m)	TiO2 %	Fe2O3 %	Cu %
LNG-012		176.6	267.0	90.4	19.1	51.3	-
LNG-013		14.8	81.4	66.6	19.5	33.8	0.2
	incl.	48.0	81.4	33.4	21.9	36.4	0.2
LNG-014		286.5	315.2	28.7	14.1	32.3	-
LNG-015		118.6	229.5	110.9	20.2	31.3	0.2
	incl.	118.6	189.3	70.7	21.8	33.7	0.2

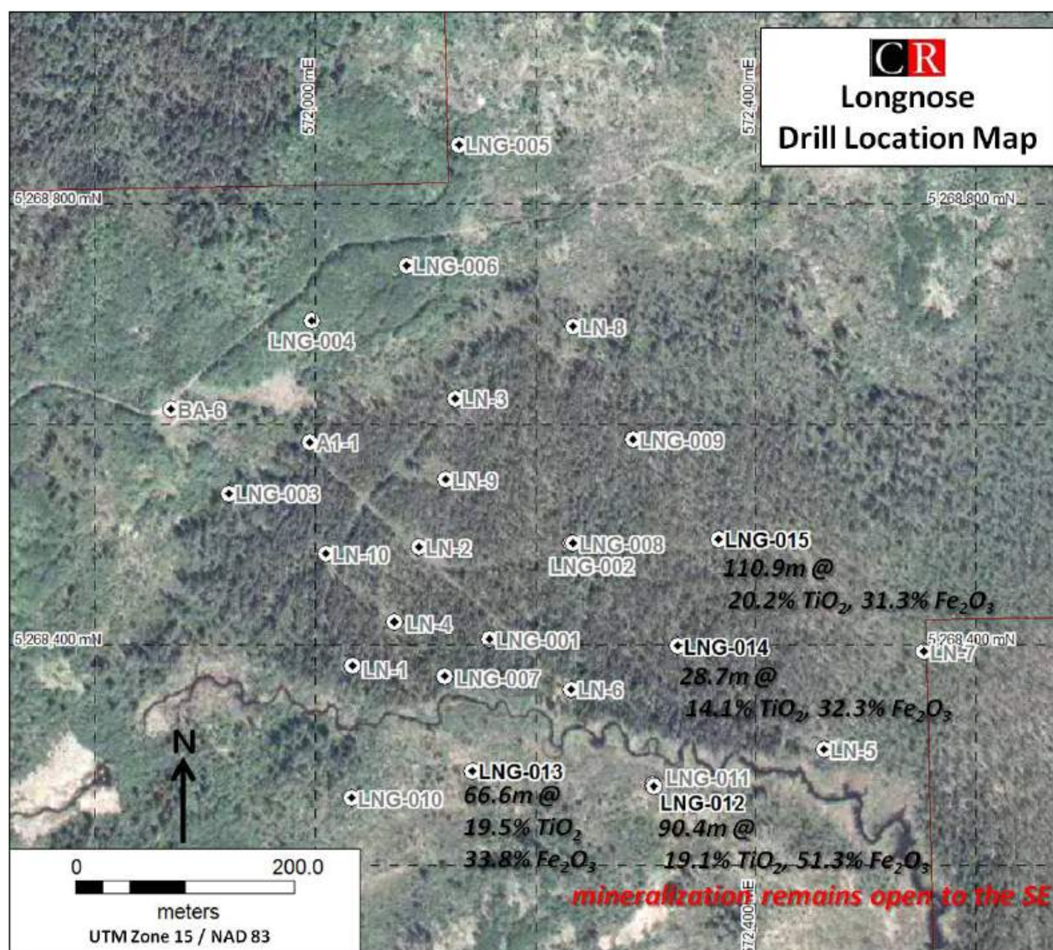

Figure 1: Drillhole locations at the Longnose Ferro-Titanium deposit

Titac Project

Cardero completed two final drillholes on the Titac south zone (511 metres) (Figure 2, Table 2). The drillholes were designed to test the north-eastern extent of the sub-vertical intrusion and corresponding mineralization. TTC-031 was drilled towards the NW at a dip of -45 degrees, and intersected multiple pyroxenite and peridotite dykes containing weak mineralization. Five separate intersections of the ultramafic units were encountered in TTC-032 (-50 to the NE), with local strong mineralization (6.7m of 21.7% TiO_2 and 35% Fe_2O_3).

Table 2: TiTac Drill results

Drillhole		From	To	Thickness	Weighted Average (%)		
		(m)	(m)	(m)	TiO2 %	Fe2O3 %	Cu %
TTC-031		140.5	168.9	28.3	13.6	31.7	0.2
		214.4	228.9	14.5	14.6	26.6	0.2
TTC-032		99.1	114.6	15.5	15.3	36.2	0.3
		77.1	83.8	6.7	21.7	35.0	0.3

Figure 2: Drillhole locations at the TiTac Ferro-Titanium deposit

SRK Consulting of Vancouver, Canada has been retained to prepare an independent NI 43-101 resource estimate for Titac South and Longnose, and estimates the completion of the NI 43-101 resource estimate prior to the end of 2011.

Pampa El Toro Iron Sands Project, Peru

The Company's Pampa el Toro Iron Sands project now comprises 5 concessions (3,600 hectares in 2 areas) held under option from an arm's length private Peruvian company. The Iron Sands project is located near the city of Nazca in the desert coastal region of southern Peru approximately 45 kilometres northeast of the port of San Juan and close to the large Marcona iron mine and the Pampa de Pongo iron deposit. The Company did not carry out any field work during the quarter or to the date of this MD&A.

During the quarter and to the date of the MD&A the Company continued to promote the Pampa el Toro program as a viable project for the production of iron ore concentrate and/or pig iron to serve the needs of steelmakers located in the PRC.

At the present time, the Company is actively engaged in negotiations to secure a partner who can help move the project to a commercial stage and, although the Company is presently in discussions with interested entities (including conducting property visits), there can be no assurance that it will be able to do so.

Baja IOCG, Mexico

The Company has produced a comprehensive data room, which is being reviewed by various companies under confidentiality agreements with the Company. The Company anticipates engaging in negotiations to secure a joint venture partner in the near future, but there can be no certainty that it will be able to do so or that it will be successful in entering into a joint venture agreement regarding the property.

Corrales and Santa Teresa Projects, Mexico

The Company has optioned its Corrales and Santa Teresa zinc-lead-silver projects in Mexico to Ethos Capital Corp. ("Ethos"). Ethos has advised that, with respect to the Santa Teresa property, an initial exploration program, to consist of detailed and property-scale geological mapping to further refine the mineral deposit model, is proposed but that no schedule for such work program has yet been determined. With respect to the Corrales property, Ethos has advised it is assessing the results of the initial percussion drilling program carried out in 2010, but no decision as to any follow-up work program has yet been concluded.

Organullo Project, Argentina

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

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

The Company understands that Artha currently proposes to carry out drill program at the Organullo property in late 2011 or early 2012.

Los Manantiales (Mina Angela) Project, Argentina

On December 3, 2008, Hochschilds Mining Holdings Limited terminated its option to acquire an interest in the project, and returned all interest in the property to the Company. The Company is still awaiting receipt of all the data generated by Hochschilds in connection with its activities on the property as required by the option agreement. However, several attempts to secure such data have been unsuccessful. The Company is seeking a joint venture partner to continue work on this property.

Minas Pirquitas Project, Argentina

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

Qualified Person(s) and Quality Control/Quality Assurance

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

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

Risk Factors

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

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

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

reclassified as proven or probable reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability.

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

Recent market events and conditions: From 2007 into early 2010, 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 2010/11, unprecedented disruptions in the credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its operations. The Company's access to additional capital may not be available on terms acceptable to it or at all.

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

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

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

Share Price Volatility: In 2010/11, 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 or a failure to obtain such licenses and permits, or a failure to comply with the terms of any such licenses and permits that the Company does obtain, could have a material adverse effect on the Company.

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

Title Matters: The acquisition of title to mineral properties in Mexico, Peru and Argentina is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. While the Company has diligently investigated title to all mineral properties in which it has an interest

and, to the best of its knowledge, title to all such properties is in good standing or, where not yet granted, the application process appears to be proceeding normally in all the circumstances, this should not be construed as a guarantee of title or that any such applications for concessions will be granted. Title to mineral properties may be affected by undetected defects such as aboriginal or indigenous peoples' land claims, or unregistered agreements or transfers. The Company has not obtained title opinions for the majority of its mineral properties. Not all the mineral properties in which the Company has an interest have been surveyed, and their actual extent and location may be in doubt.

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

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

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

disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

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

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

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

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

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

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

Regulatory Requirements: The activities of the Company are subject to extensive regulations governing various matters, including environmental protection, management and use of toxic substances and explosives, management of natural resources, exploration, development of mines, production and post-closure reclamation, exports, price controls, taxation, regulations concerning business dealings with indigenous peoples, labour standards on occupational health and safety, including mine safety, and historic and cultural preservation. Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties, enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions, any of which could result in the Company incurring significant expenditures. The Company may also be required to compensate those suffering loss or damage by reason of a breach of such laws, regulations or permitting requirements. It is also possible that future laws and regulations, or more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspension of the Company's operations and delays in the exploration and development of the Company's properties.

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

Estimates of Mineral Reserves and Resources and Production Risks: The mineral resource estimates presented in the Company's filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by Company personnel and independent geologists, and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified reserve or resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. The estimating of mineral resources and mineral reserves is a subjective process and the accuracy of mineral resource and mineral reserve estimates is a function of the quantity and quality of available data, the

accuracy of statistical computations, and the assumptions used and judgments made in interpreting available engineering and geological information. There is significant uncertainty in any mineral resource or mineral reserve estimate and the actual deposits encountered and the economic viability of a deposit may differ materially from the Company's estimates. Accordingly, there can be no assurance that:

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

Because the Company has not commenced production at any of its properties, and has not defined or delineated any proven or probable reserves on any of its properties, mineralization estimates for the Company's properties may require adjustments or downward revisions based upon further exploration or development work or actual production experience. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. There can be no assurance that minerals recovered in small-scale tests will be duplicated in large-scale tests under on-site conditions or in production scale. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. Short term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have a material adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in reserves or resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. The estimated resources described in the Company's filings with securities regulatory authorities, press releases and other public statements that may be made from time to time should not be interpreted as assurances of mine life or of the profitability of future operations. Estimated mineral resources and mineral reserves may have to be re-estimated based on changes in applicable commodity prices, further exploration or development activity or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence mineral resource or mineral reserve estimates. Market price fluctuations for gold, silver or base metals, increased production costs or reduced recovery rates or other factors may render any particular reserves uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated reserves could require material write downs in investment in the affected mining property and increased amortization, reclamation and closure charges.

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

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

Mining Industry is Intensely Competitive: The Company's business of the acquisition, exploration and development of mineral properties is intensely competitive. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical

capabilities than the Company. The Company may also encounter increasing competition from other mining companies in efforts to hire experienced mining professionals. Competition for exploration resources at all levels is currently very intense, particularly affecting the availability of manpower, drill rigs and helicopters. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

The Company may be a "passive foreign investment company" under the U.S. Internal Revenue Code, which may result in material adverse U.S. federal income tax consequences to investors in Common Shares that are U.S. taxpayers: Investors in Common Shares that are U.S. taxpayers should be aware that Cardero believes that it has been in one or more prior tax years, and may be in current and future tax years, a "passive foreign investment company" under Section 1297(a) of the U.S. Internal Revenue Code (a "PFIC"). However, no determination has been made regarding Cardero's PFIC status for any particular tax year. If Cardero is or becomes a PFIC, generally any gain recognized on the sale of the Common Shares and any "excess distributions" (as specifically defined) paid on the Common Shares must be 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

In the nine months ended July 31, 2011, the Company incurred net loss of $2,333,960 or $(0.04) per share compared to net income of $44,116,452 or $0.75 per share for the nine months period ended July 31, 2010, and during the three month period ended July 31, 2011, the Company had a loss of $3,824,274 or $(0.05) per share as compared to a loss of $4,092,028 or $(0.07) per share for 2010.

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.

Nine months ended July 31, 2011 compared to nine months ended July 31, 2010

The significantly higher income in the period ended July 31, 2010 over that ended July 31, 2011 was due to the payments received of $93,607,400 (USD 88,000,000) from the sale of Pampa de Pongo property, which have been recognized in other income of the comparative period, net of related property costs of $635,895 and transaction costs of $4,345,904 and before applicable income taxes. There was no comparable income during the period ended July 31, 2011.

The Company's general and administrative costs were $5,857,153, compared to $6,846,409 in 2010. The 14% decrease are in due to changes in the following expense categories:

- Amortization increased to $71,142 (2010 - $51,522), primarily due to the increased amortization from the acquisition of Coalhunter and the relocation of the Company's Vancouver office in April 2011;
- Bad debts of $ Nil (2010 - $104,835) was due to the Company's subsidiary in Mexico writing off VAT receivables in the prior period;
- Consulting fees of $993,808 (2010 - $1,379,268) includes $15,135 (2010 - $217,132) of stock-based compensation ("SBC"). It decreased as a result of the fees paid to consultants hired on the sale of Pampa de Pongo property, which has no comparative impact for the current year period, offset by an increase due to the acquisition of Coalhunter;
- Corporate development of $508,870 (2010 - $267,577), increased mainly due to advertising fees paid to increase the coverage of the Company's activities;
- Insurance of $77,593 (2010 - $134,629), declined primarily due to a decrease in the Directors & Officers insurance premiums and an increase in recoveries from other companies operating out of the Company's offices for reimbursement of office related insurance;
- Investor relations decreased to $535,121 (2010 - $604,468) mainly due to decreased SBC, which was $294,066 (2010 - $371,965);
- Office costs of $577,027 (2010 - $705,569), declined primarily due to increased recoveries from other companies operating out of the Company's offices;
- Professional fees of $617,567 (2010 - $678,236) decreased slightly due to less activity in the Company's foreign subsidiaries thus leading to lower legal costs in the current period;
- Property evaluations of $540,524 (2010 - $192,665) increased, primarily due to the ongoing maintenance costs of $223,675 incurred on the Company's Baja IOCG project, which had been previously written down while the Company continues to seek joint venture partners;

- Regulatory and transfer agent fees increased to $113,374 (2010 - $69,631), primarily as a result of increased filing requirements due to the acquisition of Coalhunter;

- Salaries and benefits decreased to $1,635,593 (2010 - $2,528,965), primarily due to the decrease in SBC year over year to $348,095 (2010 - $682,901) and fact that there have not yet been any employee bonuses paid in the current year, while there were employee bonuses paid in the prior year period; and

- Travel expenses increased to $186,534 (2010 - $129,044) as result of management's increased efforts to expose the Company to new investors.

The Company earned $356,523 interest income in the current period, principally from the $8,064,000 loan to Trevali Mining Corporation ("Trevali"), compared to an interest expense of $156 in the prior period.

The Company incurred $Nil write-off in the resource properties in the current period versus $8,480,288 in prior period. The write-off of the Baja IOCG project in Mexico in the prior period was as a result of disappointing exploration results in 2010.

During the nine month period, the Company realized gain of $4,983,827 from the sale of International Tower Hill Mines Ltd. ("ITH") (592,700 shares) and Trevali (790,000 shares) common shares, compared to a realized gain of $298,609 from the sale of ITH (24,000 shares), Trevali (155,000 shares) and Dorato Resources Corp. ("Dorato") (60,000 shares) common shares in the prior period. The Company also recorded $90,500 of unrealized gains on held-for-trading investments in Ethos Capital Corp. compared to $12,500 in the prior period. The unrealized gains on warrants of Trevali and Abzu Gold Ltd. ("Abzu") in the current period was $298,789 versus unrealized gains on warrants of Trevali and Wealth Minerals Ltd. of $206,583 in the prior period. These changes are due to market fluctuations which are entirely outside of the Company's control.

Foreign exchange losses of $1,884,934 (2010 - $3,506,735) decreased as the Company's exposure to the volatility of its US dollar holdings declined commensurate with its reduced comparative cash position.

Three months ended July 31, 2011 compared to three months ended July 31, 2010

General and administrative expenses decreased by 42% (2011 - $1,864,840, 2010 - $3,223,172), primarily due to the undernoted variances that occurred in the individual categories:

- Amortization increased to $29,060 (2010 - $17,942), primarily due to the increased amortization from the acquisition of Coalhunter and the relocation of the Vancouver office;

- Consulting fees of $403,602 (2010 - $646,832) includes $Nil (2010 - $162,574) stock-based compensation. It decreased as a result of the fees paid to consultants hired on the sale of Pampa de Pongo property, which has no comparative impact for the current year offset by an increase due to the acquisition of Coalhunter;

- Corporate development of $99,738 (2010 - $76,535), increased mainly due to advertising fees paid to increase the coverage of the Company's activities; and

- Insurance of $22,465 (2010 - $44,795) declined primarily due to a decrease in the Directors & Officers insurance premiums and an increase in recoveries from other companies operating out of the Company's offices for reimbursement of office related insurance;

- Investor relations decreased to $134,913 (2010 - $264,814), primarily due to a decrease in SBC from $162,575 in the prior period to $51,913 in the current period;

- Office costs decreased to $156,047 (2010 - $276,478) primarily due to increased recoveries from other companies operating out of the Company's offices;

- Professional fees of $180,973 (2010 - $212,739) decreased slightly due to less activity in the Company's foreign subsidiaries thus leading to lower legal costs in the current period;

- Regulatory and transfer agent fees increased to $45,542 (2010 - $12,075) primarily as a result of increased filing requirements due to the acquisition of Coalhunter; and

- Salaries and benefits decreased to $487,238 (2010 - $1,479,689) primarily due to the decrease in SBC year over year to $Nil versus $335,986 charged in the comparative period. The Company also recovered increased salaries of $173,372 (2010 - $113,143) from the geological services provided to other companies operating out of the Company's offices.

Other items showed an income of $515,116 in the current quarter versus a loss of $447,733 in the comparable quarter of 2010. Due to their nature, these transactions relate to events that do not necessarily generate comparable effects on the Company's operating results. Significant areas of change include:

- Interest income of $165,254, principally from the loan to Trevali, versus an interest income of $426 in the comparative quarter;

- The Company incurred $Nil write-off in the resource properties in the current period versus $299,546 in prior period. The write-off of the Baja IOCG project in Mexico in the prior period was as a result of disappointing exploration results in 2010;

- Realized gains from the sale of available-for-sale investments were $2,474,833 (2010 - $Nil) resulting from the current period sale of 428,800 shares of ITH;
- The unrealized loss on derivative investments (warrants) was $1,442,320 (2010 – unrealized gain of $73,685). For the current period the loss was caused by decrease in the value of Trevali warrants and Abzu warrants; and

- An increase in the loss on equity investments of $454,307 (2010 - $20,124).

SUMMARY OF QUARTERLY RESULTS

The table below sets out the quarterly results, expressed in Canadian dollars, for the past three fiscal years:

Fiscal 2011

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$ 42,158	$ 149,111	$ 165,254	
Gain (loss) on resource property	-	-	-	
Gain on sale of investments	2,196,898	312,096	2,474,833	
Net income (loss)	4,349,493	(2,859,179)	(3,824,274)	
Net income (loss) per share	0.07	(0.05)	(0.05)	
Comprehensive income (loss)	$ 21,444,911	$ 11,126,777	$ (6,730,082)	

Fiscal 2010

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$ 411	$ (993)	$ 426	$ 192
Gain (loss) on resource property	89,406,016	(780,415)	(891,388)	(7,056)
Gain on sale of investments	136,092	162,517	-	641,042
Net income (loss)	62,261,575	(14,053,095)	(4,092,028)	834,517
Net income (loss) per share	1.06	(0.24)	(0.07)	0.01
Comprehensive income (loss)	$ 69,081,221	$ (11,456,150)	$ (6,854,748)	$ 11,404,744

Fiscal 2009

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$ 7,131	$ 5,446	$ (135)	12,133
Gain (loss) on resource property	-	-	8,731,350	(133,695)
Gain on sale of investment	660,103	1,722,356	-	335,795
Net income (loss)	(2,997,821)	193,054	4,391,076	(1,840,937)
Net income (loss) per share	(0.05)	0.00	0.08	(0.03)
Comprehensive income (loss)	$ 1,400,502	$ (671,416)	$ 6,506,293	$ 2,895,749

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

The variation seen over such quarters is primarily dependent upon the success of the Company's ongoing property evaluation program and the timing and results of the Company's exploration activities on its then current properties, none of which are possible to predict with any accuracy. There are no general trends regarding the Company's quarterly results, and the Company's business of mineral exploration is not seasonal. Quarterly results can vary significantly depending on whether the Company has abandoned any properties or granted any stock options or paid any employee bonuses and these are the factors that account for material variations in the Company's quarterly net losses, none of which are predictable. In addition, results in fiscal 2010 were significantly influenced by the one-time sale of the Pampa de Pongo property. While the Company may seek, in the future, to sell some or all of the interests in other of its mineral properties, the timing and potential effect of any such sale is impossible to predict. The write-off

of mineral properties can have a material effect on quarterly results as and when they occur. Another factor which can cause a material variation in net loss on a quarterly basis is the grant of stock options due to the resulting SBC charges which can be significant when they arise. The payment of employee bonuses, being once-yearly charges, can also materially affect operating losses for the quarters in which they occur. General operating costs other than the specific items noted above tend to be quite similar from period to period. With the exception of the interest generated from the loan to Trevali (a one-off event), the variation in income is related solely to the interest earned on funds held by the Company, which is dependent upon the success of the Company in raising the required financing for its activities which will vary with overall market conditions, and is therefore difficult to predict.

LIQUIDITY AND CAPITAL RESOURCES

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

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

As at July 31, 2011, the Company reported cash and cash equivalents of $8,245,994 compared to $52,264,003 at October 31, 2010 and $5,823,196 as at October 31, 2009. The change in cash over the period is comprised of funds used in investing activities of $4,505,396 (principally from the purchase of investments), less $39,043,119 ($25,601,634 relating to income tax payable on the sale of Pampa de Pongo and $8,417,490 loaned to Kria Resources Ltd. (now a wholly owned subsidiary of Trevali)) used in operations and $1,185,618 provided by financing activities due to proceeds from shares issued. As at July 31, 2011, the Company had working capital of $17,640,238 compared to working capital of $26,549,076 at October 31, 2010 and $3,803,620 at October 31, 2009.

The Company has no exposure to any asset-backed commercial paper. Other than cash held by its subsidiaries for their immediate operating needs in the United States, Mexico, Peru, Argentina and Ghana, all of the Company's cash reserves are on deposit with major financial institutions or invested in

Government of Canada Treasury Bills or Banker's Acceptances issued by major Canadian chartered banks. The Company does not believe that the credit, liquidity or market risks with respect thereto have increased as a result of the current market conditions. However, in order to achieve greater security for the preservation of its capital, the Company has, of necessity, been required to accept lower rates of interest which has also lowered its potential interest income.

There have not been any material changes in the Company's contractual obligations for mineral property lease and option payments and committed operating lease obligations as disclosed in its MD&A for the period ended July 31, 2011, except that, by virtue of the acquisition of Coalhunter, the Company is therefore responsible for the balance of the option/acquisition payments to be made under the property agreements with respect to the Carbon Creek Metallurgical Coal deposit. The remaining payments under these agreements are as follows:

1. A payment of $5,000,000 is payable within 4 months of the issuance of certain coal tenure licenses by the Province of British Columbia (which payment the Company anticipates will be due in the first quarter of the fiscal year ending October 31, 2012), together with the concurrent issuance of 400,000 common shares (originally, 500,000 Coalhunter common shares);

2. A payment of $2,500,000 is payable on or before December 30, 2011 with respect to a coal lease option agreement; and

3. A payment of $2,500,000 is payable on or before December 30, 2011 with respect to a coal joint venture agreement.

OFF BALANCE-SHEET ARRANGMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

(a) Due to related parties

During the periods ended July 31, 2011 and 2010, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

	July 31, 2011	July 30, 2010
Consulting fees	$ 67,500	$ 97,500
Professional fees	$ 61,875	$ 66,431
Investor relations	$ -	$ 1,450

At July 31, 2011, there was $8,030 (October 31, 2010 - $7,700) included in accounts payable and accrued liabilities. Professional fees include amounts paid to a law firm of which a director is a shareholder.

(b) Due from related parties

Amounts due from related parties are comprised as follows:

	July 31, 2011	October 31, 2010 (audited)
Unsecured promissory notes, 1% per annum, due the earlier of 30 days after demand or the due date, if applicable:		
Trevali	$ 158,170	$ 78,227
Wealth	298,306	305,871
Dorato	207,831	143,193
Indico	11,723	468,819
Abzu	35,154	208,345
IMM	18,805	18,820
ITH	7,038	11,185
Balmoral	15,461	4,207
Directors, employees and other	47,527	122,883
	$ 800,015	$ 1,361,550

The Company recovered $973,252 during the period ended July 31, 2011 (July 31, 2010 - $601,160) in rent and administration costs from Wealth, ITH, Dorato, Indico, Trevali, Balmoral, Abzu, Corvus and Lawrence W. Talbot Law Corporation ("LWTLC"), companies with common officers or directors.

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

(c) Loan receivable

The Company entered into a loan agreement with Kria whereby the Company advanced Kria $8,064,000 (the "Loan") to fund the USD 8,000,000 property payment due by Kria to Xstrata Canada Corporation ("Xstrata") on or before January 16, 2011 under the terms of the revised Halfmile and Stratmat property purchase agreement dated July 15, 2009, between Kria and Xstrata. The Loan bears interest at 10% per annum, calculated monthly, not in advance and shall be repayable on or before January 14, 2012. As security for the Loan, Kria has granted in favour of the Company a first charge, mortgage and security interest over all its assets and undertakings. In connection with the Loan, Kria issued to the Company 6,400,000 common share purchase warrants of Kria (the "Bonus Warrants"). Each Bonus Warrant entitles the holder to acquire a common share of Kria at an exercise price of $0.25 until January 14, 2012. On April 7, 2011, Trevali acquired Kria and the 6,400,000 Kria bonus warrants were exchanged to 1,280,000 Trevali warrants on 5:1 exchange ratio and are now exercisable at $1.25. The interest rate of the Loan was retroactively reduced to 8% to be calculated monthly, and not in advance. Accrued interest of $353,490 is included in the loan balance presented.

(d) Related parties

Mr. Stephan Fitch, a director of the Company, is a director and significant shareholder of a private company that is the major shareholder (67%) of IMM. The Company has a 15% interest in IMMG, a subsidiary of IMM. This transaction was approved by the Company's audit committee and Board of Directors (other than Mr. Fitch, who abstained from voting in each case). The Company considered the collectability of advances totalling $468,099 to IMMG to be doubtful and, accordingly, wrote them off during the year ended October 31, 2009.

Effective October 1, 2005, the Company retained Mr. Carlos Ballon of Lima, Peru, to provide management services on behalf of the Company in Peru through his private Peruvian company, Koripampa, for a fee of USD 10,000 per month (reduced to USD 7,500 per month starting from March 2007), which has been expensed to consulting fees. Mr. Ballon became President of Cardero Peru in April 2006. Accordingly, Mr. Ballon is a related party with respect to the Company. Prior to Mr. Ballon becoming a related party, the Company entered into a number of mineral property acquisition/option agreements with either Koripampa or Sudamericana de Metales Peru S.A., another private Peruvian company controlled by Mr. Ballon. Such property transactions include those with respect to the Carbonera and Daniella Properties, the Pampa de Pongo Property, the Katanga Property and the Corongo Property.

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

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

PROPOSED TRANSACTIONS

Although the Company is currently investigating/negotiating a number of additional property acquisitions, and is entertaining proposals for the sale or option/joint venture of one or more of its properties, as at the date of this MD&A there are no proposed transactions where the Board of Directors, or senior management who believe that confirmation of the decision by the Board is probable, have decided to proceed with and which are not disclosed herein.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates in the preparation of the Company's financial statements include the rates of amortization for equipment, the potential recovery of resource property interests, the assumptions used in the determination of the fair value of SBC and the determination of the valuation allowance for future income tax assets. Management believes the estimates used are reasonable; however, actual results could differ materially from those estimates and, if so, would impact future results of operations and cash flows.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in the Company's accounting policies since November 1, 2010, being the start of the Company's most recently completed fiscal year.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

The Company's cash and cash equivalents at July 31, 2011 was $8,245,994 of which $1,751,681 was held in US, Mexican, Argentinean and Peruvian currencies.

The Company's receivables and payables at July 31, 2011 were normal course business items that are settled on a regular basis. The Company's investments in ITH, Corvus Gold Ltd., Trevali, Abzu, Wealth, Indico and Dorato are carried at quoted market value or an estimate thereof, and are classified as "available-for-sale" for accounting purposes. The Company's investment in Ethos Capital Corp. is classified as "held-for-trading" for accounting purposes. All resource related investments in warrants are classified as held-for-trading and are considered derivative financial instruments where changes to the fair value are included in net income. The Company intends to dispose of its resource-related investments as necessary to fund ongoing operations.

MATERIAL PROCEEDINGS

The Company is not a party to any material proceedings.

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 July 31, 2011 as required by Canadian and US securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of July 31, 2011, the disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting means a process designed by, or under the supervision of, the Company's certifying officers, and effected by the Company's board of directors, management and other

personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP and includes those policies and procedures that:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the Company's GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

The Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in the Company's internal control over financial reporting during the period beginning on November 1, 2010 and ended on July 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

General

The Canadian Accounting Standards Board has confirmed that, effective on January 1, 2011, IFRS replaced Canadian Generally Accepted Accounting Policies (GAAP) as the basis for accounting for publicly accountable enterprises. The first period reported under IFRS by the Company will be the three month period ended January 31, 2012 and the Company's first fiscal year end date under IFRS will be the fiscal year ending October 31, 2012.

The change from Canadian GAAP to IFRS will be a significant undertaking and may have significant effects on the Company's accounting, internal controls, disclosure controls and financial statement presentation.

The Company commenced transition plan development in November 2009. The Company has determined its preliminary IFRS policy decisions and significant expected accounting differences, based on an analysis of the current IFRS standards, and the following section outlines each of these. As the conversion work continues, additional differences between Canadian GAAP and IFRS may be identified. As a result, these accounting policy choices may change prior to the adoption of IFRS by the Company on on November 1, 2011. Although the Company has identified key accounting policy differences, the impact of these differences to its financial statements has not been determined at this time. Decisions with respect to accounting policy changes, outlined below, may change once management has quantified and thoroughly analyzed the effects of such changes and has presented them for final review and approval by the Company's Audit Committee.

First-time Adoption of IFRS (IFRS 1)

In the first year of transition to IFRS, a company is allowed to elect certain exceptions from IFRS in order not to apply each IFRS on a retrospective basis. IFRS 1 has certain mandatory exemptions as well as limited optional exemptions. Based on analysis to date, the Company expects to apply the following optional exemptions under IFRS 1 that will be significant in preparing the financial statements under IFRS:

- *Business Combinations* – A company may elect, on transition to IFRS, to either restate all past business combinations in accordance with IFRS 3 "Business Combinations" or to apply an optional exemption from applying IFRS 3 to past business combinations. The Company will elect, on transition to IFRS, to apply the optional exemption such that transactions entered into prior to the transition date of November 1, 2010 will not be restated.

- *Share-Based Payments* – A company may elect not to apply IFRS 2 "Share-Based Payments" to equity instruments which vested before the transition date to IFRS. The Company will elect, on transition to IFRS, to apply the optional exemption such that equity instruments which vested prior to the transition date of November 1, 2010, will not be restated.

IFRS to Canadian GAAP differences

The following is the preliminary difference between the Company's Canadian GAAP accounting policies and the policy choices available under IFRS. Based on analysis to date, management believes they may not be material:

Share-based payments – Canadian GAAP allows certain policy choices in the calculation of stock based compensation. The Company currently amortizes grants in their entirety on a straight-line basis over the vesting term. IFRS standards require each tranche in the grant to be amortized over its respective vesting period. As a result of these changes, share-based compensation expense will be accelerated under IFRS. In addition, unvested options at November 1, 2011 will be revalued under IFRS, with consequent adjustments to opening retained earnings. The Company currently vests options at the date of the grant.

Additional Impacts of Adopting IFRS

The Company has determined that the main impact of IFRS on the Company will involve a significant increase in note disclosure as well as certain presentation differences.

Current IFRS Transition Work

- The Company is now quantifying the known differences between IFRS and Canadian GAAP.

- The Company's finance group is continuing its education program to increase its understanding of IFRS.

- The Company will continue to review all proposed and continuing IFRS amendments by the various regulatory bodies and update or revise the project plan accordingly to ensure it accomplishes a timely and efficient transition to IFRS.

- The Company's IFRS conversion project is currently on target to meet the changeover date of November 1, 2011.

DISCLOSURE OF OUTSTANDING SHARE DATA

1. Authorized and Issued capital stock:

As at July 31, 2011:

Authorized	Issued	Book Value
An unlimited number of common shares without par value	83,034,504[1]	$107,207,624

As at September 10, 2011:

Authorized	Issued	Book Value
An unlimited number of common shares without par value	83,054,104[1]	$107,237,122

(1) These numbers assume that the 312,300 common shares purchased by the Company under its normal course issuer bid, which commenced June 16, 2010 and expired on June 15, 2011 ("NCIB"), will be cancelled and returned to treasury (which process is now underway).

2. Options Outstanding:

As at July 31and September 10, 2011:

Number	Exercise Price	Expiry Date
1,000,000	$ 1.30	September 11, 2011
360,000	$ 1.31	December 1, 2011
500,000	$ 1.41	February 2, 2012
1,485,000	$ 1.16	July 29, 2012
1,125,000	$ 1.16	August 11, 2012
100,000	$ 1.28	September 8, 2012
1,000,000	$ 1.83	January 28,2013
280,000[2]	$ 0.06	June 1, 2013
100,000[2]	$ 0.16	June 1, 2013
320,000[2]	$ 0.31	June 1, 2013
980,000[2]	$ 0.38	June 1, 2013
349,143[2]	$ 0.44	June 1, 2013
7,599,143		

(2) Former Coalhunter incentive stock options.

3. Warrants Outstanding:

As at July 31, 2011, the following warrants were outstanding:

Number	Exercise Price	Expiry Date
448,000	$ 0.63	December 17, 2011
240,000	$ 0.06	March 1, 2012
5,600	$ 0.16	March 29, 2012
12,600	$ 0.16	April 6, 2012
120,000	$ 0.06	May 20, 2012
336,000	$ 0.38	June 14, 2012
120,000	$ 0.06	June 15, 2012
70,000	$ 0.44	September 22, 2012
1,600,000	$ 0.50	June 1, 2013
240,000	$ 0.13	January 12, 2013
240,000	$ 0.13	May 29, 2013
3,432,200[3]		

[3] Former Coalhunter warrants.

At September 10, 2011, the following warrants were outstanding:

Number	Exercise Price	Expiry Date
428,840	$ 0.63	December 17, 2011
240,000	$ 0.06	March 1, 2012
5,600	$ 0.16	March 29, 2012
12,600	$ 0.16	April 6, 2012
120,000	$ 0.06	May 20, 2012
336,000	$ 0.38	June 14, 2012
120,000	$ 0.06	June 15, 2012
70,000	$ 0.44	September 22, 2012
1,600,000	$ 0.50	June 1, 2013
240,000	$ 0.13	January 12, 2013
240,000	$ 0.13	May 29, 2013
3,412,600[2]		

[3] Former Coalhunter warrants.

NYSE AMEX CORPORATE GOVERNANCE

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

ADDITIONAL SOURCES OF INFORMATION

Additional disclosures pertaining to the Company, including its most recent Annual Information Form, financial statements, management information circular, material change reports, press releases and other information, are available on the SEDAR website at www.sedar.com 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.