

Financial Statements of:
CANDORADO OPERATING COMPANY LTD.

December 31, 2008

AUDITORS' REPORT

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AUDITORS' REPORT

To the Shareholders of Candorado Operating Company Ltd.:

We have audited the balance sheets of Candorado Operating Company Ltd. as at December 31, 2008 and 2007 and the statements of loss and deficit, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007, and the result of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/ Lancaster & David

CHARTERED ACCOUNTANTS

Vancouver, BC
April 29, 2009

CANDORADO OPERATING COMPANY LIMITED
BALANCE SHEETS

	December 31 2008	December 31 2007 (As Restated – Note 16)
ASSETS		
CURRENT		
Cash	\$ 52,367	\$ 439,803
Marketable securities (Note 6)	9,000	63,000
Taxes recoverable and other receivables	160,294	198,255
Due from related parties (Note 10)	—	38,541
Prepaid and advances	9,142	8,049
Restricted shares (Note 6)	—	126,000
Notes receivable, net of unamortized discount of \$609 (Note 8)	139,391	—
	370,194	873,648
RECLAMATION BOND	15,000	6,000
EQUIPMENT (Note 7)	32,442	42,642
MINERAL PROPERTIES (Note 5)	4,336,989	4,933,850
	\$ 4,754,625	\$ 5,856,140
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 305,742	\$ 350,184
Due to related parties (Note 10)	92	—
Notes payable, net of unamortized discount of \$4,388 (Note 9)	212,862	—
	518,696	350,184
Contingencies and Commitments (Note 13)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 11(b))	8,299,003	8,357,028
CONTRIBUTED SURPLUS (Note 11(e))	1,243,907	1,139,355
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 12)	(39,000)	37,323
DEFICIT	(5,267,981)	(4,027,750)
	4,235,929	5,505,956
	\$ 4,754,625	\$ 5,856,140

Nature of Operations – (Note 1)

Approved on behalf of the Board:

/s/ Kirk Reed

Kirk Reed – Director

/s/ Rene Bernard

Rene Bernard – Director

CANDORADO OPERATING COMPANY LIMITED
STATEMENTS OF LOSS AND DEFICIT

	December 31 2008	December 31 2007
		(As Restated – Note 16)
ADMINISTRATIVE EXPENSES		
Consulting fees	\$ 103,843	\$ 108,102
Depreciation	10,200	8,146
Insurance	12,500	12,000
Investor relations	9,977	96,536
Listing and filing fees	14,040	21,218
Management fees	60,000	60,000
Office and general	29,826	37,556
Professional fees	48,771	28,901
Property evaluation	87,578	202,361
Shareholder communication	15,980	63,739
Stock based compensation	104,552	532,942
Transfer agent fees	5,761	11,292
Travel	34,919	26,271
Wages	32,797	56,176
Loss for the year before other items and income taxes	(570,744)	(1,265,240)
OTHER ITEMS		
Interest income	12	17,460
Miscellaneous income	—	18,399
Gain on sale of marketable securities	80,811	249,696
Gain on sale of mineral properties	470,915	4,017
Impairment of mineral properties	(1,684,998)	—
Loss for the year before income taxes	(1,704,004)	(975,668)
Future income tax recovery <i>(Note 2 and Note 17)</i>	463,773	553,597
Net loss for the year	(1,240,231)	(422,071)
Deficit, beginning of year	\$ (4,027,750)	\$ (3,605,679)
Deficit, end of year	\$ (5,267,981)	\$ (4,027,750)
Loss per common share – Basic and diluted	\$ (0.03)	\$ (0.01)
Weighted average number of common shares	47,462,394	39,958,000

CANDORADO OPERATING COMPANY LIMITED
STATEMENTS OF COMPREHENSIVE INCOME

	December 31		December 31
	2008		2007
			(As Restated – Note 16)
Net Loss for the year	\$ (1,240,231)	\$	(422,071)
Reclassification of realized gains on marketable securities	(12,587)		—
Unrealized gain (loss) on available for sale investments, net of income taxes	(63,736)		37,323
Comprehensive loss for the year	\$ (1,316,554)	\$	(384,748)

CANDORADO OPERATING COMPANY LIMITED
STATEMENTS OF CASH FLOWS

	December 31 2008	December 31 2007 (As Restated – Note 16)
OPERATING ACTIVITIES		
Net loss for the year	\$ (1,240,231)	\$ (422,071)
Adjust for item not affecting cash:		
Accretion of discount on notes receivable and payable, net	36	—
Depreciation	10,200	8,146
Gain on sale of marketable securities	(80,811)	(249,696)
Gain on sale of mineral properties	(470,915)	(4,017)
Write off of mineral properties	1,684,998	—
Recovery of future income tax assets	(463,773)	(553,597)
Stock based compensation	104,552	532,942
Net changes in non-cash working capital items:		
Accounts payable and accrued liabilities	6,410	2,796
Due (from) to related parties	38,633	(128,679)
Prepays and advances	(1,093)	239,390
Notes payable	189,779	—
Notes receivable	(133,594)	—
Taxes recoverable and other receivables	37,961	(157,778)
Net Cash Used in Operating Activities	(317,848)	(732,564)
INVESTING ACTIVITIES		
Mineral property acquisition and exploration, net of recoveries	(485,374)	(3,030,920)
Payment of reclamation bond	(9,000)	(6,000)
Proceeds from the sale of marketable securities	243,811	325,696
Purchase of equipment	—	(50,053)
Net Cash Used in Investing activities	(250,563)	(2,761,277)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares	180,275	3,892,324
Share issue costs	700	(272,812)
Net Cash Provided from Financing Activities	180,975	3,619,512
INCREASE (DECREASE) IN CASH	\$ (387,436)	\$ 125,671
CASH beginning of year	\$ 439,803	\$ 314,132
CASH end of year	\$ 52,367	\$ 439,803
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ —	\$ —
Income taxes paid	\$ —	\$ —
NON-CASH FINANCING ACTIVITIES		
Shares issued for finders' fees	\$ —	\$ 164,870
Shares issued for mineral properties	\$ 232,450	\$ 417,375

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

The Company is incorporated under the Company Act of British Columbia, is in the exploration stage and its shares are publicly traded on the TSX Venture Exchange.

The Company's resource properties are without a known body of commercial ore. The business of exploring for resources and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes, to acquire construction and operating permits and to construct mining and processing facilities. The recoverability of the amount shown for resource properties is dependent upon the ability of the Company to obtain the necessary financing to complete the exploration and development of the properties, discovery of economically recoverable reserves and future profitable production. There is no assurance that the Company will be successful in recovering the amounts shown for resource properties.

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities and commitments in the ordinary course of business. At December 31, 2008, the Company has recurring losses, has an accumulated deficit of \$5,267,981 and has not generated cash from operating since inception. The Company's continuing operations and the ability of the Company to discharge its liabilities and fulfill its commitments as they come due is dependent upon the continued support of its related parties, the ability of the Company to continue to obtain equity financing and, ultimately, on locating economically recoverable ore reserves in its resource properties and attaining and maintaining profitable operations. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration activities. Furthermore, failure to continue as a going concern would require the restatement of assets and liabilities on a liquidation basis, which would differ significantly from the going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

Mineral properties

The Company capitalizes the acquisition cost of mineral properties and related exploration and development costs. The amounts shown for mineral properties represent costs incurred to date, less write-offs and government assistance, and do not necessarily reflect present or future values. These costs will be amortized over the estimated productive lives of the properties following the commencement of commercial production using the unit of production method. If a property is subsequently abandoned, sold or determined not to be economic, all related costs are written down. It is reasonably possible that economically recoverable reserves may not be discovered and accordingly a material portion of the carrying value of mineral properties and related deferred exploration costs could be written off. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to previous agreements or transfers and title may be affected by undetected title defects. The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Equipment

Equipment is recorded at cost and is depreciated on a straight line basis at a rate of 20% per annum.

Estimates, assumptions, and measurement uncertainty

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of management estimates and assumptions relate to the impairment of mineral property interests, the determination of reclamation obligations, calculation of stock-based compensation, common stock issued for non-cash consideration, and future income tax valuations. Actual results could differ from those estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Financial instruments

The fair value of the Company's cash, marketable securities, other receivables, accounts payable and due to/from related parties were estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. It was not practicable to determine the fair value of the amounts due to the related parties. The amounts due to the related parties are non-interest bearing and have no specific terms of repayment. Management does not believe the Company is exposed to significant credit, interest rate or financial risks.

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Loss per share

Loss per share computations is based on the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share purchase options and warrants are used to repurchase common shares at the average market price during the period. Diluted loss per share and weighted average number of common shares exclude all dilutive potential shares since their effect is anti-dilutive

Comparative figures

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus under shareholders' equity. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

Flow-through common shares

Canadian tax legislation permits an enterprise to issue flow-through shares whereby the deduction for Canadian income tax purposes relating to qualifying resource expenditures is claimed by the investor rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences between the tax basis and the reported value. Upon the Company's renunciation of qualifying resource expenditures a potential future tax liability is created. A portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will be recognized to offset the flow-through tax liability, which is recorded as a recovery of income taxes in the statement of operations. During the year ended December 31, 2008, the Company recorded a recovery of future income tax of \$471,450 (2007 - \$545,920) with respect to renounced flow-through shares totaling \$1,520,950 (2007 - \$1,600,000).

Mining Tax Credits

The Company recognizes mining tax credit amounts when the Company's application is approved by the taxation authorities or when the amount to be received can be reasonably estimated and collection is reasonably assured. The amount of the mining tax credits would reduce the Company's capitalized mineral property and deferred exploration costs through a credit to cash recoveries.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. Refer to Note 17.

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Long-lived assets

The carrying values of long-lived assets with fixed or determinable lives are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Impairment determinations are based on management's estimates of undiscounted and discounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management.

Assets with indefinite or indeterminable lives are not amortized and are reviewed for impairment on a reporting period basis using management's fair value determinations of estimated recoverable value.

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Marketable securities

The Company records its investment in marketable securities at market value. Market value is based on the closing price of the security at the balance sheet date. The Company has classified its marketable securities as available-for-sale, in which changes in fair value are recognized in comprehensive income.

Cash and cash equivalents

Cash equivalents include highly liquid term investments, where the initial terms to maturity are less than 90 days. At December 31, 2008, the Company has no cash equivalents.

Comprehensive Income

Comprehensive income is composed of the Company's earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities, net of income taxes. Cumulative changes in other comprehensive loss will be included in accumulated other comprehensive loss which is presented in shareholders' equity.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2008 the Company adopted the following accounting standards updates issued by the Canadian Institute of Chartered Accountants ("CICA"):

Going concern

The Accounting Standards Board ("AcSB") amended Section 1400, "Going Concern" to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

Capital disclosures

Section 1535, "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences. The Company has included disclosures recommended by Section 1535 in Note 15.

Financial Instruments – Disclosure and Presentation

In March 2007, the CICA issued Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation", which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements for financial instruments. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The Company has included disclosures recommended by Section 3862 in Note 14.

Inventories

In June 2007, the CICA issued Section 3031, "Inventories", which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new pronouncement is effective to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The adoption of this section did not impact the Company.

Tax Benefit from Unrealized Gains in Other Comprehensive Income

The guidance of the Emerging Issues Committee ("EIC") EIC-172, "Income Statement Presentation of a Tax Loss Carry Forward" recognizes the tax benefit following an unrealized gain recorded in other comprehensive income. This guidance is adopted on a retrospective basis.

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

4. NEW ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standard

In 2006, Canada's Accounting Standards Board ratified strategic plan that will result in Canadian generally accepted accounting principles ("GAAP"), as used by public companies, being evolved and converged with International Financial Reporting Standards ("IFRS") over a transitional period currently expected to be complete by 2011. The conversion to IFRS will affect interim and annual financial statements relating to years beginning on or after January 1, 2011. The International Accounting Standards Board currently has projects underway that should result in new pronouncements. Consequently, the Company has not yet determined the impact of the ultimate adoption of IFRS on the Company's financial statements.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The purpose of this Section is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The Section harmonizes Canadian standards with IFRS and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. It is not expected to have a material impact on the Company's financial statements.

Business Combinations

The CICA recently issued Section: 1582, "Business Combinations", Section 1601, "Consolidations" and Section 1602, "Non-Controlling Interest". These standards are effective January 1, 2011. It is not expected to have a material impact on the Company's financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the EIC issued EIC-173. In this EIC, the Committee reached a consensus that in determining the fair value of financial assets and financial liabilities an entity should take into account the credit risk of the entity and the counterparty. The Company has not yet determined the impact of the adoption of this standard on its financial statements.

CANDORADO OPERATING COMPANY LTD.
Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

5. MINERAL PROPERTIES

	British Columbia properties										Ontario	December 31 2008
	Serb Creek	Murphy Lake	Eldorado	Pitt Island	Man Prime	Riley/ Summer	Hefley Lake	Deer/ Friendly	Rayfield	Other	Aurora Extension	
<i>Exploration and development costs beginning of year</i>	\$14,985	\$856,891	\$18,517	\$17,736	\$1,337,545	\$279,367	\$128,727	\$381,712	\$63,863	\$151,792	\$125,663	\$3,376,798
Incurred during the year:												
Cash in lieu, assessment work reports	(319)	38,307	1,006	4,624	—	10	—	22,282	7,882	47,836	—	121,628
Drilling	—	67,975	—	—	420	—	—	159,545	—	—	—	227,940
Sampling and assaying	—	11,044	—	—	32,734	131	—	21,336	—	76,547	—	141,792
Helicopter, transport and rentals	—	14,187	—	—	497	430	—	9,724	—	5,104	—	29,942
Field work	—	3,260	—	—	2,534	1,290	—	15,165	—	54,346	—	76,595
Site Costs, management fees	—	9,120	—	—	6,661	1,437	1,247	10,826	198	37,045	—	66,534
Maps, field supplies and misc	—	10,701	—	—	11,345	110	1,654	705	1,689	18,010	—	44,214
Geological consulting and reports	—	44,271	—	—	23,015	2,650	5,203	65,282	523	63,400	4,497	208,841
Deferred exploration, end of year	14,666	1,055,756	19,523	22,360	1,414,751	285,425	136,831	686,577	74,155	454,080	130,160	4,294,284
<i>Acquisition costs, beginning of year</i>	117,719	162,414	108,561	126,556	56,705	50,036	10,792	90,421	186,273	564,575	83,000	1,557,052
Additions during the year:												
Common shares issued	—	—	—	—	216,500	2,750	—	13,200	—	—	—	232,450
Staking fees	15,954	12,469	2,149	—	—	—	2,350	—	30,485	6,713	—	70,120
Property payments	—	15,000	—	—	307,029	100,000	10,000	60,000	—	234,000	—	726,029
Property payments cash received	—	(50,000)	—	—	(125,000)	—	—	—	(50,000)	(873,595)	(20,000)	(1,118,595)
Property payments shares received or receivable	—	—	—	—	—	—	—	—	(67,000)	(2,250)	—	(69,250)
Acquisition costs, end of year	133,673	139,883	110,710	126,556	455,234	152,786	23,142	163,621	99,758	(70,557)	63,000	1,397,806
Impairment of mineral properties	148,339	1,195,639	130,233	148,916	1,869,985	438,211	159,973	850,198	173,913	383,523	196,160	5,692,090
Gains on sales of mineral properties	(74,169)	(57,608)	(62,904)	(148,916)	—	(438,211)	(159,973)	(78,115)	(173,913)	(491,189)	—	(1,684,998)
Mining tax credits	—	—	—	—	—	—	—	—	—	470,915	—	470,915
Total Mineral Properties	\$74,170	\$1,138,031	\$67,329	\$—	\$1,869,985	\$—	\$—	\$772,083	\$—	\$363,249	\$193,160	\$4,336,989

CANDORADO OPERATING COMPANY LTD.
Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

5. MINERAL PROPERTIES (Cont'd)

2007	British Columbia properties										Ontario	December 31, 2007
	Serb Creek	Murphy Lake	Eldorado	Pitt Island	Man Prime	Riley/ Summer	Hefley Lake	Deer/ Friendly	Rayfield	Other	Aurora Extension	
<i>Exploration and development costs beginning of year</i>	\$4,243	\$488,560	\$18,517	\$12,425	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,058	\$ 125,663	\$ 654,466
Incurred during the year:												
Cash in lieu, assessment work reports	10,512	6,620	—	5,311	4,095	—	—	—	—	5,564	—	32,102
Drilling	—	97,153	—	—	622,553	—	46,466	149,760	—	—	—	915,932
Sampling and assaying	—	20,773	—	—	67,389	27,731	4,899	32,498	13,430	20,701	—	187,420
Helicopter, transport and rentals	—	13,078	—	—	59,214	6,863	18,733	22,902	210	9,609	—	130,610
Field work	—	95,673	—	—	247,576	93,633	8,841	26,076	14,788	78,380	—	564,967
Geophysical work	—	18,845	—	—	4,350	100,605	5,220	—	—	—	—	129,020
Site Costs, management fees	—	66,172	—	—	183,396	31,438	23,261	53,687	13,920	21,248	—	393,122
Maps, field supplies and misc	—	7,969	—	—	20,466	1,608	1,381	5,475	4,474	2,820	—	44,193
Geological consulting and reports	230	42,048	—	—	128,506	17,489	19,926	91,314	17,041	8,412	—	324,966
Deferred exploration, end of year	14,985	856,891	18,517	17,736	1,337,545	279,367	128,727	381,712	63,863	151,792	125,663	3,376,798
<i>Acquisition costs, beginning of year</i>	27,416	180,489	89,678	85,159	—	—	—	—	52,199	99,480	18,000	552,421
Additions during the year:												
Common shares issued	72,000	—	30,000	32,250	—	22,500	—	31,875	78,750	150,000	—	417,375
Finders fees	—	—	12,500	—	—	—	—	10,000	—	—	—	22,500
Staking fees	14,072	13,280	1,633	9,147	6,705	1,536	792	8,546	5,324	212,595	—	273,630
Property payments	15,000	15,000	52,750	—	50,000	26,000	10,000	40,000	50,000	102,500	65,000	426,250
Reimbursement of staking costs	(10,769)	(1,355)	—	—	—	—	—	—	—	—	—	(12,124)
Property payments cash received	—	(45,000)	(50,000)	—	—	—	—	—	—	—	—	(95,000)
Property payments shares received	—	—	(28,000)	—	—	—	—	—	—	—	—	(28,000)
Acquisition costs, end of year	117,719	162,414	108,561	126,556	56,705	50,036	10,792	90,421	186,273	564,575	83,000	1,557,052
Total Mineral Properties	\$132,704	\$1,019,305	\$127,078	\$144,292	\$1,394,250	\$329,403	\$139,519	\$472,133	\$250,136	\$716,367	\$208,663	\$4,933,850

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

5. MINERAL PROPERTIES (Cont'd)

British Columbia

a) **Serb Creek Property**

The Company entered into an option agreement dated April 25, 2006 to acquire a 100% interest, subject to a 2% NSR in 63 mineral claims totaling 6,466 hectares located within the Omenica Mining Division, collectively referred to as the Serb Creek property. Consideration for the option was total cash payments of \$60,000 over four years (paid), an aggregate of 400,000 common shares (issued). In December 2006 the Company entered into an agreement with Georgia Ventures Inc. ("GVI") wherein GVI can earn a 50% interest in the property for consideration of a cash payment of \$60,000 (received) and must incur exploration expenditures of \$600,000 over a two year period (not completed). The NSR can be purchased by either party from the original vendor for \$1,500,000. During February 2008, GVI gave notice and the Company accepted the termination of the Option Agreement between the parties. The Company is actively pursuing a joint venture partner to develop this property. Due to a recent decline in the values of molybdenum, which is the property's main resource focus, the Company has impaired approximately one-half of the capitalized costs related to the property, which resulted in an impairment charge of \$74,169.

b) **Murphy Lake Property**

The Company entered into an option agreement dated February 11, 2004 to acquire a 100% interest, subject to a 2% NSR in 24 mineral claim units located in the Cariboo Mining Division. The claims area covered by the agreement will also include an additional 111 claim units. The Company must make staged cash payments totaling \$700,000 over a ten-year period (\$75,000 paid) and thereafter successive payments of \$100,000 on the anniversary date of the agreement. The Company entered into an agreement dated December 15, 2006 to provide the right to explore and develop 3 mineral concessions to Beeston Enterprises ("Beeston") for the sum of \$5,000 (received). Beeston can earn a 60% interest in the property for consideration of a cash payment of \$45,000 (received) and must incur exploration expenditures of \$200,000 by the first anniversary date (not completed) and further exploration expenditures of \$250,000 by the second anniversary date (not completed). On October 29, 2007 and June 29, 2008 the Company entered into amending agreements to extend the dates of the exploration requirements. However, Beeston did not make the required expenditures by the extended dates. As a result, the Company entered into an agreement dated October 3, 2008 to terminate the option agreement with Beeston, in which the Company agreed to assume Beeston's liabilities of \$146,550 which was owing to vendors who performed exploration work on the property during 2008.

During December 2007, pursuant to a joint venture staking agreement, GWR Resources Inc. purchased from the Company two mineral tenures (known as the Rail JV and forming part of the Murphy Lake property) and reimbursed the Company for JV expenditures of \$100,000 (received). In August 2008, the Company purchased the two mineral tenures and GWR's 50% interest in the JV for a cash payment of \$4,000 (received).

Mac and Spout Property (collectively included in Murphy Lake)

The Company entered into an option agreement dated January 26, 2004 to acquire a 100% interest, subject to a 2% net smelter returns royalty ("NSR"), in 60 mineral claim units located in the Cariboo and Clinton Mining Divisions. An additional 62 mineral claim units have been staked which are also subject to the terms of the agreement. Consideration for the option was a cash payment of \$15,000 (paid) aggregate share issuances of 300,000 common shares (issued) and work commitment expenditures of \$140,000 (completed). A finder's fee of 35,000 common shares of the Company was also paid in connection with this acquisition.

Tillicum Lake (collectively included in the Mac and Spout Property)

The Company entered into an option agreement dated July 29, 2008 with Christopher James Gold Corp. ("CJGC"), where CJGC has the option to earn a 60% interest in the Tillicum Creek Au-Cu Project consisting of 5 mineral tenures located within the Mac and Spout area for a cash payment of \$50,000 upon signing the agreement (received), and a commitment to spend \$200,000 and \$250,000 on exploration by July 31, 2009 and July 31, 2010, respectively.

c) **Eldorado Property**

The Company entered into an option agreement dated November 21, 2003 to acquire a 100% interest, subject to a 2% net smelter returns royalty, in the Eldorado Gold Project. The Company was required to make cash payments of \$100,000 (paid) and issue 500,000 common shares (issued) to the optionors in stages over a three-year period. The 2% NSR may be purchased for \$2,000,000 subsequent to making a production decision on the project. On February 16, 2007 the Company entered into an option agreement with Gravity West Corp. ("GWC") to acquire a 60% interest in the property. GWC is required to make a cash payment of \$50,000 (received) and issue 200,000 shares to the Company (received) and spend a minimum of \$500,000 on exploration on the property and issue a further 700,000 shares to the Company by February 16, 2008 (not received). The agreement is subject to a 2% NSR payment to the original vendors of the property. A finder's fee was paid in the amount of \$12,500. During February 2008, GWC gave notice and the Company accepted the termination of the Option Agreement between the parties. The Company is actively pursuing a joint venture partner on this property to further develop its merits. During the year ended December 31, 2008, the Company recognized an impairment charge of \$62,904 on the property,

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

5. MINERAL PROPERTIES (Cont'd)

British Columbia (Cont'd)

d) **Pitt Island Property**

The Company entered into an option agreement dated April 27, 2005, to acquire a 100% interest in the Pitt Island property subject to a 2% NSR. Half of the NSR can be purchased for \$500,000. Consideration for the option was a cash payment of \$15,000 (paid) and aggregate shares issuances of 400,000 common shares (issued). The Company's interest remains subject to the 2% NSR. The Company did not conduct any exploration work on the property during the year and does not anticipate any work programs in the near future. Therefore, the Company recognized an impairment charge of \$148,916 during the year ended December 31, 2008.

e) **Man/Prime Property**

The Company entered into an option agreement with Bearclaw Capital Corp. ("Bearclaw"), dated January 4, 2007 to acquire an 80% interest in the Man/Prime property located 35 km north of Princeton British Columbia. Under the terms of the agreement, the Company may earn 51% interest by making a cash payment of \$50,000 (paid) and incurring \$800,000 in exploration expenditures (completed) and issuing 700,000 shares (issued) by December 31, 2009. The additional 29% may be obtained by incurring an additional \$2,000,000 in exploration expenditures and issuing an additional 2,000,000 shares by December 31, 2011.

The Company entered into a purchase agreement with Bearclaw dated August 11, 2008 to acquire the remaining 49% interest of the Man/Prime property. Under the terms of the agreement, the Company is required to pay \$100,000 upon execution of the agreement (paid), 150,000 shares upon Exchange approval (issued), \$100,000 (paid on January 21, 2009 – Note 18) and 150,000 shares (issued) on December 31, 2008, and \$100,000 and 150,000 shares on July 31, 2009. To secure the deferred payment of the cash and shares, the Company issued a non-interest bearing promissory note to Bearclaw in the amount of \$200,000 and 300,000 shares with a repayment schedule in accordance with the schedule of payments outlined above (Note 9). A 1.25% NSR was negotiated which may be purchased by the Company for \$1,250,000 at any time. This purchase agreement replaces the remaining terms of the option agreement between the parties dated January 4, 2007. The Company now owns a 100% interest in the property.

On November 12, 2008 the Company and GWR Resources Inc. ("GWR") entered into an option agreement whereby GWR can earn a 53% interest in the Man/Prime property for aggregate cash payments of \$500,000 (\$125,000 received) on or before January 10, 2010 and \$1,000,000 in exploration expenditures by December 31, 2009. GWR can earn a further 7% interest by expending a further \$500,000 in exploration expenditures by December 31, 2010. Subsequent to December 31, 2008, GWR expressed that it will not to proceed with the option agreement, but has not yet submitted a formal notice of termination.

f) **Riley and Summer Properties**

The Company entered into a purchase agreement dated January 23, 2007 to acquire 100% interest in 9 mineral tenures within the Summer Creek property for consideration of \$8,000 (paid). The Company entered into an option agreement dated February 19, 2007 to earn a 100% interest in the Riley and Summer properties located east of Lac La Hache, subject to a 2% NSR. The Company is required to pay \$218,000 (\$68,000 paid) and issue 150,000 common shares (75,000 issued) over two years. The Company must also fund exploration and development work totaling at least \$900,000 by June 15, 2009.

On July 14, 2008 the Company amended the terms of the Summer property and exercised the option for a cash payment of \$50,000 (paid) to acquire a 100% interest in the Summer Property. All terms and conditions regarding the Riley Property remain the same which include the option to acquire a 100% interest for consideration of \$109,000 cash payments (\$34,000 paid), work commitments of \$400,000 and the issuance of 75,000 common shares (50,000 issued). Although the results on the exploration work programs were encouraging, the Company does not anticipate any work programs or funds committed in the near future to further develop these properties and as such in March 2009 provided notice to the vendor it would not be proceeding under the terms of the agreement. Accordingly, acquisition and deferred acquisitions costs of \$438,211 have been impaired at December 31, 2008.

g) **Hefley Lake Property**

On February 6, 2007 the Company entered into an option agreement to acquire a 100% interest in the Hefley Lake property, for consideration of \$500,000 over eight years with first and second year payments of \$10,000 (paid) in each year. The property covers two tenures comprised of 58 units for 765.305 hectares. A 2% NSR was negotiated, and the Company has the option to purchase 1% of the NSR for a payment of \$5,000,000. In March 2009, the Company provided notice to the vendor that it would not proceed under the terms of the agreement. Accordingly, acquisition and deferred exploration costs of \$159,973 have been impaired as at December 31, 2008.

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

5. MINERAL PROPERTIES (Cont'd)

British Columbia (Cont'd)

h) **Deer Lake and Friendly Lake Properties**

The Company entered into an option agreement on April 15, 2007 with Electrum Resource Corp. ('Electrum') whereby the Company has been granted an option to acquire a 100% interest in the Deer Lake and Friendly Lake properties located near Kamloops, British Columbia. Consideration of \$825,000 (\$100,000 paid) and 860,000 common shares (210,000 issued) payable over four years. The Company must incur \$1,350,000 in exploration and development expenditures over a five year period of which \$125,000 is due on or before April 15, 2008 (completed). The properties are subject to a 2% net smelter return royalty of which 1% may be purchased by the Company of \$1,000,000 subject to further Exchange acceptance. As at December 31, 2008, the Company had \$15,000 as a reclamation bond on deposit with the Minister of Finance. Subsequent to December 31, 2008, the Company elected not to proceed with the Friendly Lake property and accordingly impaired acquisition and deferred exploration costs of \$78,115.

i) **Rayfield Property**

The Company entered into an option agreement on April 21, 2006 to acquire a 100% interest, subject to a 2% NSR, in 29 mineral tenures totaling 5,900 hectares located within the Clinton and Caribou mining district. Consideration for the option is total cash payments of \$50,000 due on April 12, 2012 (paid) and 550,000 common shares issued over a six year period (issued).

On November 15, 2007 the Company entered into an option agreement with Callinan Mines Limited ("Callinan") wherein Callinan can acquire a 60% interest for consideration of \$50,000 cash payment (received) and the issue of 100,000 common shares, 50,000 on TSX-VE approval (received) and 50,000 on or before May 30, 2008. In addition there were work commitment expenditures of \$600,000 on or before December 31, 2008. During May 2008, Callinan provided notice to the Company that it had elected not to proceed under the terms of the option agreement. Although encouraged by the work completed to date, the Company does not anticipate expending funds in the near future to further develop the property. Accordingly, acquisition and deferred exploration costs of \$173,913 have been impaired as at December 31, 2008.

j) **Other**

i) **Canim Lake Claims**

The Company entered into an option agreement on November 7, 2006 to acquire the remaining 50% joint venture interest in 8 mineral tenures totaling 66,000 hectares located within the Canim Lake and Murphy Lake area, east of Williams Lake. Consideration for the option is 500,000 common shares (issued).

The Company acquired through staking an additional 100,000 plus acres in the Canim Lake area in 2006 and during the period ended December 31, 2007, further ground was acquired.

On December 15, 2008 the Company entered into an purchase and sale agreement with Happy Creek Minerals to sell a 100% interest in six mineral tenures forming part of the Canim Lake claims for a cash payment of \$15,000 (paid) and the issuance of 50,000 common shares upon exchange approval (share issued on January 9, 2009 – Note 18). As at December 31, 2008, the Company is owed 50,000 shares with a fair value of \$2,250, which has been included in taxes recoverable and other receivables.

The Company does not anticipate further development of the remaining claims in the near future, and accordingly, has impaired acquisition and deferred explorations costs of \$204,879 as at December 31, 2008.

ii) **Central BC**

As at December 31, 2008 the Company had staked various mineral concessions collectively referred to as Central BC claim block for staking fees of \$52,975 (2007 - \$52,975).

iii) **Bonaparte Property**

The Company does not anticipate expending funds in the near future to further develop the property. Accordingly, acquisition and deferred exploration costs of \$48,289 have been impaired as at December 31, 2008.

iv) **Willow Creek (formerly referred to as IOCG claim block)**

As at December 31, 2008 the Company staked various concessions and completed exploration work programs for total acquisition and exploration costs of \$248,009 (2007 - \$66,095).

v) **King Claim block**

The Company does not anticipate expending funds in the near future to further develop the property. Accordingly, acquisition and deferred exploration costs of \$1,693 have been impaired as at December 31, 2008.

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

5. MINERAL PROPERTIES (Cont'd)

British Columbia (Cont'd)

j) Other

vi) **K-CR Claim group**

As at December 31 2008 the Company had staked various concessions and completed exploration work programs for, \$70,134 (2007 - \$36,043).

The Company entered into an purchase and sale agreement dated July 29, 2008 with Christopher James Gold Corp. ("CJGC"), in which CJGC has the option to acquire a 100% interest in the K-CR Claim group for consideration of \$125,000 (received) and an additional payment of \$140,000 due on or before August 1, 2009. To secure the deferred payment, the Company received a promissory note from CJGC in the amount of \$140,000 due on or before August 1, 2009. The note bears no interest until the maturity date, after which interest will accrue at 10% per annum. Subsequent to December 31, 2008, CJGC repaid the promissory note in full (Note 8)

As at July 29, 2008 the Company had incurred a total of \$70,134 in acquisition and deferred exploration costs on the property. As a result, the Company recognized a gain on the sale of \$188,461.

vii) **Swan/Pat Property**

The Company entered into a purchase agreement with Craig Lynes dated April 4, 2007 to acquire ten additional tenures within the Quesnel Trough collectively known as the Swan and Pat properties for a cash payment of \$30,000 (paid). The Company does not anticipate expending funds in the near future to further develop the property. Accordingly, acquisition and deferred exploration costs of \$30,403 have been impaired as at December 31, 2008.

viii) **Miscellaneous**

As at December 31, 2008 the Company has impaired \$62,578 in staking fees and deferred exploration costs in relation to various mineral concessions staked in 2007 and 2008.

ix) **Lucky Ship Property**

The Company entered into an option agreement dated November 5, 2004 to earn a 100% interest in 46 mineral claim units located in the Omineca Mining Division, BC, subject to a 2% net smelter returns royalty ("NSR").

On March 3, 2005, the Company entered into an option agreement with Nanika Resources Inc. (formerly New Cantech Ventures Inc.) ("Nanika"), whereby Nanika acquired a 50% in the Lucky Ship property. Consideration for the option includes \$45,000 of exploration expenditures within six months of the agreement and aggregate payments over a six-year period totaling \$485,000. The property is subject to a 2% net smelter return with a buyback of 1 percent for \$1 million.

On June 16, 2005, Nanika acquired the remaining 50% interest in the option to purchase a 100% interest, for a purchase price of 2,000,000 common shares of Nanika at a deemed price of \$0.16 per share.

x) **Canoe Hot Springs**

The Company entered into an option agreement with Comstock Energy Inc. ("Comstock") dated January 14, 2008 to acquire a 100% interest in the Canoe Hot Springs Geothermal project Under the terms of the agreement, Candorado will pay Comstock \$1,000,000 for a 100% interest in the project and underlying lease and permit. The Company must make payments of \$20,000 on December 12, 2007 (paid), \$80,000 on January 31, 2008 (paid), \$100,000 on September 30, 2008 (paid), and \$800,000 on or before December 31, 2008.

The Company also acquired additional rights to a geothermal lease located near the town of Valemount in eastern British Columbia for a cost of \$4,271 and completed exploration work to date for \$4,978.

The Company entered into an option agreement dated July 29, 2008 with CJGC, where CJGC can acquire a 100% interest in the Canoe Hot Springs Geothermal Project under the following terms: make payments of \$200,000 upon signing the agreement (paid) and an additional payment of \$200,000 (paid) on August 15, 2008, for a 50% interest in the project; make an additional \$100,000 payment on September 25, 2008 (paid) and a final payment of \$1,000,000 on December 15, 2008 for a 90% interest in the project. Candorado will retain a 10% free-carried interest, which can be bought out by CJGC at any time over the next 5 years for \$2.5 million.

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

5. MINERAL PROPERTIES (Cont'd)

British Columbia (Cont'd)

k) Other

x) **Canoe Hot Springs**(Cont'd)

CJGC elected not to proceed under the terms of the option agreement and subsequently Candorado also elected not to proceed under the terms of its option agreement with Comstock. As at July 29, 2008 the Company had incurred a total of \$217,546 in acquisition and deferred exploration costs on the property. The Company received total proceeds of \$500,000 from CJGC, which resulted in the recognition of a \$282,454 gain upon disposal of the property.

xi) **Dry Lake Property**

The Company entered into a purchase agreement with Craig Lynes dated February 6, 2007 to acquire eight additional tenures within the Quesnel Trough collectively known as the Dry Lake property for a cash payment of \$52,500 (paid). The Company does not anticipate expending funds in the near future to further develop the property. Accordingly, acquisition and deferred exploration costs of \$93,347 have been impaired as at December 31, 2008.

xii) **Chorley Property**

The Company entered into a purchase agreement with Chorley Mining Corporation dated February 7, 2008 to acquire two additional tenures collectively known as the Chorley property for a cash payment of \$50,000 (paid). The Company does not anticipate expending funds in the near future to further develop the property. Accordingly, acquisition and deferred exploration costs of \$50,000 have been impaired as at December 31, 2008.

Ontario

l) **Aurora Extension Property**

The Company entered into an option agreement dated February 11, 2004 to acquire a 100% interest, subject to a 2% NSR, in 26 mineral claim units located in the Porcupine Mining Division. Consideration for the option was aggregate cash payments totaling \$500,000 (\$18,000 paid) and work commitments of \$30,000 by September 15, 2004 (incurred). The Company and the vendor agreed on an early buyout of the option for a one time cash payment of \$65,000 (paid) for a 100% interest in the Aurora Extension property subject to the 2% NSR payable to the vendor.

On October 14, 2008 the Company entered into an option agreement with Orsa Ventures Corp. ("Orsa"), whereby Orsa can acquire a 70% interest in the Aurora Extension. Consideration for the option is cash payments of \$95,000 over two years (\$20,000 received) and minimum of \$500,000 in exploration expenditures over three years. Orsa may earn a further 10% interest by completing an industry standard feasibility study. The claims are subject to a 2% net smelter return royalty payable to the original vendor.

Commitments

The Company must make the following option payments towards the acquisition of its mineral properties over the next five years:

		Expenditure		
	Cash	Commitments	Shares	
2009	\$ 225,000	\$ 225,000	150,000	
2010	\$ 200,000	\$ 100,000	100,000	
2011	\$ 275,000	\$ 200,000	150,000	
2012	\$ 325,000	\$ 300,000	200,000	
2013	\$ 125,000	\$ —	—	

CANDORADO OPERATING COMPANY LTD.**Notes to Financial Statements**

Years Ended December 31, 2008 and December 31, 2007

6. MARKETABLE SECURITIES AND RESTRICTED SHARES

	December 31, 2008			December 31, 2007		
	No. of Shares	Cost	Fair Value	No. of Shares	Cost	Fair Value
Nanika Resources Inc. (formerly New Cantech Ventures Inc.)						
- Shares available for sale	300,000	\$48,000	\$9,000	300,000	\$48,000	\$63,000
- Restricted shares	—	—	—	600,000	\$96,000	\$126,000
Total	300,000	\$48,000	\$9,000	900,000	\$144,000	\$189,000

7. EQUIPMENT

	Cost	Accumulated Amortization	December 31	
			2008	2007
			Net Book Value	Net Book Value
Furniture and equipment	\$ 12,722	\$ 4,524	\$ 8,198	\$ 10,734
Computer	2,250	850	1,400	1,849
Vehicle	36,188	13,344	22,844	30,059
Total	\$ 51,160	\$ 18,718	\$ 32,442	\$ 42,642

8. NOTES RECEIVABLE

As at December 31, 2008, the Company is owed \$139,391 from Christopher James Gold Corp. ("CJGC") which is unsecured, due on August 1, 2009, and bears no interest until the maturity date, after which interest will accrue at 10% per annum. This note was issued by CJGC as consideration for acquiring a 100% interest in the K-CR mineral property (Note 5(k)(vi)). On July 25, 2008, the note was discounted at a rate of 10% for a net present value of \$133,595. The note is being accreted to the principal amount of \$140,000 over the term of the note. The carrying value at December 31, 2008 was \$139,391.

9. NOTES PAYABLE

As at December 31, 2008, the Company is indebted to Bearclaw Capital Corp. for \$212,862, consisting of cash and shares owing. This note payable was issued as consideration for acquiring the remaining 49% interest in the Man/Prime property (Note 5 (e)). The amount is non-interest bearing, unsecured and is payable in accordance with the payment schedule set out in the mineral property purchase agreement dated August 11, 2008. In accordance with the agreement, the Company is required to make principal payments of \$100,000 and 150,000 shares on December 31, 2008, and \$100,000 and 150,000 shares on July 31, 2009. On August 11, 2008, the cash component of the note was discounted at a rate of 8% for a net present value of \$189,779 and the 300,000 shares were measured at their fair value of \$34,500. The note is being accreted to the principal amount of \$200,000 over the term of the note. The carrying value at December 31, 2008, of the cash component of the note was \$195,612, and the value attributed to the remaining 150,000 shares owing is \$17,250.

10. RELATED PARTY TRANSACTIONS

During the period ended December 31, 2008, the Company incurred the following to directors, officers and private companies controlled by them: management fees - \$60,000 (2007 - \$60,000); rent - \$18,700 (2007 - \$18,000). These transactions were recorded at exchange value, which was the amount of consideration established and agreed to by the related parties.

At December 31, 2008, the Company was indebted to the President of the Company in the amount of \$92 (2007 - \$38,541 owed from) representing amounts incurred on behalf of the Company for staking and cash in lieu of work requirements.

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

11. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value.

b) Issued and outstanding

	Shares	Amount
Balance at December 31, 2006	30,286,724	\$ 5,025,086
Private Placements	11,324,332	3,532,949
Share issue costs	—	(437,682)
Exercise of warrants	1,741,250	353,125
Exercise of stock options	50,000	6,250
Issued for property	1,625,000	417,375
Fair value of options exercised	—	5,845
Recovery of future income tax asset	—	(545,920)
Balance at December 31, 2007 (As Restated – Note 16)	45,027,306	\$ 8,357,028
Exercise of warrants	1,802,750	180,275
Issued for property	1,135,000	232,450
Recovery of share issue costs	—	700
Recovery of future income tax asset	—	(471,450)
Balance at December 31, 2008	47,965,056	\$ 8,299,003

During the year ended December 31, 2008 the Company:

- i. issued 1,802,750 shares pursuant to the exercise of warrants at \$0.10 per share;
- ii. issued 1,000,000 common shares with a fair value of \$216,500 pursuant to the Man/Prime property (See note 5(e));
- iii. issued 110,000 common shares with a fair value of \$13,200 pursuant to the Deer/Friendly property (See note 5(h));
- iv. issued 25,000 common shares with a fair value of \$2,750 pursuant to the Riley property (See note 5(f)).

During the year ended December 31, 2007, the Company:

- i. Completed a non-brokered private placement for 1,400,000 “flow through” units (“FT Units”) at a price of \$0.25 per FT Unit for total proceeds of \$350,000. Each FT Unit consists of one “flow-through” common share and one non “flow-through” common share purchase warrant exercisable for two years at a price of \$0.40 per warrant. A cash finders’ fee of \$14,000 was paid to Limited Market Dealer Inc as well as 126,000 warrants with a fair value of \$34,700 exercisable into 126,000 units at a price of \$0.25 per unit for a 24 month period. The units have the same terms as the FT Units;
- ii. Completed a non-brokered private placement for 4,600,000 units at \$0.22 per unit for gross proceeds of \$1,012,000. Each unit consists of one common share and one non-transferable warrant. Each warrant is exercisable to purchase one common share at \$0.30 for two years. A finders’ fee of 250,000 warrants with a fair value of \$65,370 exercisable into common shares at \$0.30 per share for a two year period was issued. The warrants have the same terms as the private placement;
- iii. Completed a non-brokered private placement for 500,000 units at \$0.30 per unit for gross proceeds of \$150,000. Each unit consists of one common share and one non-transferable warrant. Each warrant is exercisable to purchase one common share at \$0.375 for two years;
- iv. Completed a non brokered private placement for 1,000,000 FT Units at a price of \$0.50 per FT Unit for total proceeds of up to \$500,000. Each FT Unit consists of one “flow-through” common share and one non “flow-through” common share purchase warrant exercisable for one year at a price of \$0.65 per warrant. A cash finders’ fee of \$20,000 was paid to Limited Market Dealer Inc as well as 90,000 options with a fair value of \$19,540 exercisable into 90,000 FT units at a price of \$0.50 per unit for one year. The units have the same terms as the FT Units;
- v. Completed a non brokered private placement for 2,000,000 FT Units at a price of \$0.35 per FT Unit for total proceeds of up to \$700,000. Each FT Unit consists of one “flow-through” common share plus one-half of one half non “flow-through” common share purchase warrant. One full warrant entitles the investor to purchase one non “flow-through” common share for a period of two years at a price of \$0.50 per warrant. A cash finders’ fee of \$28,000 was paid to Limited Market Dealer Inc as well as 180,000 options with a fair value of \$24,370 exercisable into 180,000 FT units at a price of \$0.35 per unit for a 24 month period. The units have the same terms as the FT Units;

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

11. SHARE CAPITAL (Cont'd)

- vi Completed a non brokered private placement of 1,824,332 FT Units at a price of \$0.45 per unit for total proceeds of \$820,949. Each FT Unit consists of one "flow-through" common share plus one-half of one warrant. One full warrant entitles the investor to purchase one non "flow-through" common share for a period of two years at a price of \$0.60 per share. A cash finders' fee of \$24,000 was paid to Limited Market Dealer Inc as well as 119,999 options with a fair value of \$20,890 exercisable into 119,999 FT units at a price of \$0.24 per unit for a 24 month period. Other share issue costs which includes legal costs and due diligence fees related to the financings were \$222,812.
- vii Issued 500,000 common shares pursuant to the option agreement to acquire the Canim Lake claims (See Note 5(j)(i));
- viii Issued 50,000 common shares pursuant to the option agreement to acquire the Riley and Summer Properties (See Note 5(f));
- ix Issued 75,000 common shares pursuant to the option agreement to acquire the Deer Lake and Friendly Lake Properties (See Note 5(h));
- x Issue 300,000 common shares pursuant to the exercise of the Serb Creek property option (See Note 5(a));
- xi Issued 350,000 common shares pursuant to the exercise of the Rayfield property (formerly Quesnel Trough property) option (See Note 5(i));
- xii Issued 200,000 common shares pursuant to the exercise of the Eldorado property option (See Note 5(c));
- xiii Issued 150,000 common shares pursuant to the exercise of the Pitt Island property option (See Note 5 (d));
- xiv Issued 50,000 common shares pursuant to the exercise of stock options at a price of \$0.125 per share.
- xv Issued 1,741,250 common shares pursuant to the exercise of share purchase warrants at prices of \$0.10 - \$0.25.

c) Stock options

The Company's Board of Directors approved a stock option and approved at the Company's annual general meeting on September 5, 2008, in accordance with the policies of the TSX Venture Exchange (the "Exchange"). The Board of Directors is authorized to grant options to directors, officers, consultants or employees to acquire up to 10% of the issued and outstanding common shares from time to time. The exercise price will not be less than the market price of the common shares less applicable discounts permitted by the Exchange. The options granted under this plan are exercisable over a period not exceeding five years.

	December 31, 2008		December 31, 2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	4,175,000	\$0.22	2,100,000	\$0.125
Granted	1,000,000	\$0.10	2,125,000	\$0.305
Exercised	—	—	(50,000)	\$0.125
Cancelled / Expired	(475,000)	\$0.21	—	—
Balance, end of year	4,700,000	\$0.11	4,175,000	\$0.22

Stock options outstanding and exercisable as at December 31, 2008 are as follows:

Expiry Date	Exercise Price	Number of Options
February 3, 2010	\$ 0.125	650,000
February 19, 2011	\$ 0.125	775,000
March 9, 2011	\$ 0.125	625,000
January 12, 2012 ⁽¹⁾	\$ 0.10	700,000
February 13, 2012 ⁽¹⁾	\$ 0.10	500,000
February 22, 2012 ⁽¹⁾	\$ 0.10	350,000
August 1, 2012 ⁽¹⁾	\$0.10	50,000
December 12, 2012 ⁽¹⁾	\$0.10	50,000
September 25, 2013	\$0.10	1,000,000
		4,700,000

(1) On September 25, 2008, the Company re-priced 1,650,000 stock options with an exercise price between \$0.23 - \$0.42 per share to an exercise price of \$0.10 per share.

CANDORADO OPERATING COMPANY LTD.**Notes to Financial Statements**

Years Ended December 31, 2008 and December 31, 2007

11. SHARE CAPITAL (Cont'd)**d) Stock based compensation**

During the year ended December 31, 2008, the Company issued 1,000,000 (2007 – 2,125,000) options to directors and consultants at an exercise price of \$0.10 per share. The fair value of stock-based compensation in the amount of \$72,240 (2007 - \$532,942) has been recorded as an expense with the offsetting entry to contributed surplus. During the year ended December 31, 2007, a compensation charge associated with broker warrants granted in accordance with a private placement in the amount of \$164,870 was allocated to share issue costs. These values are estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2008	2007
Expected life (years)	5.00	3.00 – 5.00
Risk-free interest rate	3.13%	3.78% - 4.59%
Volatility	92.61%	88,82% - 116.73%
Dividend yield	Nil	Nil

In addition to the grant of options, the Company re-priced 1,650,000 options with exercise prices of \$0.23 - \$0.42 per share to an exercise price of \$0.10 per share. The incremental fair value of stock-based compensation in the amount of \$32,312 (2007 – Nil) has been recorded as an expense with the offsetting entry to contributed surplus. This incremental value was measured by the difference between the fair value of the modified stock options and the value of the old options immediately before its terms were modified. This value is estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2008	2007
Expected life (years)	3.39	—
Interest rate	3.15%	—
Volatility	97.20%	—
Dividend yield	Nil%	—

e) Contributed Surplus

Contributed surplus represents accumulated stock-based compensation expense, reduced by the fair value of the stock options exercised. Details are as follows:

	December 31 2008	December 31 2007
Balance, beginning of year	\$ 1,139,355	\$ 447,388
Fair value of stock options granted	72,240	697,812
Incremental fair value of modified stock options	32,312	—
Fair value of stock options exercised during the year and transferred to share capital	—	(5,845)
Balance, end of year	\$ 1,243,907	\$ 1,139,355

Contributed surplus as at December 31, 2007 includes stock based compensation of \$44,673 which was offset to share issue costs pursuant to a finders' fee of 250,000 warrants at price of \$0.30 per share.

CANDORADO OPERATING COMPANY LTD.**Notes to Financial Statements**

Years Ended December 31, 2008 and December 31, 2007

11. SHARE CAPITAL (Cont'd)**f) Share purchase warrants**

Details of share purchase warrant activity during the year ended December 31, 2008 is as follows:

	December 31 2008	December 31 2007
Balance, beginning of year	15,823,182	7,959,601
Issued	—	10,178,164
Expired	(3,851,268)	(573,333)
Exercised	(1,793,750)	(1,741,250)
Balance, end of year	10,178,164	15,823,182

As at December 31, 2008 the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants Outstanding
February 6, 2009 (subsequently expired)	\$0.40	1,526,000
February 6, 2009 (subsequently expired)	\$0.30	4,850,000
March 8, 2009 (subsequently expired)	\$0.375	500,000
May 9, 2009	\$0.65	1,090,000
September 25, 2009	\$0.50	1,180,000
December 12, 2009	\$0.60	1,032,164
		10,178,164

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

	December 31 2008	December 31 2007
Balance, beginning of year	\$ 37,323	—
Reclassification of realized gains on marketable securities	(12,587)	
Change in unrealized gain (loss) on available-for-sale investments, net of income taxes	(63,736)	37,323
Balance, end of year	\$ (39,000)	\$37,323

13. CONTINGENCIES AND COMMITMENTS

- (a) The Company is in receipt of a letter from the British Columbia Ministry of Energy, Mines and Petroleum regarding the old Hedley heap leach operation by the Company's predecessor company, Candorado Mines Ltd. Several environmental issues regarding the site clean up were addressed in a letter dated November 21, 2005 and in an on-site meeting on November 22, 2005. The Company had been given a November 24, 2005 deadline to provide a clean-up plan but has advised the Ministry that in respect to its financial resources, this plan could not have been delivered on time. The Company does not admit or deny any liability regarding the responsibility for the clean-up and has engaged legal counsel regarding this matter. As indicated, the Ministry of Energy, Mines & Petroleum Resources will now proceed with the required work and may initiate proceedings to recover the costs incurred. The Company is unable to determine the amount of potential cost, if any, and therefore has not recognized any amount related to this matter as at December 31, 2008.
- (b) During the year ended December 31, 2008, the Company entered into a two year lease agreement with a private company controlled by the President of the Company for office space commencing September 1, 2008 and ending August 31, 2010. The Company is committed to making lease payments in 2008 through 2010 of \$40,200 per annum.

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

14. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

a) Credit Risk

The Company's credit risk is primarily attributable to cash, marketable securities, and taxes recoverable and other receivables. The Company has no material concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to taxes recoverable and other receivables is remote. Management does not believe that such receivables are impaired. Cash consists of bank deposits which are held with a Canadian Chartered Bank, from which management believes the risk of loss is remote.

b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2008, the Company had a cash balance of \$52,366 (2007 - \$439,803) and current liabilities of \$370,194 (2007 - \$873,648). All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 60 days and are subject to normal trade terms. The ability of the Company to continue to pursue its exploration activities and maintain its working capital is dependant on its ability to secure additional equity or other financing.

c) Interest Rate Risk

The Company has cash balances and no interest-bearing debt.

d) Foreign Currency Risk

The Company does not have foreign operations, nor does it have risk arising from changes in foreign currency exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

e) Equity price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

f) Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

g) Sensitivity analysis

As at December 31, 2008, the carrying value amounts of the Company's financial instruments approximates their fair value.

15. CAPITAL DISCLOSURES

The Company's capital currently consists of common shares, options and warrants (see Note 11). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash. In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company is currently assessing financing alternatives for its exploration plans and operations through its current operating period.

16. RESTATEMENT

- a) During the year ended December 31, 2008, the Company determined that there are unrecognized future income tax recoveries on 2,200,000 flow-through shares for gross proceeds of \$1,200,000 related to renunciation filings made during the year ended December 31, 2007. The tax effect related to the renounced deductions should be recognized on the date the Company filed the renouncement documents with the tax authorities. The comparative financial statements for the year ended December 31, 2007 have been restated to reflect a \$221,780 increase in future income tax recovery, \$221,780 decrease in net loss for the year, \$221,780 decrease in comprehensive loss for the year, \$221,780 decrease in share capital and \$221,780 decrease in deficit.

CANDORADO OPERATING COMPANY LTD.

Notes to Financial Statements

Years Ended December 31, 2008 and December 31, 2007

16. RESTATEMENT (Cont'd)

- b) Upon adoption of EIC-172 as described in Note 3, the comparative financial statements for the year ended December 31, 2007 have been restated to reflect a \$7,677 increase in future income tax recovery, \$7,677 decrease in net loss, \$7,677 decrease in unrealized gain on available-for-sale investments, \$7,677 decrease in accumulated other comprehensive income and \$7,677 decrease in deficit.

	December 31, 2007 (As previously reported)	Adjustments	December 31, 2007 (As restated)
<u>Statement of Loss and Deficit</u>			
Future income tax recovery	324,140	229,457	553,597
Net loss for the year	(651,528)	229,457	(422,071)
Loss per common share	(0.02)		(0.01)
<u>Statement of Comprehensive Income</u>			
Unrealized (loss) gain on available-for-sale investments	(405,000)	442,323	37,323
Comprehensive loss for the year	(1,056,528)	671,780	(384,748)
<u>Balance Sheet</u>			
Share capital	8,578,808	(221,780)	8,357,028
Accumulated other comprehensive income	45,000	(7,677)	37,323
Deficit	(4,257,207)	229,457	(4,027,750)

17. INCOME TAXES

The Company has accumulated non-capital losses for tax purposes of approximately \$2,137,000 (2007 – 2,189,000), available to reduce income otherwise taxable in future years. These losses, if not used, will expire as follows:

December 31, 2009	\$ 71,000
December 31, 2010	82,000
December 31, 2014	337,000
December 31, 2015	217,000
December 31, 2026	298,000
December 31, 2027	638,000
December 31, 2028	494,000
	<u>\$ 2,137,000</u>

Future income tax assets and liabilities are recognized for temporary differences between the carrying amounts of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

During the year ended December 31, 2008, the Company filed renunciations for 3,824,332 flow-through shares for gross proceeds of \$1,520,950. During the year ended December 31, 2007, the Company filed renunciations for 5,907,688 flow-through shares for gross proceeds of \$1,600,000. The proceeds from these share issues must be used for qualifying exploration expenditures, which are renounced by the Company in favor of the investors purchasing such shares, and such expenditures are not available to the Company. During the year ended December 31, 2008, the Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of \$471,450 (2007 - \$545,920) with respect to the renunciation.

CANDORADO OPERATING COMPANY LTD.**Notes to Financial Statements**

Years Ended December 31, 2008 and December 31, 2007

17. INCOME TAXES (Cont'd)

The reconciliation of income tax benefit computed at statutory rates to the reported income tax benefit is as follows:

	2008		2007
Loss before income taxes	\$ (1,704,000)	\$	(976,000)
Effective tax rate	31.00%		34.12%
Expected tax recovery	\$ (528,000)	\$	(333,000)
Stock-based compensation	32,000		182,000
Other permanent and temporary differences	342,000		(67,000)
Unrecognized (utilization of) future tax benefits	(6,000)		7,000
Expiration of non-capital losses	(169,000)		(50,000)
Change in enacted tax rates	(15,000)		-
Change in valuation allowance	(120,000)		(293,000)
Future income tax recovery	\$ (464,000)	\$	(554,000)

Future income tax assets are calculated as follows:

	2008		2007
Future income tax assets (liabilities) relate to:			
Loss carry forwards	\$ 598,000	\$	678,000
Unused mineral resource related deductions	(646,000)		(620,000)
Capital assets and other	61,000		75,000
Potential future tax benefit	\$ 13,000	\$	133,000
Valuation allowance	(13,000)		(133,000)
Future income tax assets recognized	\$ -	\$	-

18. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2008, the following transactions have occurred:

- a) The Company received 50,000 common shares pursuant to its option agreement with Happy Creek Minerals Inc. (See Note 5 j)(i)).
- b) On January 16, 2009, the Company received \$140,000 from Christopher James Gold Corp. as full repayment of the promissory note issued in relation to the K-CR property sale agreement (See Note 5(j)(vi)).
- c) On January 21, 2009, the Company paid \$100,000 to Bearclaw Capital Corp. as a principal repayment of the promissory note issued in relation to the Man/Prime property purchase agreement (See Note 5(e)).
- d) On February 6, 2009, 1,526,000 share purchase warrants at an exercise price of \$0.40 per share and 4,850,000 shares purchase warrants at an exercise price of \$0.30 per share expired without exercise.
- e) In February 2009, the Company elected not to proceed with the Friendly Lake property and as at December 31, 2008 wrote off all acquisition and exploration costs related to the property.
- f) On March 8, 2009, 500,000 share purchase warrants at an exercise price of \$0.375 per share expired without exercise.
- g) On April 17, 2009, the Company issued 100,000 common shares to Electrum Resources Corp. in relation to an option payment on the Deer Lake property (See Note 5(h)).
- h) In March 2009, the Company elected not to proceed with the Hefley Lake, Riley and Summer properties and as at December 31, 2008, impaired all acquisition and exploration costs related to the properties (See Note 5(f) and (g)).