

Consolidated Financial Statements of:  
CANDORADO OPERATING COMPANY LTD.

September 30, 2008

(Unaudited – prepared by Management)

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

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

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

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

**CANDORADO OPERATING COMPANY LIMITED**  
**INTERIM BALANCE SHEETS**  
**As at September 30, 2008 and December 31, 2007**  
(Unaudited – See Notice to Reader)

	<b>September 30</b>	December 31
	<b>2008</b>	2007
	<b>(unaudited)</b>	(audited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 171,581	\$ 439,803
Marketable securities (Note 6)	24,000	63,000
Taxes recoverable and other receivables	84,577	198,255
Due from related parties (Note 8)	—	8,049
Prepaid and advances	21,263	38,541
Restricted shares (Note 5(k)(viii))	—	126,000
	<b>301,421</b>	873,648
<b>RECLAMATION BOND</b>	<b>15,000</b>	6,000
<b>EQUIPMENT (Note 7)</b>	<b>34,992</b>	42,642
<b>MINERAL PROPERTIES (Note 5)</b>	<b>5,386,249</b>	4,933,850
	<b>\$ 5,737,662</b>	\$ 5,856,140
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 251,462	\$ 350,184
Due to related parties (Note 8)	6,501	—
	<b>257,962</b>	350,184
<b>Contingent Liabilities (Note 11)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL (Note 9 (b))</b>	<b>8,971,233</b>	8,578,808
<b>CONTRIBUTED SURPLUS (Note 9(e))</b>	<b>1,211,595</b>	1,139,355
<b>OTHER COMPREHENSIVE INCOME</b>	<b>17,000</b>	45,000
<b>DEFICIT</b>	<b>(4,720,128)</b>	(4,257,207)
	<b>5,479,700</b>	5,505,956
	<b>\$ 5,737,662</b>	\$ 5,856,140

**Nature of Operations – (Note 2)**

**Approved on behalf of the Board:**

/s/ Kirk Reed

Kirk Reed – Director

/s/ Rene Bernard

Rene Bernard – Director

**CANDORADO OPERATING COMPANY LIMITED**  
**INTERIM STATEMENTS OF LOSS AND DEFICIT**  
(Unaudited – See Notice to Reader)

	Three Months Ended		Nine Months Ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<b>ADMINISTRATIVE EXPENSES</b>				
Bank charges and interest, net interest	\$ 619	\$ (16,581)	\$ 2,347	\$ (16,930)
Consulting fees	34,325	15,473	90,406	88,756
Depletion and depreciation	2,550	2,335	7,650	5,101
Insurance	—	—	13,500	—
Investor relations	—	(4,457)	8,052	72,846
Listing and filing fees	1,481	1,074	13,996	14,803
Management fees <i>(Note 8)</i>	20,000	15,000	45,000	45,000
Office and general	5,924	10,490	22,497	27,919
Professional fees	19,025	3,901	23,303	3,901
Property evaluation	2,974	182	123,975	54,694
Shareholder communication	3,609	18,108	15,876	56,902
Stock based compensation	72,240	—	72,240	395,520
Transfer agent fees	1,769	1,671	3,801	10,047
Travel	4,030	2,065	21,412	16,093
Vehicle Expenses	1,461	1,004	5,719	8,736
Wages	—	18,996	32,958	33,694
Net Loss	(170,008)	(69,262)	(502,732)	(817,083)
<b>OTHER ITEMS</b>				
Gain on sale of marketable securities	—	—	39,811	240,281
Gain on sale of mineral properties	—	—	—	4,017
<b>Loss for the period</b>	<b>(170,008)</b>	<b>(69,262)</b>	<b>(462,920)</b>	<b>(572,786)</b>
<b>Deficit, beginning of period</b>	<b>\$ (4,550,120)</b>	<b>\$ (4,109,202)</b>	<b>\$ (4,257,207)</b>	<b>\$ (3,605,679)</b>
<b>Deficit, end of period</b>	<b>\$ (4,720,128)</b>	<b>\$ (4,178,464)</b>	<b>\$ (4,720,128)</b>	<b>\$ (4,178,464)</b>
<b>Loss per common share</b>	<b>\$ (\$0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares</b>	<b>47,649,271</b>	<b>40,814,604</b>	<b>47,355,542</b>	<b>38,510,458</b>

**CANDORADO OPERATING COMPANY LIMITED**  
**INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited – See Notice to Reader)

	Three Months Ended		Nine Months Ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<b>Loss for the period before comprehensive loss</b>	\$ (170,008)	\$ (69,262)	\$ (462,920)	\$ (572,786)
Unrealized gain (loss) on available for sale investments (Note )	(27,000)	70,000	(28,000)	99,000
<b>Comprehensive loss for the period</b>	\$ (197,008)	\$ 738	\$ (490,920)	\$ (473,786)

**CANDORADO OPERATING COMPANY LIMITED**  
**INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited – See Notice to Reader)

	Three Months Ended		Nine Months Ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (170,008)	\$ (69,263)	\$ (462,920)	\$ (572,786)
Adjust for item not affecting cash:				
Depreciation	2,550	2,335	7,650	5,101
Gain on sale of marketable securities	—	—	(39,811)	(240,281)
Gain on sale of mineral properties	—	—	—	(4,017)
Restricted shares	126,000	48,000	126,000	20,000
Stock based compensation	72,240	—	72,240	395,520
<b>Net changes in non-cash working capital items:</b>				
Accounts payable and accrued liabilities	(174,904)	24,292	98,722	(12,368)
Due (from) to related parties	3,738	(92,371)	32,041	(160,208)
Prepays and advances	(8,294)	378,572	(13,214)	133,404
Taxes recoverable and receivables	2,493	(64,428)	113,678	(99,801)
Net cash used (provided) in operating activities	(146,184)	227,137	(65,615)	(535,436)
<b>INVESTING ACTIVITIES</b>				
Mineral property exploration	248,891	(1,148,911)	(618,458)	(2,330,976)
Payment of reclamation bond	(9,000)	—	(9,000)	—
Option payments received	—	—	—	—
Proceeds from the sale of marketable securities	—	17	243,876	288,298
Purchase of equipment	—	(11,615)	(0)	(50,053)
Net cash provided by (used in) investing activities	239,891	(1,210,509)	(383,582)	(2,043,714)
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of common shares	—	700,000	180,275	3,063,875
Share issue costs	—	(78,507)	700	(187,728)
Net cash provided by financing activities	—	621,493	180,975	2,876,147
<b>INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	\$ 93,707	(361,879)	\$ (268,222)	\$ 296,997
<b>CASH &amp; CASH EQUIVALENTS, beginning of period</b>	\$ 77,874	973,008	\$ 439,803	\$ 314,132
<b>CASH &amp; CASH EQUIVALENTS, end of period</b>	\$ 171,581	611,129	\$ 171,581	\$ 611,129
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>				
Interest paid	\$ —	\$ —	\$ —	\$ —
Income taxes paid	\$ —	\$ —	\$ —	\$ —
<b>NON-CASH FINANCING ACTIVITIES</b>				
Shares issued for mineral properties	16,250	0	\$ 211,450	\$ 335,250

# CANDORADO OPERATING COMPANY LTD.

## Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

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### 1. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all to the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited interim financial statements have been prepared in accordance with the accounting principles and policies described in the Company's annual financial statements for the year ended December 31, 2007, and should be read in conjunction with those statements. In the opinion of management, all adjustments (consisting of normal and recurring accruals) have been included. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

### 2. 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 September 30, 2008, the Company has recurring losses, has an accumulated deficit of \$4,642,888 and has not generated cash from operating since inception with the exception of the proceeds from an oil and gas project that the Company holds a small interest. 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.

### 3. 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 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 and assumptions

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. Actual results could differ from those estimates.

## **CANDORADO OPERATING COMPANY LTD.**

### **Notes to Financial Statements**

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

#### **Financial instruments**

The fair value of the Company's cash, marketable securities, taxes recoverable and other receivables, accounts payable and accrued liabilities 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.

#### **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 has not been presented separately as the outstanding stock options and warrants are 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 plan**

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.

#### **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. 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 September 30, 2008, the Company has no cash equivalents.

### **4. 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"):

(i) Assessing going concern – Section 1400

The Accounting Standards Board (AcSB) amended the Section 1400, 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. The adoption of this standard did not have an impact on our financial statements.

(ii) Capital disclosures – Section 1535

This new pronouncement 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.

(iii) Financial Instruments – Section 3862 and 3863 – Disclosure and Presentation

These new standards require additional disclosures to enable users to evaluate the significance of financial instruments for an entity's financial position and performance. In addition, qualitative and quantitative disclosures are provided to enable users to evaluate the nature and extent of risks arising from financial instruments.

# CANDORADO OPERATING COMPANY LTD.

## Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

### 5. MINERAL PROPERTIES

	<u>British Columbia properties</u>											September 30 2008	
	Serb Creek	Quesnel Trough	Murphy Lake	Eldorado	Pitt Island	Man Prime	Riley/ Summer	Hefly Creek	Deer/ Friendly	Rayfield	Other		Aurora Extension
<i>Exploration and development costs beginning of period</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	—	—	10,990	2,488	4,624	—	10	—	—	—	641	—	18,753
Drilling	—	—	90,000	—	—	—	—	—	—	—	—	—	90,000
Sampling and assaying	—	—	8,697	—	—	32,734	—	—	7,335	—	57,760	—	106,525
Helicopter, transport and rentals	—	—	14,107	—	—	899	430	—	863	—	5,104	—	21,403
Field work	—	—	2,720	—	—	2,534	1,290	—	7,243	—	54,346	—	68,133
Geophysical work	—	—	—	—	—	—	—	—	—	—	—	—	0
Site Costs, management fees	—	—	7,606	—	—	12,118	1,277	41	1,431	—	34,694	—	57,168
Maps, field supplies and misc	—	—	9,051	—	—	9,362	110	2,860	705	1,887	17,389	—	41,363
Geological consulting and reports	—	—	36,856	—	—	17,570	2,650	5,203	22,783	523	63,135	—	148,720
<b>Deferred exploration, end of period</b>	<b>14,985</b>	<b>0</b>	<b>1,036,918</b>	<b>21,005</b>	<b>22,360</b>	<b>1,412,761</b>	<b>285,134</b>	<b>136,831</b>	<b>422,072</b>	<b>66,273</b>	<b>384,860</b>	<b>125,663</b>	<b>3,928,862</b>
<i>Acquisition costs, beginning of period</i>	117,719	175,042	162,414	108,561	126,556	56,705	42,036	10,792	90,421	11,231	572,575	83,000	1,557,052
Additions during the period:													
Capital stock issued	—	—	—	—	—	195,500	2,750	—	13,200	—	—	—	211,450
Finders fees	—	—	—	—	—	—	—	—	—	—	—	—	—
Staking fees	8,946	—	11,945	2,149	—	—	—	2,350	—	30,365	71,427	—	127,181
Property payments	—	—	—	—	—	100,000	100,000	10,000	60,000	—	99,000	—	369,000
Reimbursement of staking costs	(13,814)	—	—	(1,482)	—	—	—	—	—	—	—	—	(15,296)
Property payments cash received	—	—	(100,000)	—	—	—	—	—	—	(50,000)	(575,000)	—	(725,000)
Property payments shares received	—	—	—	—	—	—	—	—	—	(67,000)	—	—	(67,000)
<b>Acquisition costs, end of period</b>	<b>112,851</b>	<b>175,042</b>	<b>74,359</b>	<b>109,228</b>	<b>126,556</b>	<b>352,205</b>	<b>144,786</b>	<b>23,142</b>	<b>163,621</b>	<b>(75,404)</b>	<b>168,002</b>	<b>83,000</b>	<b>1,457,387</b>
<b>Total Mineral Properties</b>	<b>\$127,836</b>	<b>\$175,042</b>	<b>\$1,111,276</b>	<b>\$130,233</b>	<b>\$148,916</b>	<b>\$1,764,966</b>	<b>\$429,920</b>	<b>\$159,973</b>	<b>\$585,693</b>	<b>(\$9,131)</b>	<b>\$552,862</b>	<b>\$208,663</b>	<b>\$5,386,249</b>

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

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

**5. MINERAL PROPERTIES (Cont'd)**

	British Columbia properties										Ontario	December 31 2007	
	Serb Creek	Quesnel Trough	Murphy Lake	Eldorado	Pitt Island	Man Prime	Riley/ Summer	Hefley Creek	Deer/ Friendly	Rayfield	Other		Aurora Extension
<b>2007</b>													
<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	<b>14,985</b>	<b>—</b>	<b>856,891</b>	<b>18,517</b>	<b>17,736</b>	<b>1,337,545</b>	<b>279,367</b>	<b>128,727</b>	<b>381,712</b>	<b>63,863</b>	<b>151,792</b>	<b>125,663</b>	<b>3,376,798</b>
<i>Acquisition costs, beginning of year</i>	27,416	46,212	180,489	89,678	85,159	—	—	—	—	5,987	99,480	18,000	552,421
Additions during the year:													
Capital stock issued	72,000	78,750	—	30,000	32,250	—	22,500	—	31,875	—	150,000	—	417,375
Finders fees	—	—	—	12,500	—	—	—	—	10,000	—	—	—	22,500
Staking fees	14,072	80	13,280	1,633	9,147	6,705	1,536	792	8,546	5,244	212,595	—	273,630
Property payments	15,000	50,000	15,000	52,750	—	50,000	26,000	10,000	40,000	—	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 period	<b>117,719</b>	<b>175,042</b>	<b>162,414</b>	<b>108,561</b>	<b>126,556</b>	<b>56,705</b>	<b>50,036</b>	<b>10,792</b>	<b>90,421</b>	<b>11,231</b>	<b>564,575</b>	<b>83,000</b>	<b>1,557,052</b>
<b>Total Mineral Properties</b>	<b>\$132,704</b>	<b>\$175,042</b>	<b>\$1,019,305</b>	<b>\$27,078</b>	<b>\$144,292</b>	<b>\$1,394,250</b>	<b>\$329,403</b>	<b>\$139,519</b>	<b>\$472,133</b>	<b>\$75,094</b>	<b>\$716,367</b>	<b>\$208,663</b>	<b>\$4,933,850</b>

# CANDORADO OPERATING COMPANY LTD.

## Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

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### 5. MINERAL PROPERTIES (Cont'd)

#### British Columbia

##### a) **Serb Creek Property**

The Company entered into an option agreement in April 25, 2006, to acquire a 100% interest 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 (100,000 issued). In November 2006, the Company elected to exercise its option early and paid \$50,000 and issued 300,000 common shares to the vendors to earn a 100% interest subject to a 2% NSR in the property. In December 2006 the Company entered into an agreement with Georgia Ventures Inc. ("GVI") wherein GVI can earn a 60% 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. The NSR can be purchased by either party from the original vender for \$1,500,000. During February 2008, GVI gave notice and the Company accepted the termination of the Option Agreement between the parties.

##### b) **Quesnel Trough 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, collectively referred to as the Quesnel Trough properties. Consideration for the option is total cash payments of \$50,000 due on April 12, 2012 and 550,000 common shares issued over a six year period (200,000 issued). The Company elected to exercise the option early and issued the remaining 350,000 shares and paid cash of \$50,000 to acquire the 100% interest.

##### c) **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 (\$60,000 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 for the right to explore and develop 3 mineral concessions to Beeston Enterprises for the sum of \$5,000. Beeston Enterprises 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.

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 (paid - 2008). 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.

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 15, 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 (paid), and a commitment to spend \$200,000 and \$250,000 on exploration by July 31, 2009 and July 31, 2010, respectively.

##### d) **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 (\$47,500 paid) and issue 500,000 common shares (300,000 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. The Company elected to buyout its option early and issued 200,000 shares and made aggregate payments of \$52,500 to the vendors of the Eldorado Gold property to earn 100% interest subject to a 2% NSR. February 16, 2007 the Company entered into an option agreement with Gravity West Corp. ("GWC") to acquire a 60% interest in the Company's Eldorado property located in northern British Columbia. 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. 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

## CANDORADO OPERATING COMPANY LTD.

### Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

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#### 5. MINERAL PROPERTIES (Cont'd)

##### British Columbia

\$12,500. During February 2008, GWC gave notice and the Company accepted the termination of the Option Agreement between the parties.

##### e) **Pitt Island Property**

The Company entered into an option agreement in April 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 (250,000 issued). The Company elected to exercise its option early and issued the remaining 150,000 shares to the vendor. The Company's interest remains subject to the 2% NSR.

##### f) **Man/Prime Property**

The Company entered into an option agreement with Bearclaw Capital Corp., 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 and issuing 700,000 shares by December 31, 2009 (issued). 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. On January 14, 2008 the Company exercised its option and issued 700,000 shares to earn its 51% interest.

The Company entered into a purchase agreement with Bearclaw Capital Corp., dated August 11, 2008 to acquire the remaining 49% interest of the Man/Prime property located 35 km north of Princeton British Columbia. Under the terms of the agreement, the Company is required to pay \$300,000 (\$100,000 paid) and issue 450,000 common shares (150,000 issued) by July 31 2009. 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.

##### g) **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 \$5,000 (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 (\$34,00 paid), work commitments of \$400,000 and the issuance of 75,000 common shares (50,000 issued).

##### h) **Heffley Lake Property**

On February 6, 2007 the Company entered into an option agreement to acquire a 100% interest in the Mesabi claims, better known as the "Heffley Lake" property, for consideration of \$500,000 over eight years with first and second year payments of \$10,000 (paid \$20,000) 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.

##### i) **Deer Lake and Friendly Lake Properties**

On April 15, 2007 the Company and Electrum Resource Corp. (John Barakso) 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 960,000 common shares (185,000 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. 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 review and acceptance. As at December 31, 2007 the Company had on deposit with the Minister of Finance \$15,000 reclamation bond.

# CANDORADO OPERATING COMPANY LTD.

## Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

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### 5. MINERAL PROPERTIES (Cont'd)

#### British Columbia (Cont'd)

##### j) **Rayfield Property**

As at December 31, 2007, the Company staked various claims collectively referred to as the Rayfield property for and completed exploration work programs for total acquisition and exploration costs of \$75,094 (December 31, 2006 - \$5,987). 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 are work commitment expenditures of \$600,000 on or before December 31, 2008. During May 2008, Callinan provided notice to the Company it had elected not to proceed under the terms of the option agreement.

##### k) **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.

###### ii) **Central BC**

As at September 30, 2008 the Company had staked various mineral concessions collectively referred to as Central BC claim block for staking fees of \$52,975.

###### iii) **Bonaparte Property**

As at September 30, 2008 the Company staked various mineral concessions collectively referred to as the Bonaparte Property and completed exploration work programs for total acquisition and exploration costs of \$47,990 (December 31, 2007 - \$43,729).

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

As at September 30, 2008 the Company staked various concessions and completed exploration work programs for total acquisition and exploration costs of, \$215,083 (December 31, 2007 - \$66,095).

###### v) **King Claim block**

As at September 30, 2008 the Company has staked various concessions for staking fees of \$1,693

###### vi) **K-CR Claim group**

As at September 30, 2008 the Company had staked various concessions and completed exploration work programs for, \$66,984 (December 31, 2007 - \$36,043).

The Company entered into an option agreement dated July 15, 2008 with Christopher James Gold Corp. ("CJGC"), where CJGC has the option to acquire a 100% interest in the K-CR Claim group for consideration of \$125,000 cash payment (paid), and on July 15, 2009, make an additional cash payment of \$140,000.

###### vii) **Swan/Pat Property**

April 4, 2007 the Company entered into a purchase agreement with Craig Lynes to acquire ten additional properties within the Quesnel Trough collectively known as the Swan and Pat properties for a cash payment of \$30,000 (paid). Exploration costs as at September 30, 2008 were \$407.

## CANDORADO OPERATING COMPANY LTD.

### Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

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#### 5. MINERAL PROPERTIES (Cont'd)

##### British Columbia (Cont'd)

###### k) Other

###### viii) **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. Terms of the option include the incurrence of \$45,000 of exploration expense within six months and annual 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. The shares were subject to the Exchange Escrow Agreement under Form 5D and have been released on the basis of 10% upon the issuance of the Exchange bulletin (released), and an additional 15% will be released every six months thereafter (released).

###### ix) **Canoe Hot Springs**

The Company entered into an option agreement dated July 15, 2008 with Christopher James Told Corp.

In January 2008 the Company acquired the right to earn a 100% interest in the Canoe Hot Springs Geothermal project under permit #55274 based on the following agreement with Comstock Energy Inc., ("Comstock").

Under the terms of the agreement Candorado will pay Comstock \$1 million for a 100% interest in the project and underlying lease and permit. The first payment (\$100,000) on signing (paid) with additional payments due September 30, 2008 (\$100,000) and December 31, 2008 (\$800,000).

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. (See subsequent events).

The Company entered into an option agreement dated July 15, 2008 with Christopher James Gold Corp. ("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 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.

##### Ontario

###### i) **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 staged cash payments totaling \$500,000 (\$18,000 paid) and work commitments of \$30,000 by September 15, 2004 (incurred). The Company and Mr. McMillan 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 Mr. McMillan.

On June 17, 2008 the Company entered into a letter of intent with Orsa Ventures Corp. 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 paid on signing of the formal agreement) and minimum of \$500,000 in exploration expenditures over three years (\$100,000 in the first year). 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. Orsa may purchase half of the 2% royalty on the claims for \$1,000,000 and another quarter of the royalty for an additional \$1,000,000.

## CANDORADO OPERATING COMPANY LTD.

### Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

#### 5. MINERAL PROPERTIES (Cont'd)

##### Commitments

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

		Cash	Expenditure Commitments	Shares	
2008	\$	—	\$	—	
2009	\$	180,000	\$	475,000	135,000
2010	\$	270,000	\$	250,000	175,000
2011	\$	415,000	\$	350,000	250,000
2012	\$	845,000	\$	500,000	350,000
2013 and beyond	\$	250,000	\$	—	—

#### 6. MARKETABLE SECURITIES AND RESTRICTED SHARES

	September 30, 2008			December 31, 2007		
	No. of Shares	Cost	Fair Value	No. of Shares	Cost	Fair Value
<b>New Cantech Ventures Inc.</b>						
- Shares available for sale	300,000	\$48,000	\$24,000	300,000	\$48,000	\$63,000
- Restricted shares	—	—	—	600,000	\$96,000	\$126,000
<b>Total</b>	<b>300,000</b>	<b>\$48,000</b>	<b>\$51,000</b>	<b>900,000</b>	<b>\$144,000</b>	<b>\$189,000</b>

#### 7. EQUIPMENT

	Cost	Accumulated Amortization	September 30 2008	December 31 2007
			Net Book Value	Net Book Value
Furniture and equipment	\$ 12,722	\$ 3,890	\$ 8,832	\$ 10,734
Computer	2,250	738	1,512	1,596
Vehicle	36,188	11,540	24,648	30,059
<b>Total</b>	<b>\$ 51,160</b>	<b>16,168</b>	<b>\$ 34,992</b>	<b>\$ 42,389</b>

#### 8. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2008, the Company incurred the following to directors, officers and private companies controlled by them: management fees - \$45,000 (2007 - \$45,000); rent - \$3000 (2007 - \$12,000). These transactions were recorded at exchange value, which was the amount of consideration established and agreed to by the related parties.

At September 30, 2008, an amount of \$6,501 ( December 31, 2007 - \$8,049) was due to (2007 – from) the President of the Company for staking and cash in lieu of work requirements.

# CANDORADO OPERATING COMPANY LTD.

## Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

### 9. 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	—	(324,140)
Balance at December 31, 2007	45,027,306	\$ 8,578,808
Exercise of warrants	1,802,750	180,275
Issued for property	985,000	195,200
Recovery of share issue costs		700
September 30, 2008	47,815,056	\$ 8,954,983

During the nine months ended September 30, 2008 the Company:

- i. issued 1,802,750 shares pursuant to the exercise of warrants at \$0.10 per share;
- ii. issued 850,000 common shares pursuant to the Man/Prime property – (See note 5 (f)).
- iii. issued 115,000 common shares pursuant to the Deer/Friendly property – (See note 5.(i)).
- iv. issued 25,000 common shares pursuant to the Riley property – (See note 5 (g))

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

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

#### 9. SHARE CAPITAL (Cont'd)

- v. 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.

- vi. Issued 500,000 common shares pursuant to the option agreement to acquire the Canim Lake claims (See Note 5(k)(i));
- viii. Issued 50,000 common shares pursuant to the option agreement to acquire the Riley and Summer Properties (See Note 5(g));
- ix. Issued 75,000 common shares pursuant to the option agreement to acquire the Deer Lake and Friendly Lake Properties (See Note 5(i));
- 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 Quesnel Trough property option (See Note 5(b));
- xii. Issued 200,000 common shares pursuant to the exercise of the Eldorado property option (See Note 5(d));
- xiii. Issued 150,000 common shares pursuant to the exercise of the Pitt Island property option (See Note 5 (e));
- 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 July 6, 2007, 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.

	September 30, 2008		December 31, 2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of period	4,175,000	\$0.22	2,100,000	\$0.125
Granted/Repriced	—	—	2,125,000	\$0.305
Exercised	—	—	(50,000)	\$0.125
Cancelled / Expired	—	—	—	—
Balance, end of period	<u>4,175,000</u>	<u>\$0.22</u>	<u>4,175,000</u>	<u>\$0.22</u>

# CANDORADO OPERATING COMPANY LTD.

## Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

### 9. SHARE CAPITAL (Cont'd)

#### (c) Stock options

Stock options outstanding and exercisable as at September 30, 2008 are as follows:

Expiry Date	Exercise Price	Number of Shares
February 3, 2010	\$ 0.125	650,000
February 19, 2011	\$ 0.125	825,000
March 9, 2011	\$ 0.125	575,000
January 12, 2012	\$ 0.23	750,000
February 13, 2012	\$ 0.30	575,000
February 22, 2012	\$ 0.42	350,000
April 10, 2010	\$0.44	150,000
August 1, 2012	\$0.30	200,000
December 12, 2012	\$0.30	100,000
		4,175,000

#### (d) Stock based compensation

During the nine months ended September 30, 2008, the Company issued 1,000,000 options at a price of \$0.10 [2007 1,675,000 options (750,000 at a price of \$0.23 per option, 575,000 at a price of \$0.30 per option and 350,000 at a price of \$0.42 per option) ] to directors, consultants and employees. The fair value of stock-based compensation in the amount of \$72,240 (2007 - \$395,520) has been recorded in the accounts of the Company as an expense with the offsetting entry to contributed surplus. 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)	5	5
Interest rate	3.13%	3.89% - 4.13%
Volatility	92.16%	109.72% - 111.06%
Dividend yield	0.00%	0.00%

In addition to the grant of options the Company re-priced 1,650,000 between prices of \$0.23 - \$0.42 to a price of \$0.10 per option. These options are now subject to shareholder approval which will be sought at the Company's next annual general meeting. Upon approval an adjustment to stock based compensation and contributed surplus will be recorded.

#### (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:

	September 30 2008	December 31 2007
Balance – Beginning of period	\$ 1,139,355	\$ 447,388
Current year fair value of stock-based compensation	72,240	697,812
Fair value of stock options exercised during the period and transferred to share capital	—	(5,845)
Balance – End of period	\$ 1,211,595	\$ 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

## CANDORADO OPERATING COMPANY LTD.

### Notes to Financial Statements

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

#### 9. SHARE CAPITAL (Cont'd)

##### (f) Share purchase warrants

Details of share purchase warrant activity during the nine months ended September 30, 2008 is as follows:

	September 30 2008	December 31 2007
Outstanding - Beginning of period	15,823,182	7,959,601
Issued	—	10,178,164
Expired	(1,335,888)	(573,333)
Exercised	(1,793,750)	(1,741,250)
Outstanding – End of period	12,693,544	15,823,182

As at September 30, 2008 the following share purchase warrants were outstanding:

Expiry Date	Per Common Share Exercise Price	Warrants Outstanding	Common Share Entitlement
December 8, 2008	\$0.50	2,515,380	2,515,380
February 6, 2009	\$0.40	1,526,000	1,526,000
February 6, 2009	\$0.30	4,850,000	4,850,000
March 8, 2009	\$0.375	500,000	500,000
May 9, 2009	\$0.65	1,090,000	1,090,000
September 25, 2009	\$0.50	1,180,000	1,180,000
December 12, 2009	\$0.60	1,032,164	1,032,164
<b>Total</b>			<b>12,693,544</b>

On March 27, 2008 380,000 share purchase warrants at \$0.15 and July 13, 2008 400,000 share purchase warrants at \$0.25 and 555,888 share purchase warrants at \$0.20 expired without exercise.

#### 10. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2008
Balance at December 31, 2007	\$45,000
Change in unrealized loss on available-for-sale financial assets	(28,000)
Balance at September 30, 2008	\$17,000

#### 11. CONTINGENCIES

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 the 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 September 30, 2008.

# **CANDORADO OPERATING COMPANY LTD.**

## **Notes to Financial Statements**

Nine Months Ended September 30, 2008

(Unaudited – See Notice to Reader)

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### **12. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loan payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

### **13. CAPITAL DISCLOSURE**

The Company's capital currently consists of common shares, options and warrants. As the Company is in the exploration stage its principal source of funds is from the issuance of common shares. The Company's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to meet the Company's property exploration plans to ensure the growth of activities.