

## **CANDORADO OPERATING COMPANY LTD.**

### **Notes to Financial Statements**

**Nine Month Period ended September 30, 2009**

(unaudited – prepared by management)

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The following information was prepared as of November 28, 2009 supplements, but does not form part of the unaudited interim consolidated financial statement of the Company and the notes thereto for the period ended September 30, 2009. Consequently the management discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of Candorado Operating Company Ltd. for the six months ended June 30, 2009, as well as the audited consolidated financial statements for the period ended December 31, 2008, the notes attached thereto and the related annual management's discussion and analysis. The Company's critical accounting policies and risk factors have remained substantially unchanged and are still applicable to the Company unless otherwise indicated.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts included therein and in the following management discussion and analysis ("MD&A") are in Canadian dollars except where noted.

Throughout the report we refer to Candorado, the "Company", "we", "us", "our" or "its". All these terms are used in respect of Candorado Operating Company Ltd. Additional information on the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website a [www.candorado.com](http://www.candorado.com).

#### ***Cautionary Statement on Forward-Looking Information***

This report contains "forward-looking statements", including, the Company's expectations as to but not limited to, comments regarding the timing and content of upcoming work programs and exploration budgets, geological interpretations, receipt of property titles, and potential mineral recovery processes. Forward-looking statements express, as at the date of this report, the Company's plans, estimates, forecasts, projections, expectations, or beliefs as to future events or results. Forward-looking statements involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements and Candorado assumes no obligation to update forward-looking information in light of actual events or results.

Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements, include, but are not limited to, factors associated with fluctuations in the market price of minerals, mining industry risks and hazards, environmental risks and hazards, economic and political events affecting metal supply and demand, uncertainty as to calculation of mineral reserves and resources, requirement of additional financing, and other risks. Actual results may differ materially from those currently anticipated in such statements.

The forward-looking information in this MD&A is based on management's current expectations and Candorado assumes no obligations to update such information to reflect later events or developments, except as required by law.

#### ***Description of Business and Summary of Recent Events***

The Company is a Venture Issuer and Canadian based resource company focused on the acquisition, exploration and development of resource projects primarily in British Columbia. Candorado is large mineral rights land holder with its copper/gold porphyry targets within the Quesnel Trough in Central British Columbia, the Eldorado property next to the Imperial Metals' Red Chris copper/gold porphyry deposit, and the Man/Prime property located 35 km north of Princeton British Columbia.

#### **EXPLORATION**

The Company is currently pursuing joint venture opportunities on its Eldorado property and during the period carried out a minimum amount of exploration on its Man/Prime, Murphy Lake and Deer Lake properties of \$35,828.

In August 2009, the Company entered into an option agreement with a private party to acquire a 100% interest in 15 claims collectively referred to as the Lake La Motte South Property; 4 claims collectively referred to as the Lake La Motte East Property; 3 claims collectively referred to as the Landrienne South Property; 4 claims collectively referred to as the La Corne Valor East property and 2 claims collectively referred to as the La Corne Valor West Property, located in Quebec.

The Company will pay aggregate cash payments of \$360,000 with \$20,000 due on signing. The Company must also incur exploration and development expenditures totaling \$300,000 over the next 18 months and upon TSX Venture Exchange ("TSX-VE") approval, the Company will issue 1,000,000 shares and a further 3,000,000 common shares over the next two years. The properties are subject to a net smelter return ("NSR") royalty of 2% to the vendor. The Company has the right to acquire one-half (1%) of the NSR by paying the vendor \$1,000,000 at any time. A finder's fee of 7% in cash or shares to Bullrun Investments is to be paid upon TSX-VE approval. All exploration programs have been curtailed until such time as the Company raises additional funds by way of joint venture opportunities or equity financing.

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#### Results of Operations

a) Loss for the nine month period:

During the nine month period ended September 30, 2009 the Company recorded a net loss of \$253,079 (\$0.00 loss per share) compared to a loss of \$462,920 (\$0.01 loss per share) for the comparative 2008 period. The net loss for the current period was primarily attributable administrative expenses of \$177,097 compared to \$502,732. The decrease was primarily a result in the decrease of property evaluation \$14,474 (2008 - \$123,975), consulting fees \$35,602 (2008 - \$90,406) and wages of \$Nil (2008 - \$32,958) a result of scaling back operations to conserve working capital. For the current period there was no stockbased compensation recorded compared to \$72,240 for the comparative 2008 period. For the nine month ended September 30, 2008 general and administrative costs were offset by a gain on the sale of marketable securities of \$39,811. .

b) Loss for the three month period:

During the three month period ended September 30, 2009 the Company recorded a net loss of \$126,210 (\$0.00 loss per share) compared to a loss of \$170,008 (\$0.00 loss per share) for the comparative 2008 period. The net loss for the current period was primarily attributable administrative expenses of \$50,228 compared to \$170,008. The decrease was primarily a result in the decrease of consulting fees of \$8,327 (2008 - \$34,325) and management fees of \$10,000 (2008 - \$20,000) and professional fees of \$852 (2008 - \$19,025) a result of scaling back operations to conserve working capital. In addition during the three months ended September 30, 2009 the core claims for Serb Creek lapsed and \$74,270 was recorded for write off of mineral properties.

#### Capital Expenditures

Capital expenditures for the nine month period ended September 30, 2009 included \$125,581 on mineral properties, net of recoveries. Expenditures related to the Company's Murphy Lake, Deer, Eldorado, Timothy Lake, Willow Creek and Deer Lake, and Lithium properties. Expenditures during the comparative period ended September 30, 2009 related to the Company's Murphy Lake, Man/Prime, Deer/Friendly, KCR and Rayfield properties where the Company conducted drill programs and or extensive geophysical work and surveys.

#### Summary of Quarterly Results

The following table sets forth selected unaudited financial information prepared by management of the Company.

Three Months Ended	Sept. 30 2009	June 30 2009	March 31 2009	December 31 2008
Total Revenues	\$ —	\$ —	\$ —	\$ —
Loss before other items and income taxes	\$ (50,228)	\$ (56,181)	\$ (70,688)	\$ (35,700)
Future income tax recovery	\$ —	\$ —	\$ —	\$ (7,677)
Net Loss	\$ (126,210)	\$ (56,181)	\$ (70,688)	\$ (1,208,772)
Loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.03)

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(unaudited – prepared by management)

Three Months Ended	September 30 2008	June 30 2008	March 31 2008 (restated)	December 31 2007 (restated)
Total Revenues	\$ —	\$ —	\$ —	\$ —
Loss before other items and income taxes	\$ (202,320)	\$ (90,355)	\$ (242,369)	\$ (502,851)
Future income tax recovery *	\$ —	\$ —	\$ 471,450	\$ 58,857
Net income (loss) *	\$ (202,320)	\$ (22,142)	\$ 226,679	\$ (344,025)
Loss per share	\$ (0.00)	\$ (0.00)	\$ 0.00	\$ (0.00)

\* 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 fiscal quarters ended March 31, 2008, December 31, 2007, September 30, 2007 and June 30, 2007 have been restated to reflect the above changes.

\* Upon adoption of EIC-172, 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.

Significant items to report for the quarterly results are as follows:

The Loss before other items and income taxes included:

- 1) September 30, 2008 - \$104,552 stock based compensation expense;
- 2) December 31, 2007 - \$137,422 stock based compensation expense;

Net loss included:

- 1) September 30, 2008 - \$74,279 write-off of mineral properties
- 2) December 31, 2008 - \$1,684,998 impairment of mineral resource properties;
- 3) June 30, 2008 - \$68,213 gain on sale of marketable securities;

### Financing Activities

During the nine months ended September 30, 2009 the Company received 345,000 pursuant to three private placements financings for:

- 1,000,000 Units at \$0.04, wherein each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at a price of \$0.10 for two years;
- 1,600,000 Units at \$0.05, wherein each unit consists of one flow through common share and one non flow through share purchase warrant. Each warrant entitles the holder to purchase an additional non flow through common share at a price of \$0.10 for a period of two years; and
- 4,500,000 Units at \$0.05, wherein each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at a price of \$0.10 for two years.

During the nine months ended September 30, 2008 the Company received \$180,275 pursuant to the exercise of 1,802,750 share purchase warrants at \$.10.

### Liquidity and Capital Resources

At September 30, 2009 the Company had a working capital deficiency of \$67,929 (December 31, 2008-\$148,502). The Company does not currently have funds sufficient to meet its payments required under its option agreements or current

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accounts payable and accrued liabilities. To rectify the Company's current working capital deficiency, management has as at the date of this report closed one private placement for gross proceeds of \$350,000, received subscriptions for \$ for a private placement for \$405,000 flow through units and a subscriptions for \$187,000 for a proposed additional private placement of up to 5,000,000 units at \$0.05 per unit. The Company anticipates rectifying the current working capital deficiency and meets its obligations for 2009 on the success of these transactions.

The Company received 2,000,000 shares of Nanika Resources Inc. ("Nanika") (formerly New Cantech Ventures Inc) at a fair value of \$0.16 per share for the sale of its remaining interest in the Lucky Ship property. Nanika is a TSX Venture Exchange ("Exchange") listed company and the shares are escrowed in accordance with the policies of the Exchange under Form 5D. The Company has received the 2,000,000 common shares released from escrow. As at June 30, 2009 and August 28, 2009, the Company owns 300,000 shares of Nanika.

On January 9, 2009 the Company received 50,000 commons shares of Happy Creek Minerals pursuant to the sale of six mineral tenures forming part of the Canim Lake claims in the prior year.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

#### ***Related Party Transactions***

During the period ended September 30, 2009, the Company incurred the following to directors, officers and private companies controlled by them: management fees - \$40,000 (2008 - \$45,000); rent \$15,075 (2008 - \$3,000). These transactions were recorded at exchange value, which was the amount of consideration established and agreed to by the related parties.

At September 30, 2009, the Company was indebted to the President of the Company in the amount of \$Nil (December 31, 2008 – \$92) representing amounts incurred on behalf of the Company for staking and cash in lieu of work requirements.

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

#### ***Contingencies and Commitments***

The Company is in receipt of a letter from the British Columbia Ministry of Energy, Mines and Petroleum ("MEMP") 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, MEMP proceeded with the required work and may initiate proceedings to recover the costs incurred. The Company to date has not received any further correspondence from MEMP in relation to this matter and is unable to determine the amount of potential cost, if any, and therefore has not recognized any amount related to this matter as at June 30, 2009.

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.

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### Outstanding Share Data

Candorado's authorized capital is unlimited common shares without par value. As of the date of this report hereof 64,516,056 common shares were issued and outstanding. The Company as at the date of this report had the following outstanding options, warrants and convertible securities:

Type of Security	Number	Exercise Price	Expiry Date
Share purchase warrants	1,032,164	\$0.60	December 12, 2009
Share purchase warrants	1,000,000	\$0.10	July 16, 2011
Stock options	650,000	\$0.125	February 3, 2010
Stock options	775,000	\$0.125	February 19, 2011
Stock options	625,000	\$0.125	March 9, 2011
Stock options*	700,000	\$0.10	January 12, 2012
Stock options*	500,000	\$0.10	February 13, 2012
Stock options*	350,000	\$0.10	February 22, 2012
Stock options*	50,000	\$0.10	August 1, 2012
Stock options*	50,000	\$0.10	December 12, 2012
Stock options	1,000,000	\$0.10	September 25, 2013
Share purchase warrants	1,600,000	\$0.10	September 2, 2011
Share purchase warrants	4,500,000	\$0.10	September 21, 2011
Share purchase warrants	7,000,000	\$0.10	November 16, 2011

\* 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 a price of \$0.10 per share.

### 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"):

a) 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.

b) 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.

c) 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.

d) 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.

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e) 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 was adopted on a retrospective basis.

#### ***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. To prepare for the conversion to IFRS, the Company will develop a plan as follows:

1. Scope and Plan
  - a. The Company will provide training for appropriate personnel on the IFRS standards and complete an initial assessment on the impact of the IFRS. The Company will review its accounting policy choices under IFRS and will review and update the IFRS conversion plan as it unfolds and as required. IFRS standards may change effective upon the Company's adoption of IFRS and this may impact the initial assessment.
2. Design and Build
  - a. Pursuant to a detailed review of IFRS standards, the Company will choose accounting policies and procedures, quantify the impact on key line items and disclosures, and prepare draft financial statements under IFRS.
3. Implement and Review
  - a. The Company will implement new accounting policies under IFRS and prepared and report financial statements under IFRS.

The Company will continue to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

##### **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.  
MANAGEMENT DISCUSSION AND ANALYSIS  
NINE MONTHS ENDED SEPTEMBER 30, 2009**

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***Off balance-sheet arrangements***

The Company has no off-balance sheet arrangements to report.

***Financial Instruments***

The Company's financial instruments consist of cash, marketable securities, taxes recoverable and other receivables, accounts payable and accrued liabilities and amounts due to and from related parties. 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.

***Capital disclosure***

The Company's capital currently consists of common shares, options and warrants. 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.

***Risks and Uncertainties***

The Company's principal activity is mineral exploration. Companies in this industry are subject to many and varied kinds of risks, including, but not limited to, environmental, metal prices, political and economical. The Company has no sources of financing other than equity financing. The properties in which the Company has an interest or has an option to earn an interest are in the exploration stages only, are without known bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties which are explored are ultimately developed into producing mines. Exploration of the Company's mineral properties may not result in any discoveries of commercial bodies of mineralization.

***Accounting Estimates***

The information provided in this report including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Significant areas requiring the use of management estimates include financial instruments, the estimation of stock-based compensation, the determination of environmental obligations, impairment of mineral claims and deferred exploration expenditures, useful lives for amortization, and valuation allowances for future tax assets. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.