

CANDORADO OPERATING COMPANY LTD.

(CDO: TSX-V; HQU: FWB)

Recommendation

Speculative Buy

Risk

High

Price (September 23)

\$0.08

52-Week Range

\$0.41-\$0.065

Target Price

1-Year: \$0.20 (Lowered)

Potential Return

1-Year: 2.5x

Shares O/S

47.66 million

Market Cap

\$3.8 million

Average Daily Volume

20-day: 42,000

150-day: 54,400

Year-End

December 31

C\$	BVPS	EPS
2006A	\$0.06	\$(0.01)
2007A	\$0.12	\$(0.02)
2008E	\$0.12	\$(0.00)
2009E	\$0.12	\$(0.01)

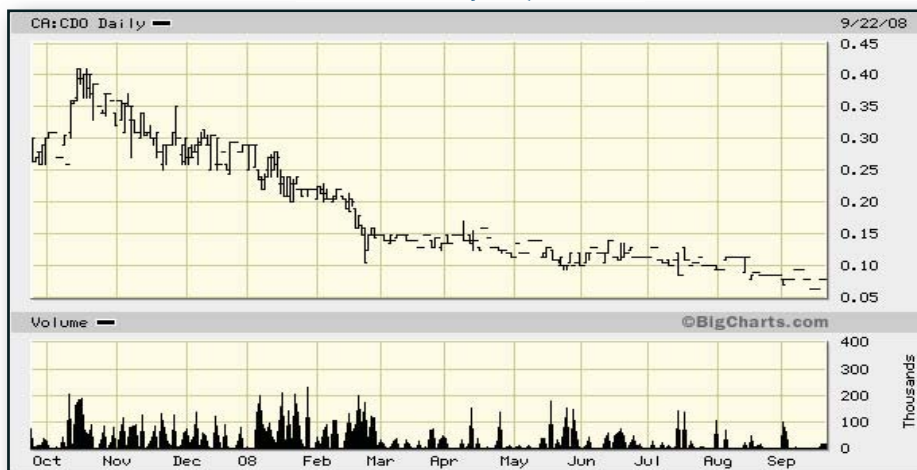
BVPS: Book Value Per Share

EPS: Earnings Per Share

Analysts

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Data Source: www.BigCharts.com

UPFRONT

Provided Candorado can continue to raise capital successfully, we believe the shares offer reasonable upside potential.

RECOMMENDATION

With the stock trading near its 52-week low, we recommend the shares of Candorado Operating Company Ltd. ("Candorado" or the "Company") as a Speculative Buy and a one-year Target Price of \$0.20 per share. This Target Price is down from our previous price objective of \$0.55 and reflects the current difficult operating environment for junior mining exploration companies.

PROFILE

Candorado is engaged in early-stage exploration for gold and base metals in Canada, primarily in British Columbia, and owns over one million acres of exploration land.

HIGHLIGHTS

- Company is focused on gold/copper exploration properties in central British Columbia, particularly on the Quesnel Trough where it has mineral rights on over 2,500 km².
- Corporate strategy is to acquire claims on early-stage prospective properties, and then either explore for its own account or joint venture
- Joint venture arrangements provide Candorado with cash, shares in the optionee to be held for investment purposes, and work programs; the Company normally retains a 40% interest
- Recently acquired 100% interest in the Man / Prime Copper-Gold Property
- Candorado wants to reduce the number of property holdings in 2008-09 to focus on the most promising targets
- The Company has very low cash and, in order to operate as a going concern, it needs to acquire funds via financing or through optioning/selling its properties
- None of the Company's properties have historic or NI 43-101 defined resources
- An unresolved contingent liability, for an undetermined amount, is being addressed by management

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THE COMPANY

Candorado is engaged in early-stage precious and base metals exploration activities in Canada, primarily in British Columbia. The Company also has one greenstone belt gold property in Ontario.

EXPLORATION STRATEGY

Candorado's exploration strategy is to acquire or stake claims at an early stage, and negotiate options to acquire 100% of prospective properties to be: (a) explored by the Company on its own; (b) joint-ventured; or (c) financed by the optionee for the next exploration phase.

Candorado will re-option interests in prospective properties to industry partners for cash, shares, and work programs, while retaining a 40% minority interest.

PROPERTIES

Candorado currently holds over 4,000 square kilometers (one million acres) of exploration properties with a focus on copper/gold porphyry targets in central B.C. It is also participating in three active joint ventures.

A number of properties are located in close proximity to other publicly-traded exploration companies, as shown in the following table:

Table 1: Companies Operating Nearby Candorado

<u>Option</u>	<u>Company Operating in the Area</u>
Dry Lake claim group	Westar Resources Corp.
Riley Property	GWR Resources Inc.
Aurora	Trade Winds Ventures Inc.
	Detour Gold Corporation
Serb Creek	Blue Pearl Mining Ltd.
Friendly Lake	New Gold, Imperial Metals
Bonaparte	Rimefire, Christopher James Gold
Rayfields	Fjordland Exploration Inc.
King	Westar Resources Corp.
Murphy Lake	GWR Resources Inc.
Eldorado	Imperial Metals Corporation

Source: eResearch

Candorado's main focus area is the Quesnel Trough in central British Columbia: The Quesnel Trough properties provide interesting prospects because of historic geo-chemistry, magnetic features, geology, and location.

The table set out below summarizes the Company's principal properties:

Table 2: Properties		
PROPERTY	OWNER-SHIP	CURRENT STATUS & RECOMMENDATIONS/PLANS
<u>MAN-PRIME PROPERTY</u>	Mostly 100% owned	<ul style="list-style-type: none"> • Drilling is planned in 2008 • Acquired 100% interest August 2008
<ul style="list-style-type: none"> • Man Showing • Prime Showing 		
<u>SERB CREEK</u>	Mostly 100% owned	<ul style="list-style-type: none"> • In February 2008, the Joint Venture partner terminated of the option agreement. • Minfile reports historic estimate 41 million tonnes 0.08% MoS₂ (not 43-101 compliant).
<u>CANOE SPRINGS</u>	Sale in Process	<ul style="list-style-type: none"> • In January 2008, the company earned 100% in Canoe Hot Springs for \$1 million. • August 2008, Canoe Hot Springs Optioned upto 100% interest in Canoe Hot Springs. \$1.5 million due by the end of 2008 for 90% a interest. The remaining 10% interest can be bought for \$2.5 million over the next 5 years.
<u>COPPER CREEK Au-Cu</u>	Optioned	<ul style="list-style-type: none"> • Partner can acquire 100% by paying \$140,000 by July 15,2009
<u>TILICUM CREEK Au-Cu</u>	Optioned	<ul style="list-style-type: none"> • Partner can acquire a 60% interest by committing to spend \$200,000 by July 31, 2009 and \$250,000 by July 31, 2010
<u>QUESNEL TROUGH</u>		
<ul style="list-style-type: none"> • Murphy Lake 	Mostly 100% owned.	<ul style="list-style-type: none"> • In 2007, two drill holes and prospecting done. • The company plan to review data and identify new drill targets.
<ul style="list-style-type: none"> • Rayfield River 	Optioned.	<ul style="list-style-type: none"> • In 2008 partner completed 6 drill holes, totalling 1543m • Review of results underway • Partner can earn an interest of 60% by spending \$600,000 on exploration by December 31, 2008.
<ul style="list-style-type: none"> • Quenel Trough 	Option to acquire 100%	<ul style="list-style-type: none"> • Cash payment \$50,000 due April 12, 2012 • Company must issue 350,000 common shares over a six year period.
<ul style="list-style-type: none"> • Pit Island 	100%	<ul style="list-style-type: none"> • Exploration since 1980 delineates sulphide deposit
<ul style="list-style-type: none"> • Others ○ Canim Lake & South Canim Lake. ○ K and CR property 	100%	Follow-up on several targets with prospecting and ground geophysics.
<ul style="list-style-type: none"> ○ IO and CG claims – sediment-hosted gold ○ Riley ○ Summer 	100%	As of March 31, 2008, staking concessions and exploration work programs completed.
<ul style="list-style-type: none"> ○ Mesabi/Hefty/Bonaparte Lake 	100%	\$900,000 for geophysical & geochemical surveys and drilling before June 15,2009
<ul style="list-style-type: none"> ○ Eldorado 	JV with GWR.	Have drill tested Cu-Au anomalies
<ul style="list-style-type: none"> ○ Central BC ○ Bonaparte Property 	100%	<ul style="list-style-type: none"> • Partner required to spend \$500,000 on exploration and issue 700,000 shares by Feb, 2008. • GWR purchased two fractions for \$100,000.
<ul style="list-style-type: none"> ○ King Claim Block ○ Swan/Pat Property ○ Lucky Ship Property 	100%	Company has staked various concessions
<ul style="list-style-type: none"> ○ Aurora Extension Property 	100%	Company has staked various concessions and completed exploration work programs
	100%	Company has staked various concessions
	100%	Company has staked various concessions
	Sold	Company sold Lucky ship and is expected to receive 2,000,000 Nanika Resources (formerly New Cantech) shares so far the company has received 1,700,000 common shares.
	100%	<ul style="list-style-type: none"> • Company plans to drill test remaining anomalies on the property • In 2006, three drill hole program showed no significant mineralization

Source: Company and eResearch

Figure 1: Candorado Holdings



Source: www.candorado.com

Candorado currently holds 300,000 shares of Nanika (formerly New Cantech Ventures Inc. TSX.V – NKA). In consideration for the sale of the Company’s Lucky Ship property to New Cantech, Candorado received 2,000,000 shares and, to date, has received 1,700,000 shares, all sold, leaving the Company with 300,000 shares. This “escrowed” investment is currently worth \$27,000.

COMMENT: 300,000 (15% of the 2,000,000) Nanika shares are released every six months.

RECENT DEVELOPMENTS

Since our March 30, 2007 Initiating Report, Candorado has made several significant announcements.

1. Acquisition / Sale of Properties

Candorado has substantially increased its portfolio of exploration properties. Acquisitions / sales include the following:

- A substantial increase in holdings in the Quesnel Trough, through staking to acquire the Red, MC, and Lett properties;
- The acquisition and sale of Canoe Hot Springs. The Company should complete the sale of a 90% interest by the end of 2008. The remaining 10% interest can be bought out for \$2.5 million over the next 5 years;
- The sale of the Copper Creek Au-Cu project;
- The optioning out of 60% of the Tillicum Creek project; and
- Increase in Man-Prime ownership stake to 100% (from 51%)

2. Options Granted to Industry Partners

Candorado has granted the following option agreements to allow industry partners to acquire up to 100% of certain properties, all of which are located in British Columbia:

- Christopher James Gold Corp. on the Tillicum Creek Au-Cu project;
- Callinan Mines on the Rayfield property

3. Completion of Financings

Since December 31, 2007, the Company has successfully arranged six financings, with gross proceeds exceeding \$3.6 million. In 2008, approximately \$180,000 warrants were exercised. As well, 700,000 common shares were issued in accordance with the option agreement on the Prime-Man project.

COMMENT: *Another 300,000 shares are expected to be issued by the end of 2008 to complete the 100% acquisition of the Man/Prime project.*

CONCERNS

1. Contingent Liabilities

Candorado has inherited potential environmental liabilities resulting from the old Hedley heap leach operation of its predecessor company. In view of the lack of financial resources of the Company, the British Columbia Ministry of Energy, Mines and Petroleum has proceeded with the necessary clean-up, and may initiate proceedings to recover the costs.

COMMENT: *As of June 30, 2008 no estimate of the potential cost is available. The Company has made no provision for any in its accounts. Although the liability does not place any immediate financial burden on the Company, it could have an adverse effect on future working capital. This matter needs to be addressed by management.*

2. Consolidation of Properties

As a result of Candorado's recent property acquisitions/divestitures, the Company still owns over one million acres of exploration properties. As a junior exploration company with a small management team, it is expected that the Company will continue to reduce its mineral property holdings to focus on the evaluation of its more promising targets. This will help the Company allocate its financial and human resources more efficiently

3. Defined Resources

Candorado is involved in the exploration of properties that have no attributed historic resources. In addition, there are no current plans to commission a Qualified Person to undertake a NI 43-101 Technical Report on any of the Company's properties.

FINANCIAL REVIEW AND OUTLOOK

Revenue: Like most junior exploration companies, Candorado does not generate any revenue. However, the Company has potential for capital gains through the sale of marketable securities it receives as proceeds for optioning/selling properties (see below).

Cash & Cash Equivalents: Recent financings (2007- early 2008) have grossed nearly than \$3.8 million, but a large amount of this has been spent on exploration and acquisition of properties. The cash balance as of June 30, 2008 is \$77,874. We estimate that it is currently \$550,000 largely due to the optioning out of three projects (Canoe Springs, Copper Creek, and Tillicum Creek) to Christopher James Gold Corp.

Burn Rate: Based upon the first six months of 2008, Candorado's non-discretionary expenses are \$154,000, for a monthly burn rate of about \$25,000. We expect this rate to decline over the rest of 2008, as junior mining companies in general attempt to conserve cash.. Our estimate for 2008 is \$220,000, and to rise in 2009 to about \$280,000.

Capital Expenditure: Candorado is required to make a minimum of approximately \$1.2 million of options and capital expenditure payments in 2008 (\$867,349 paid as June 30th, 2008) and approximately \$650,000 in 2009. We expect the 2008 figure to be achieved via optioning/selling properties (as evidenced in the Canoe Hot Springs sale) and financings. The 2009 expected capital expenditures are expected to remain around \$1 million as holding more promising properties will allow more in-depth work to go ahead.

Candorado is required to make the following option payments towards its mineral properties over the next 5 years:

Year	Cash (\$)	CapitalExpenditures (\$)	Shares (#)
2008	1,010,000	225,000	50,000
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	-	-

Source: The Company

Cash Flow Management: The Company enhances its working capital and cash flow by stretching out the cash payment and work programs over a period of time, often with a very small initial payment. For example, for the Riley and Summer acquisitions in January 2007, the Company can spread its payments over 2 years. This gives the Company considerable leverage.

Similarly, when Candorado options out properties to its publicly-listed joint-venture partners, it often negotiates payment of shares up front, along with cash payments. In some cases, substantial amounts of shares are involved. In the case of Gravity West Corp.'s option on the Company's Eldorado property, Candorado will receive cash of \$50,000 and 200,000 shares up front, with a further 700,000 shares within one year.

COMMENT: *Candorado is managed by a team of businessmen who are keenly aware of cash flow management. They are able to structure deals that allow the Company to maximize its property exposure while minimizing its cash flow risk. They are able to minimize risk even in a difficult financing environment.*

Warrants and Options: Candorado has no warrants or options that would be "in-the-money" with respect to our Target Price over the ensuing 12 months.

Table 2: Warrants and Options Outstanding

A. Warrants Outstanding @ June 30, 2008, Pro Forma to August 29, 2008

Exercise Price	Number	Expiry Date	Comments	Potential Equity
\$0.50	2,515,380	8-Dec-08	Out-of-the-Money	\$1,257,690
\$0.40	1,526,000	6-Feb-09	Out-of-the-Money	\$610,400
\$0.30	4,850,000	6-Feb-09	Out-of-the-Money	\$1,455,000
\$0.38	500,000	8-Mar-09	Out-of-the-Money	\$187,500
\$0.65	1,090,000	9-May-09	Out-of-the-Money	\$708,500
\$0.50	1,180,000	25-Sep-09	Out-of-the-Money	\$590,000
\$0.60	<u>1,032,164</u>	12-Dec-09	Out-of-the-Money	<u>\$619,298</u>
Total	12,693,544			\$5,428,388

A. Options Outstanding @ June 30, 2008, Pro Forma to August 29, 2008

Exercise Price	Number	Expiry Date	Comments	Potential Equity
\$0.125	650,000	3-Feb-10	Out-of-the-Money	\$81,250
\$0.125	825,000	19-Feb-11	Out-of-the-Money	\$103,125
\$0.125	575,000	9-Mar-11	Out-of-the-Money	\$71,875
\$0.23	750,000	12-Jan-12	Out-of-the-Money	\$172,500
\$0.30	575,000	13-Feb-12	Out-of-the-Money	\$172,500
\$0.42	350,000	22-Feb-12	Out-of-the-Money	\$147,000
\$0.44	150,000	10-Apr-10	Out-of-the-Money	\$66,000
\$0.30	200,000	1-Aug-11	Out-of-the-Money	\$60,000
\$0.30	<u>100,000</u>	12-Dec-12	Out-of-the-Money	<u>\$30,000</u>
Total	4,175,000			\$904,250

Source: Company and eResearch

Financing:

Since December 31, 2006, the Company has successfully arranged six financings, with gross proceeds exceeding \$3.6 million. In 2008, approximately \$180,000 of warrants were exercised.

In addition to securing private placements, Candorado raised additional funds by optioning its properties in return for a combination of cash payments and marketable securities from the optionees. Candorado will receive additional assets in the form of cash, shares and exploration dollars from its industry partners in the next two years as shown in the table below.

COMMENT: *Currently, the operating environment for junior mining companies makes it quite difficult to raise capital. It is uncertain whether Candorado will be able to sell/option properties to the same extent as in the past.*

Contribution from Optionee 2007 - 2009	Optionee	Cash (\$)	Exploration (\$)	Shares (#)
Principal Properties				
Eldorado	Gravity West	0	500,000	700,000
Aurora Extension	Orsa Ventures	95,000	500,000	0
Rayfield	Callinan	0	600,000	50,000
Total		95,000	1,600,000	750,000

Capital Structure: Like most exploration companies, Candorado has no debt, with only common shares issued for equity. The Company uses flow-through shares as well as optioning its properties to industry partners to finance its exploration activities.

Contingent Liabilities: The amount has not been quantified in the financial statements. (See “Concerns” on page 6).

Financial Statements: Set out on the following page are abridged financial statements of Income/(Loss); Cash Flow; and the Balance Sheet.

Table 3: Selected Financial Information

	Year Ending December 31:				12 Months to		
	2004	2005	2006	2007	June 2008	2008E	2009E
Statement of Income/(Loss):							
Operating Income	0	0	0	0	0	0	0
Non-Operating Income	0	0	0	35,859	35,510	0	0
General & Administrative Expense	(317,230)	(216,967)	(215,002)	(357,602)	(326,115)	(220,000)	(280,000)
Other Operating Expenses	0	0	(96,934)	(164,189)	(77,199)	(80,000)	(120,000)
Amortization	0	(151)	(222)	(8,146)	(10,480)	(15,000)	(18,000)
Stock-based Compensation	(82,117)	(53,030)	(175,560)	(532,942)	(165,422)	(200,000)	(150,000)
Gain/(loss) on sale of assets	0	278,533	149,416	253,713	49,226	500,000	40,000
Future Income Tax Recovery	0	0	0	324,140	324,140	0	0
Property Evaluation	(84,223)	(7,165)	(23,456)	(202,361)	(268,850)	(200,000)	(200,000)
Other Income/(Expenses)	(294)	(819)	0	0	(1,728)	(2,000)	(500)
Net Income/(Loss)	(483,864)	401	(361,758)	(651,528)	(440,918)	(217,000)	(728,500)
Total Shares Outstanding	20,484,815	22,248,148	30,286,724	45,027,306	47,655,056	51,655,056	56,655,056
Weighted Average Shares Outstanding	18,837,000	21,433,000	26,592,000	39,958,000	47,197,041	49,697,041	54,155,056
Earnings (Loss) Per Share	(\$0.03)	\$0.00	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.00)	(\$0.01)
Statement of Cash Flow:							
Net Income (Loss)	(483,864)	401	(361,758)	(651,528)	(440,918)	(217,000)	(728,500)
All Non-Cash Items	146,518	(217,827)	26,366	(36,765)	(197,464)	(285,000)	128,000
Cash Flow from Operations	(337,346)	(217,426)	(335,392)	(688,293)	(638,382)	(502,000)	(600,500)
Capital Expenditures (Properties)	(409,453)	(117,440)	(440,043)	(3,030,920)	(2,716,204)	(1,200,000)	(1,000,000)
Mineral Properties Sales Proceeds	0	0	50,000	0	0	500,000	40,000
Other Investing Items	0	(1,107)	231,000	269,642	164,658	300,000	200,000
Free Cash Flow	(746,799)	(335,973)	(494,435)	(3,449,571)	(3,189,928)	(902,000)	(1,360,500)
Working Capital Changes	51,921	65,753	(288,379)	(44,271)	748,960	263,000	392,000
Equity Financing	561,580	250,000	1,096,891	3,619,512	1,545,833	580,975	600,000
Change in Cash	(133,298)	(20,220)	314,077	125,671	(895,135)	(58,025)	(368,500)
Cash, Beginning of the Period	153,573	20,275	55	314,132	973,008	439,803	381,778
Cash, End of the Period	20,275	55	314,132	439,803	77,874	381,778	13,278
As at December 31:							
	2004	2005	2006	2007	12 Months to June 2008	2008E	2009E
Balance Sheet:							
Cash	20,275	55	314,132	439,803	77,874	381,778	13,278
Other Current Assets	5,301	37,774	287,916	433,845	161,278	121,303	179,803
Mineral Properties	504,532	627,480	1,206,888	4,933,850	5,382,081	5,633,850	6,593,850
Other Assets	0	288,956	192,735	48,642	43,542	50,000	50,000
Total Assets	<u>530,108</u>	<u>954,265</u>	<u>2,001,671</u>	<u>5,856,140</u>	<u>5,664,775</u>	<u>6,186,931</u>	<u>6,836,931</u>
Current Liabilities	74,888	141,114	134,876	350,184	76,558	100,000	150,000
Total Liabilities	74,888	141,114	134,876	350,184	76,558	100,000	150,000
Shareholders' Equity	455,220	813,151	1,866,795	5,505,956	5,588,218	6,086,931	6,686,931
Total Liabilities & Equity	<u>530,108</u>	<u>954,265</u>	<u>2,001,671</u>	<u>5,856,140</u>	<u>5,664,776</u>	<u>6,186,931</u>	<u>6,836,931</u>
Book Value (S.E.) Per Share	\$0.02	\$0.04	\$0.06	\$0.12	\$0.12	\$0.12	\$0.12

Source: Company and eResearch

COMMENT: Candorado is an early-stage exploration company and, as such, it does not have any revenue or income; it only reports net losses. In 2007, the Company had a loss of approximately \$650,000. For 2008 and 2009, we are forecasting a small one-cent per share loss and losses of just under \$700,000 and \$600,000 respectively. The Company plans on reducing its number of properties to focus on projects with the best potential. We still, however expect the property portfolio to increase to \$6,875,388 in 2008 and \$7,930,388 in 2009 on the strength of capital expenditures related to exploration work. Cash was low as of June 30, 2008 (\$77,874) and, unless the Company is able to raise more than our estimate of \$400,000 in the second half, it will remain low. Similar comments relate to 2009.

COMMENT: *Management of Candorado is both creative and aggressive in financing acquisitions and exploration activities. Other than ongoing efforts in securing traditional private placements, the Company also uses flow-through financing, leveraged on its shares as securities to acquire properties and purchase services. The Company also grants options to industry partners in exchange for cash, shares and work programs. The hidden benefit of accepting shares of industry partners in lieu of cash payments is the immediate participation in partners' successes through the appreciation of the share price – as is evident in the case of the Company's transaction with Nanika (formerly New Cantech Ventures) Inc. on the Lucky Ship property. The converse, of course, is equally true and in declining markets as we are currently experiencing, options can and do expire worthless and share prices can plummet and remain depressed for an extended period.*

VALUATION

In order to value the shares of Candorado, we compare the Company with its peer group consisting of four Canadian-based early-stage exploration companies that are focused on the same or near-by region that Candorado does. Their relevance, as a comparison in our opinion, is shown in descending order below.

- GWR Resources Inc. (TSX.V-GWQ).
- Nanika Inc. (TSX.V– NKA).
- Skygold Ventures Ltd. (TSX.V – SKV).
- Barker Minerals Inc. (TSX.V – BML).

GWR Resources is a joint-venture partner of Candorado in the Quesnel Trough. Nanika is chosen since Candorado owns Nanika (formerly New Cantech) shares as a result of the sale of the Lucky Ship property. Both Skygold and Barker have large landholdings in central B.C. to the north of Candorado in the Cariboo district. Candorado has recently acquired some properties previously owned by Skygold.

Table 4: Corporate Comparison

	Candorado June-08	GWR Resources Inc. June-08	Skygold Ventures Ltd. June-08	Nanika Resources June-08	Barker Minerals Inc. May-08
Corporate:					
Share Price (20-day avg)	C\$ 0.09	C\$ 0.69	C\$ 0.27	C\$ 0.09	C\$ 0.07
Shares O/S	47,655,056	52,020,000	87,010,000	65,126,054	64,064,182
Market Cap	C\$ 4,050,680	C\$ 35,893,800	C\$ 23,492,700	C\$ 5,861,345	C\$ 4,484,493
Mineral Value:					
Book Value	C\$ 5,382,081	C\$ 12,622,711	C\$ 41,099,859	C\$ 7,810,975	C\$ 7,997,489
Market Value	C\$ 3,767,985	C\$ 29,764,330	C\$ 20,308,833	C\$ 4,160,940	C\$ 4,002,527
Difference	-C\$ 1,614,096	C\$ 17,141,619	-C\$ 20,791,026	-C\$ 3,650,035	-C\$ 3,994,962
Property Ratio	0.70	2.36	0.49	0.53	0.50
Average Ratio	0.97				
Selected Ratio	1.45				
Common Equity (Reported)	C\$ 5,588,218				
Common Equity (Property Ratio)	C\$ 3,974,122				
Common Equity (Average Ratio)	C\$ 5,141,944				
Common Equity (Selected Ratio)	C\$ 8,010,154				
Equity Per Share (Reported)	C\$ 0.12				
Equity Per Share (Property Ratio)	C\$ 0.08				
Equity Per Share (Average Ratio)	C\$ 0.11				
Equity Per Share (Selected Ratio)	C\$ 0.17				

Source: eResearch

Analysis

Comparing the market premiums on each of the companies' mineral properties we find that, other than GWR Resources, the market has valued the companies quite similarly. The highest premium went to GWR Resources (2.36x), Candorado was 0.70x, and Skygold, Nanika, and Barker were all around (0.50x).

We conclude that Candorado, being highly leveraged to the success of its joint-venture partners (GWR Resources and Nanika), should have a comparable ratio to theirs. Their average is 1.45x and we have used it as our Selected Ratio.

By applying this 1.45x market premium, we derive an intrinsic value of \$0.17 per share.

Target Price Determination

In determining our 12-month Target Price, we also considered the investment climate of the mineral resource industry, commodity prices, and investors' appetite for junior mining exploration companies. We also factored in the contribution of the Company's investment holdings, specifically that in Nanika Resources.

The Company also has joint venture partners, which are expected to help finance exploration programs on certain properties. In June 2008, a letter of intent was entered in on the Aurora Extension property with Orsa Ventures. Orsa is expected to spend \$500,000 over three years, including \$100,000 in the first year. Also, on the Rayfield property there are work commitment expenditures of \$600,000 to be done before December 31, 2008. This \$1.1 million in expected expenditures translates to $(\$1,100,000/47,530,056 \text{ shares})$ to \$0.023 per share. Also, there are other potential expenditures from joint venture partners after the 2008-09 time frame that may add value.

Taking all of these factors into account, we are setting a 12-month Target Price for Candorado of \$0.20 per share. This is down from our previous Target Price (see our Initiating report of March 30, 2007, and our Bulletin of February 1, 2008) of \$0.55 and reflects the grim reality of the current adverse market environment for junior mining exploration stocks that have minimal cash resources and the need to return continually to the capital market for funds.

Conclusion

With the shares well depressed, and despite our Target Price reduction, we recommend the shares of Candorado Operating Company as a Speculative Buy.

However, interest in the stock will likely depend upon the Company successfully raising funds and being equally successful with the drill bit.

APPENDIX 1: MANAGEMENT AND DIRECTORS

A. Management

Candorado has a small management team, consisting of the three members of the board of directors, two of whom fill the roles of CEO and CFO of the Company. Accordingly, the Company has to rely on certain exemptions to qualify for corporate governance compliance.

Both the CEO and the CFO have considerable ownership interest in the Company. Rene Bernard, CEO, owns approximately 15% of the shares, while Mark Naylor, CFO, owns approximately 5%.

Rene Bernard – CEO, President and Director

Mr. Bernard serves several companies as a director and/or officer. His business background spans several industries. Mr. Bernard is an Investment Manager for W&S Bernard Investment Ltd., which operates residential, commercial and retail properties across Alberta and BC.

Kirk Reed – CFO, Vice-president of Investor Relations and Director

Mr. Reed has 14 years of experience with public and private companies, including oil & gas and mining firms. Mr. Reed is involved with day-to-day operations and investor relations.

B. Directors

Mark A. Naylor - Director

Mr. Naylor is a businessman serving two TSX Venture listed public companies. He is president and director of Kootenay Energy, and is director of E3 Energie Inc. He was formerly the CFO of the Company.

Rene Bernard (see above)

Kirk Reed (see above)

C. Recent Management Changes

The following addition to the Company's senior management was recently made:

Carson Phillips - Project Coordinator

Mr. Phillips has several years of management experience. Mr. Phillips worked for the International Chamber of Commerce located in Paris, France. He also has a degree in Business Administration and a degree in International Business.

COMMENT: *The senior management and decision makers of Candorado are all experienced businessmen with vested interests in the Company, while technical and exploration experts are given an advisory role - a situation that few junior exploration companies enjoy.*

COMMENT: *Candorado's current exploration strategy is to option out its other properties to industry partners, so that the Company can focus on the newly acquired Man-Prime properties and its substantial interest in the Quesnel Trough.*

Figure 2: 2007 Prime Man Drilling



Source: www.candorado.com

ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

eResearch analysts on this report: Haris Siddiqi, B.Sc. (Hons.), MBA. Haris Siddiqi has a strong background in computer software design and implementation for technology and telecommunications companies. He is currently working as a corporate finance professional and has been involved in mergers and acquisitions, RTOs, and project financing for both public and private companies. He has successfully completed all three levels of the CFA program and his charter is pending fulfillment of the work experience requirements.

Bob Weir, B. Comm, B.Sc., CFA. Bob Weir has 42 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

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eResearch Recommendation System

Strong Buy:	Expected total return within the next 12 months is at least 40%.
Buy:	Expected total return within the next 12 months is between 10% and 40%.
Speculative Buy:	Expected total return within the next 12 months is substantial, but Risk is High (see below).
Hold:	Expected total return within the next 12 months is between 0% and 10%.
Sell:	Expected total return within the next 12 months is negative.

eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

High Risk:	<i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends. <i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
Medium Risk:	<i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend. <i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
Low Risk:	<i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock. <i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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