VG GOLD CORP.
(Formerly Vedron Gold Inc.)
(An Exploration Stage Company)

FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

INDEX

SEGAL

Assurance.

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AUDITORS' REPORT

To the Shareholders of
VG Gold Corp.
(Formerly Vedron Gold Inc.)

We have audited the balance sheets of VG Gold Corp. (Formerly Vedron Gold Inc.) as at December 31, 2008 and 2007 and the statements of income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Segal LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 17, 2009

VG GOLD CORP.
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(An Exploration Stage Company)

BALANCE SHEET
AS AT DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
Current		
Cash	$ 330,351	$ 2,980,412
Accounts receivable	37,710	97,832
Prepaid expenses and deposits	21,351	92,900
Loan receivable, note 3	417,501	385,703
	806,913	3,556,847
Mineral resource properties and deferred exploration costs, note 4	23,100,953	20,928,012
Royalty interests, note 5	-	104,000
Property, plant and equipment, note 6	829,846	830,465
	$ 24,737,712	$ 25,419,324
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 128,529	$ 301,778
Note payable, note 7	15,000	-
	143,529	301,778
Future tax liabilities	439,034	779,000
	582,563	1,080,778
Commitments and contingent liability, note 8		
SHAREHOLDERS' EQUITY		
Capital stock, note 9	47,401,079	44,512,213
Common share purchase warrants, note 10	65,438	2,555,514
Contributed surplus, note 11	933,977	889,046
Deficit	(24,245,345)	(23,618,227)
	24,155,149	24,338,546
	$ 24,737,712	$ 25,419,324

Approved on behalf of the board:

"Thomas W. Meredith" Director

"Robin Dunbar" Director

See accompanying notes to the financial statements

VG GOLD CORP.
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STATEMENTS OF DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Deficit, beginning of year	$ (23,618,227)	$ (22,572,824)
Net loss for the year	(627,118)	(1,045,403)
Deficit, end of year	$ (24,245,345)	$ (23,618,227)

See accompanying notes to the financial statements

VG GOLD CORP.
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(An Exploration Stage Company)

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007	Cumulative from the Date of Commencement of Development Stage January 1, 1995
Revenue			
Interest and other income	$ 60,647	$ 173,819	$ 340,528
Option payments	-	-	370,000
	60,647	173,819	710,528
Expenses			
General and administrative	976,533	1,047,210	6,219,400
Stock based compensation	44,931	507,141	1,053,247
Loss on disposal of royalty interest	1,000	-	46,000
Impairment of loan receivable	-	63,347	63,347
Loss (gain) on sale of marketable securities	-	-	10,170
Writedown of mineral resource property	-	-	1,234,492
Loss on settlement of notes payable	-	-	27,167
Amortization	5,267	5,524	290,795
	1,027,731	1,623,222	8,944,618
Loss before recovery of income taxes	(967,084)	(1,449,403)	(8,234,090)
Recovery of future income and mining taxes	339,966	404,000	557,484
Net loss for the year	$ (627,118)	$ (1,045,403)	$ (7,676,606)
Loss per share			
Basic	$ (0.01)	$ (0.01)	
Weighted average number of shares	86,458,514	84,245,077	

See accompanying notes to the financial statements

VG GOLD CORP.
(Formerly Vedron Gold Inc.)
(An Exploration Stage Company)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007	Cumulative from the Date of Commencement of Development Stage January 1, 1995
Cash flows from operating activities			
Net loss for the year	$ (627,118)	$ (1,045,403)	$ (7,676,606)
Adjustments for:			
Amortization	5,267	5,524	290,795
Stock based compensation	44,931	507,141	1,053,247
Future income taxes	(339,966)	(404,000)	677,516
Interest on note receivable	(31,798)	(5,010)	(36,808)
Loss on disposal of royalty interest	1,000	-	46,000
Impairment of loan receivable	-	63,347	63,347
Loss on sale of marketable securities	-	-	10,170
Writedown of mineral resource properties	-	-	1,234,492
Loss on settlement of notes payable	-	-	27,167
	(947,684)	(878,401)	(4,310,680)
Cash flows provided (used) by non-cash working capital balances, note 12	(41,578)	100,710	(7,160,497)
Cash flows used in operating activities	(989,262)	(777,691)	(11,471,177)
Cash flows from investing activities			
Purchase of property, plant and equipment	(4,648)	(5,605)	(896,825)
Expenditures on mineral resource properties	(2,041,151)	(3,094,410)	(14,853,145)
Proceeds on disposal of royalty interests	50,000	-	29,638
Increase in loan receivable	-	(94,319)	(456,540)
Net investment in marketable securities	-	-	(37,170)
	(1,995,799)	(3,194,334)	(16,214,042)
Cash flows from financing activities			
Issuance of capital stock, net of financing fees and provision for future income taxes	320,000	3,089,958	23,266,450
Advance (repayment) of notes payable	15,000	(200,000)	(291,977)
Issuance of share purchase warrants	-	2,555,514	5,058,599
Issue of convertible debenture	-	-	(32,141)
	335,000	5,445,472	28,000,931
Net increase (decrease) in cash	(2,650,061)	1,473,447	315,712
Cash, beginning of year	2,980,412	1,506,965	14,639
Cash, end of year	$ 330,351	$ 2,980,412	$ 330,351

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

VG Gold Corp. (the "Company") was incorporated under the laws of Ontario on March 24, 1972 as Vedron Gold Inc. Articles of amendment changing the Company's name to VG Gold Corp. were filed on June 27, 2007. The Company is principally engaged in the business of exploring and developing precious metal mineral properties. Substantially all of the efforts of the Company are devoted to these business activities and to date it has generated minimal revenues.

The Company is in the process of further exploring its mineral resource properties and expects to generate additional losses and requires additional financial resources to reach commercialization. The continuation as a going concern is dependant on the continued support from the Company's investors and on the determination of economically viable reserves contained on its mineral resource properties. Failure to continue as a going concern would then require that stated amounts of assets and liabilities be reflected on a liquidation basis of valuation that could differ materially from the going concern basis of accounting.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Mineral resource properties and deferred exploration costs

Mineral resource properties are carried at cost. The Company considers exploration and development costs and expenditures to have the characteristics of capital assets such as property, plant and equipment, and as such, the Company capitalizes all exploration costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties as incurred, until those properties are brought into production. After the commencement of production these deferred exploration costs will be amortized through charges against income derived from mining operations. Amortization charges will be calculated on a unit-of-production basis, using proven and probable reserves, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made.

The actual recovery value of capitalized expenditures for mineral properties and deferred exploration costs, will be contingent upon the discovery of economically viable reserves, and the Company's financial ability at that time to fully exploit these properties or to determine a suitable plan of disposition.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(c) Stock based compensation

The Company has adopted CICA Handbook Section 3870 which require the company to follow the fair value method of accounting for all stock based compensation arrangements. The fair value of each option granted during the period is accounted for in operations over the vesting period of the option using the Black - Scholes options pricing model on the date of the grant, with the related increase to contributed surplus.

(d) Flow through shares

The Company has adopted the recommendations of EIC 146 of the CICA Handbook with respect to the accounting for Flow Through Shares issued since March 19, 2004. This results in the Company reducing the net proceeds of the flow through share issuance by the future tax liability of the Company resulting from the renunciation of the exploration and development expenditures in favour of the flow through share subscribers. This future income tax liability will be calculated net of any benefit resulting from unrecorded income tax loss carry forwards and income tax pools in excess of the accounting value available for deduction.

(e) Share purchase warrants and other shares reserved for issuance

The Company has reserved shares for issuance in accordance with applicable corporate and securities laws. Consideration received on the issuance of reserved shares will be credited to capital stock and will be valued at either the fair market value of the assets received or shares issued whichever is more readily determinable.

(f) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(g) Capital stock issuance costs

Costs incurred in respect of raising capital are charged to capital stock as a reduction of the equity proceeds realized.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

(h) Income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are computed based on differences between the carrying value of assets and liabilities on the balance sheet and their corresponding values for income tax purposes, using the effective income tax rates expected to apply when these differences reverse. Future income tax assets are recognized only to such extent that it is more likely than not that they will be realized in full.

(i) Amortization

The Company provides for amortization of its property, plant and equipment at the following annual rates:

Powerlines and electrical equipment	- 10% declining balance basis
Office and computer equipment	- 20% declining balance basis
Mill equipment	- 20% declining balance basis
Automobile	- 20% declining balance basis

(j) Cumulative information for development stage companies

The Company has adopted CICA Handbook Accounting Guideline #11 with respect to financial statement presentation for development stage companies. Accordingly the statements of income and cash flows have been altered to include a column outlining the cumulative revenues, expenses and cash flows from the date of commencement of development stage activities being January 1, 1995 to the fiscal year end date of the financial statements. As we were appointed auditors during the 2004 fiscal year, the revenue, expenses and cash flows amounts, which included the cumulative balances for the period from January 1, 1995 to December 31, 2003, were audited by other chartered accountants.

(k) Financial instruments

Effective January 1, 2007, the Company has adopted CICA Handbook Section 3855 Financial Instruments - Recognition and Measurement. Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

(k) Financial instruments (Continued...)

On adoption of section 3855, the Company has designated its cash as held-for-trading, which is measured at fair value. Accounts receivable and loan receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and notes payable are classified as other financial liabilities, which are measured at amortized cost.

The Company has evaluated the impact of these new standards on its financial position and results of operations and determined that these new standards have no current year impact on the Company's financial statements.

(l) Comprehensive income

Effective January 1, 2007 the Company adopted CICA Handbook Section 1530 which establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

The Company has evaluated the impact of these new standards on its financial position and results of operations and determined that these new standards have no current year impact on the Company's financial statements.

(m) Impairment test on long-lived assets

The Company reviews long-lived assets for impairment on a yearly basis, or whenever events or changes in circumstances occur. Impairment is recognized when the carrying value of a long-term asset exceeds the sum of future cash flows expected from its use.

(n) Financial instruments disclosure and presentation

Effective January 1, 2008, the Company adopted CICA Handbook Sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments - Presentation, which have replaced Section 3861, Financial Instruments - Disclosure and Presentation. These new standards place increased emphasis on disclosures with respect to the nature and extent of risks arising from financial instruments and how the Company has managed those risks. See note 16 for additional details.

The Company evaluated the impact of these new accounting standards on its financial statements. The only impact of these accounting standards is additional disclosure and presentation requirements, and this does not have a material effect on the financial condition, the results of operations or the cash flows of the Company.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

(o) General Standards of Financial Statement Presentation

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", which has been amended to include requirements to assess and disclose an entity's ability to continue as a going-concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going-concern.

(p) Capital Disclosures

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures, which requires the Company to disclose information about its objectives, policies and processes for managing capital including disclosures of any externally imposed capital requirement and the consequences of non-compliance. See note 17 for additional details.

(q) **Future accounting pronouncements**

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Company, are as follows:

Goodwill and intangible assets

Section 3064, Goodwill and Intangible Assets - for fiscal years beginning on or after October 1, 2008 provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Management is evaluating the impact that these changes will have on the financial statements.

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

3. LOAN RECEIVABLE

The Company, as partial consideration of a preferential milling and tailing agreement (note 8), had advanced the mill owner a total of $372,000, repayable on November 1, 2007. On maturity, this loan together with certain other advances made by the Company totalling approximately $444,000 including the original loan advance, was extended to be repayable in full on November 1, 2009. This loan is non-interest bearing and as such, the carrying value of the loan has been discounted to its estimated fair value, at an annual rate of 8% consistent with other borrowings available to the Company. Accordingly the Company recognized a writedown to fair value on this loan in the amount of $63,347 in the statement of income for 2007 fiscal year. The difference between the face value of the loan and the carrying value is being amortized to income using the effective interest rate method. The reduction in the loan receivable balance to fair value at the date of the extension has been recorded as an impairment of the loan receivable in these financial statements. The loan balance is secured by a first charge on the mill property.

4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS

December 31, 2008	Balance beginning of Year	Acquisition	Exploration	Balance End of Year
Fuller (a)	$ 12,682,745	$ 750	$ 64,409	$ 12,747,904
Davidson-Tisdale (b)	5,593,573	24,330	119,052	5,736,955
Buffalo Ankerite (c)	2,485,471	-	1,575,347	4,060,818
Windsor (d)	96,223	28,871	-	125,094
Augdome (e)	70,000	53,000	-	123,000
Paymaster (f)	-	110,040	197,142	307,182
	$ 20,928,012	$ 216,991	$ 1,955,950	$ 23,100,953

December 31, 2007	Balance beginning of Year	Acquisition	Exploration	Balance End of Year
Fuller (a)	$ 12,308,875	$ 250,409	$ 123,461	$ 12,682,745
Davidson-Tisdale (b)	4,393,832	576,916	622,825	5,593,573
Buffalo Ankerite (c)	1,056,569	28,000	1,400,902	2,485,471
Windsor (d)	54,326	32,500	9,397	96,223
Augdome (e)	20,000	50,000	-	70,000
	-	-	-	-
	$ 17,833,602	$ 937,825	$ 2,156,585	$ 20,928,012

4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS
(Continued...)

a) Fuller

The Company has a 100% interest in the Fuller Property. A portion of the property is subject to a 10% net profits interest calculated after all capital and operating costs have been recovered.

b) Davidson-Tisdale

Subsequent to year-end, the Company and Laurion Gold Inc. ("Laurion") terminated the Second Restated Option Agreement and acknowledged that the Company is the legal and beneficial owner of 68.5% and Laurion is the legal and beneficial owner of 31.5% of the Davidson Tisdale property. See note 18.

c) Buffalo Ankerite

The Company continued to carry out work on the Buffalo Ankerite property during the year. The Company had the option to purchase a 100% interest in the property, prior to November 4, 2007, for $25,000, subject to an existing net profits interest. This option was extended until November 1, 2010 for a payment of $25,000 with the exercise price of the option being reduced to $10,000.

d) Windsor

As of October 4, 2008, the Company completed its obligations with respect to the acquisition of the Windsor property. The Company now has a 100% interest in the property subject to a 2% net smelter royalty.

e) Augdome Property

The Company has a 100% ownership in the Augdome property. The property consists of 22 patented claims in Tisdale Township.

f) Paymaster

As of June 13, 2008, the Company entered into an option and joint venture agreement with the Porcupine Joint Venture to earn an interest in select claims of the Paymaster property situated on the east boundary of both the Company's Buffalo Ankerite and Fuller properties. Under the terms of the agreement, the Company has the option to earn an undivided 60% interest in 17 claims by incurring exploration expenditures of $6 million over 4 years, subject to a back-in-right. The Company also acquired a 100% interest in the mining rights covering 4 claims in Tisdale Township on the west side of the Fuller Property, in exchange for the surface rights to 5 claims on the northern part of the Fuller Property.

5. ROYALTY INTERESTS

	2008	2007
Pipestone Bay Property - Red Lake (a)	$ -	$ 51,000
Augdome Property (b)	-	53,000
	$ -	$ 104,000

a) During the year the Company sold its property interest in the 1.5% net smelter royalty interest on the Pipestone Bay Property in Red Lake, Ontario for $50,000.

b) During the year, the Company completed its acquisition of the Augdome property. As the Company has 100% ownership as per note 4(e), the royalty interest has been reallocated to mineral resource properties.

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2008 Net Book Value
Powerlines and electrical equipment	$ 141,921	$ 127,998	$ 13,923
Office and computer equipment	31,930	16,794	15,136
Mill equipment	862,000	63,750	798,250
Automobile	2,900	363	2,537
	$ 1,038,751	$ 208,905	$ 829,846

	Cost	Accumulated Amortization	2007 Net Book Value
Powerlines and electrical equipment	$ 141,921	$ 125,541	$ 16,380
Office and computer equipment	30,182	14,347	15,835
Mill equipment	862,000	63,750	798,250
	$ 1,034,103	$ 203,638	$ 830,465

Included in property and equipment is mill equipment acquired in anticipation of taking certain of the mineral resource properties into production. As the Company has yet to commence commercial production on its properties this equipment has not been placed in use as at the date of these financial statements. Accordingly no amortization has been charged to the net earnings of the Company with respect to this equipment.

7. NOTE PAYABLE

The note payable bears interest at 5% per annum, unsecured and due on demand.

8. COMMITMENTS

(a) Minimum cash expenditures on Canadian exploration and development

The Company is committed to spend $320,000, being the remaining proceeds of flow through share issuances resulting from a private placement of 6,400,000 flow through units on December 31, 2008 (note 9). The stock qualified as flow through shares under the Income Tax Act (Canada) and the corresponding expenditures are to be made by the Company on or before December 31, 2009.

(b) On June 13, 2008, the Company entered into an option and joint venture agreement with the Porcupine Joint Venture to earn a 60% interest in select claims of the Paymaster property situated on the east boundary of both the Company's Buffalo Ankerite and Fuller properties. Under the terms of the agreement, the Company has the option to earn a 60% interest in 17 claims by incurring exploration expenditures of $6 million over 4 years, subject to a back-in-right. The Company also acquired a 100% interest in 4 claims in Tisdale Township on the west side of the Fuller Property in exchange for the surface rights to 5 claims on the northern part of the Fuller Property.

Under the terms of the Option and Joint Venture Agreement, the Company can exercise its option and enter into a 60/40 Joint Venture agreement with Porcupine Joint Venture once it has completed the $6 million work program and made the payments of cash, shares and warrants specified below. Upon the Company exercising its option to form the joint venture, Porcupine Joint Venture has a 6-month period during which it can exercise the back-in-right to increase its interest from 40% to 70%, and become the operator, by making a payment of $710,000 to the Company plus incurring exploration and development expenditures of $8,250,000 on the property within two years of the back-in-right notice and the completion of a feasibility study within three years.

The terms of the agreement provide for the Company to spend $800,000 in the first year of the agreement, $1.1 million in year two, $1.6 million in year three and $2.5 million in year four, for a total of $6 million over 4 years. The first year work program of $800,000 is a work commitment on the Porcupine Joint Venture property. The Company was required to pay $40,000 on signing and $50,000 at the end of the first year. The Company also issued 340,000 shares on signing and 1 million warrants expiring on June 13, 2009, with an exercise price of $0.309 per share. The Company will also issue shares with a value of $100,000 on the first and second anniversaries, $150,000 on the third anniversary and $200,000 on the fourth anniversary of the agreement. If the weighted average over the 20 day trading day period of the Company's shares preceding the date on which the shares are to be issued is less than $0.20, the Company will make a cash payment for the difference.

8. COMMITMENTS (Continued...)

The minimum annual cash payments and expenditures required to maintain option agreements on mineral resource properties for the next four years are:

	Exploration Expenditures	Acquisition Costs	Fair Value of Shares to be Issued
2009	$ 602,858	$ 50,000	$ 100,000
2010	1,100,000	-	100,000
2011	1,600,000	-	150,000
2012	2,500,000	-	200,000
	$ 5,802,858	$ 50,000	$ 550,000

(c) Other commitments

The Company is committed to minimum annual rental payments on its premises as follows:

2009	$ 38,736
2010	25,824

The Company is required to make minimum annual payments of $80,000 from 2009 to 2022 in order to secure preferential rights to a milling facility.

8. **COMMITMENTS** (Continued...)

Contingent liability

On December 17, 2002 the Mining Lands Commissioner issued an Order with respect to the Buffalo Ankerite mine site formerly owned by the Company. The Order requires the Company to use its best efforts to remediate the open pit on the site and maintain site security. The estimated cost to perform this work is $284,000 of which no liability has been accrued in these financial statements as mining activities on the property have not been determined to be completed in their entirety.

9. **CAPITAL STOCK**

Authorized
Unlimited Common shares without par value

Common shares	Number of Shares	Amount
Balance, December 31, 1994	35,517,444	17,774,310
Issued to secured creditors	65,789,474	7,500,000
1 for 10 consolidation	(91,176,206)	-
Issued for cash	930,000	110,500
Issued for debt	4,831,416	487,105
Issued for services	370,000	37,000
Balance, December 31, 1995	16,262,128	25,908,915
Issued on exercise of employee options	1,475,000	290,000
Issued for cash	952,000	595,720
Issued for services	216,440	116,600
Issued special warrants and flow through shares	3,735,000	2,521,450
Financing fee	-	(261,745)
Balance, December 31, 1996	22,640,568	29,170,940
Issued on exercise of employee options	200,000	100,000
Issued for cash and flow through shares	1,010,000	202,000
Issued for services	80,800	16,160
Balance, December 31, 1997	23,931,368	29,489,100
Issued on exercise of employee options	20,000	4,000
Issued for cash	200,000	38,052
Balance, December 31, 1998	24,151,368	29,531,152
Increase due to rounding up	495	-
Balance, December 31, 1999, 2000, 2001	24,151,863	29,531,152

9. **CAPITAL STOCK** (Continued...)

Balance, December 31, 1999, 2000, 2001	24,151,863	29,531,152
Issued on exercise of employee options	600,000	99,500
Issued on settlement of debt	600,000	60,000
Issued for flow through shares	1,333,333	200,000
Issued for Private Placement	666,667	100,000
Issued for royalty interest	200,000	40,000
Issued for financing fees	100,000	-
Balance, December 31, 2002	27,651,863	30,030,652
Issued on exercise of employee options	700,000	140,000
Issued on settlement of debt	450,000	74,250
Issued for flow through shares	3,000,000	525,000
Issued for conversion of debentures payable	1,500,000	300,000
Issued for property	100,000	20,000
Issued for royalty interest	400,000	59,000
Issued for finders fees	100,000	20,000
Balance, December 31, 2003	33,901,863	31,168,902
Issued on exercise of employee options	200,000	40,000
Issued for cash on private placement February 23, 2004	3,000,000	1,500,000
Issued on marketable securities share swap	2,800,000	368,000
Issued as consideration for Maude Ramp property acquisition	600,000	318,000
Issued on warrant exercise	333,334	50,000
Issued flow through shares on private placement December 22, 2004	2,164,318	476,150
Agents compensation of February 23, 2004	116,000	58,000
Finders fees December 22, 2004 private placement	193,432	42,555
Less: Issuance costs related to common share offerings	-	(214,188)
Balance December 31, 2004	43,308,947	33,807,419
Issued on private placement August 15, 2005	5,064,000	759,600
Issued on private placement September 12, 2005	5,000,000	1,250,000
Issued flow through share on private placement October 31, 2005	724,250	289,700
Issued on warrant exercise	18,750	3,750
Issued for property acquisitions	6,581,035	1,870,031
Finders fees on August 25, 2005 private placement	722,750	-
Less: Issuance costs related to common shares offerings	-	(18,106)
Balance, December 31, 2005	61,419,732	37,962,394

9. **CAPITAL STOCK** (Continued...)

Balance December 31, 2005	61,419,732	37,962,394
Issue of flow through shares on private placement January 9, 2006	275,750	110,300
Issued on private placement May 12, 2006	4,912,334	2,418,436
Issue of flow through shares on private placement May 12, 2006	1,100,000	660,080
Issued on exercise of options	1,080,000	370,350
Issued on warrant exercise	577,500	115,500
Issued as consideration for mill equipment acquisition	800,000	608,000
Finders fee, January 9 , 2006 private placement	6,948	2,780
Issued for property acquisitions	50,000	12,500
	70,222,264	42,260,340
Less issuance cost related to common share offerings	-	(201,716)
Balance, December 31, 2006	70,222,264	42,058,624
Issued on private placement February 14, 2007 (ii)	5,050,000	414,564
Issue of flow through shares on private placement February 14, 2007 (ii)	8,700,000	2,529,922
Issued on exercise of options	100,000	47,670
Issued on exercise of warrants	2,153,750	430,750
Issued for property acquisitions	50,000	17,500
Fair value of expired warrants	-	528,964
	86,276,014	46,027,994
Less: Issuance costs related to common share offerings	-	(332,781)
Less: Provision for future income taxes resulting from the renunciation of Canadian exploration and development expenditures	-	(1,183,000)
Balance, December 31, 2007	86,276,014	44,512,213
Issued for property acquisition	390,000	78,790
Reallocated to warrants	-	(65,438)
Issue of flow through shares on private placement December 31, 2008 (i)	6,400,000	320,000
Fair value of expired warrants	-	2,555,514
Balance, December 31, 2008	**93,066,014**	**$ 47,401,079**

9. **CAPITAL STOCK** (Continued...)

(i) On December 28, 2008, the Company completed a $320,000 private placement offering of 6,400,000 flow through common shares.

(ii) On February 14, 2007 the Company completed a $5,500,000 private placement offering of 13,750,000 units consisting of 8,700,000 flow-through units and 5,050,000 hard dollar units for aggregate proceeds of $2,944,486. Each Flow-Through Unit was issued at a price of $0.40 and is comprised of one flow-through common share and one-half of one common share purchase Warrant (each whole common share purchase warrant a "Warrant"). Each Hard Dollar Unit was issued at a price of $0.40 and is comprised of one common share and one common share purchase Warrant. Each Warrant entitles the holder to purchase one additional common share in the capital of the Company, which will not be a flow-through share, at a price of $0.60 until August 13, 2008 (the "Warrant Term"). If, after June 14, 2007, the common shares of the Company close at $0.90 or more for 20 consecutive trading days, then the Warrant Term shall be automatically reduced to 30 days from the date that the Company provides the holders of Warrants with written notice of the new expiry date. An agency fee of 5% in cash and 7% in broker warrants, expiring 18 months from closing, was paid to Primary Capital.

Common Share Purchase Options

The Company has a stock option plan available to its employees, officers, directors and service providers. The number of common shares reserved for the purpose of the plan is 5,375,000.

The exercise price of options granted in accordance with the plan must not be lower than the fair market value share price as quoted on the Toronto Stock Exchange ("TSE") on the last business day prior to the date of the grant less any discounts permitted by the TSE. The period for exercising an option shall not extend beyond a period of five years following the date the option is granted.

The total number of options held by insiders of the Company must not exceed 10% of the total number of shares issued and outstanding.

9. CAPITAL STOCK (Continued...)

The following table summarizes the options activity for the years ending December 31, 2007 and December 31, 2007:

	Number of Options	Weighted Average Exercise Price
Balance December 31, 2006	2,920,000	0.31
Granted	1,600,000	0.60
Exercised	(100,000)	0.30
Expired or cancelled		
Balance December 31, 2007	4,420,000	0.42
Granted	550,000	0.40
Expired or cancelled	(1,350,000)	0.36
Balance December 31, 2008	3,620,000	0.46

The following common share purchase options are outstanding at December 31, 2008:

	Date of Grant	Number of Shares	Exercise Price	Expiry Date
Directors	May 18, 2005	200,000	$ 0.20	May 18, 2010
	September 14, 2005	175,000	$ 0.25	September 14,2010
	July 24, 2006	400,000	$ 0.40	July 24, 2011
	January 18, 2007	200,000	$ 0.60	January 18, 2012
Officers	September 29, 2004	150,000	$ 0.35	September 29, 2009
	January 19, 2006	100,000	$ 0.55	January 19, 2011
	July 24, 2006	600,000	$ 0.40	July 24, 2011
Service Providers	September 29, 2004	250,000	$ 0.35	September 29, 2009
	September 14, 2005	120,000	$ 0.25	September 14, 2010
	July 24, 2006	100,000	$ 0.40	July 24, 2011
	January 18, 2007	775,000	$ 0.60	January 18, 2012
	March 26, 2008	550,000	$ 0.40	March 26, 2011
		3,620,000		

9. **CAPITAL STOCK** (Continued...)

The Company has adopted CICA Handbook Section 3870, which requires a fair value method of accounting to be applied to all stock-based compensation arrangements. The fair value of each option is accounted for in operations over the vesting period of the options, and the related credit is included in contributed surplus. The fair value of the options granted during the year ended December 31, 2007 were estimated using the Black-Scholes options pricing model with the following assumptions: (i) risk free rate of 2.67% (ii) expected life of 3 years (iii) and expected volatility of 70% (2007 - (i) risk free rate of 4.04% (ii) expected life of 5 years (iii) and expected volatility of 70%).

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

10. **COMMON SHARE PURCHASE WARRANTS**

The following table summarizes the warrants activity for the years ended December 31, 2008 and 2007:

	Number of Warrants	Weighted Average Exercise Price	Fair Value
Outstanding, December 31, 2006	7,711,150	$0.43	$ 528,964
Issued	11,325,000	$0.58	2,555,514
Expired	(5,557,400)	$0.52	(528,964)
Exercised	(2,153,750)	$0.20	-
Outstanding, December 31, 2007	11,325,000	$0.58	2,555,514
Issued	1,000,000	$0.31	65,438
Expired	(11,325,000)	$0.58	(2,555,514)
Balance, December 31, 2008	1,000,000	$0.31	$ 65,438

The following common share purchase warrants are outstanding at December 31, 2007:

	Number of Warrants	Exercise Price	Expiry
Common share purchase warrants Issued for property acquisition	1,000,000	$0.31	June 13, 2009

11. CONTRIBUTED SURPLUS

Balance, December 31, 2006	$ 399,575
Stock-based compensation, for the year	507,141
Fair value of options exercised during the year	(17,670)
Balance, December 31, 2007	889,046
Stock-based compensation, for the year	44,931
Balance, December 31, 2008	$ 933,977

12. SUPPLEMENTAL CASH FLOW INFORMATION

	2008	2007
Changes in non-cash working capital balances		
Accounts receivable	$ 60,122	$ (56,372)
Prepaid expenses and deposits	71,549	(48,541)
Accounts payable and accrued liabilities	(173,249)	205,623
	$ (41,578)	$ 100,710
Interest paid (received)	$ (56,630)	$ (169,802)
Income taxes paid	$ -	$ -

13. RELATED PARTY TRANSACTIONS

The following related party transactions occurred and were reflected in the audited financial statements:

		2008		2007
Consulting fees expense:				
Consulting fees were charged by a company controlled by an officer for financial management services	$	72,000	$	52,000
Consulting fees charged by officers for executive management services	$	110,000	$	214,000
Legal fees:				
The Company paid legal fees to a firm in which an officer of the Company is also a partner of the law firm.	$	56,585	$	98,560
Directors' fees paid	$	34,500	$	31,500

Accounts payable and accrued liabilities includes $41,814 (2007 - $102,870) owing to directors and officers of the Company and to companies controlled by directors and officers of the Company as at December 31, 2008.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. LOSS PER SHARE

Basic loss per share has been calculated by dividing the net loss per the financial statements by the weighted average number of shares outstanding during the year. The fully diluted loss per share would be calculated using a common share balance increased by the number of common shares that could be issued under outstanding warrant and options of the Company. As the Company is in a loss position for the years ended December 31, 2008 and December 31, 2007, no dilutive effect would result from the potential increase in common shares.

15. INCOME TAXES

Current year income and mining tax expense (recovery) differs from the amounts that would have been computed by applying the combined Federal and Ontario statutory income tax rates to the loss before the recovery of future income taxes. This difference is the result of the following:

	2008 (31%)	2007 (31%)
Loss before recovery of future income taxes for accounting	$ (967,084)	$ (1,449,403)
Expected tax recovery at statutory rates	(299,796)	(542,610)
Stock based compensation not deductible for income taxes	13,929	177,500
Common share financing fees deducted for income tax	(47,362)	(53,200)
Other differences	(6,737)	14,310
Recovery of future income taxes	(339,966)	(404,000)
Non-capital losses not utilized in current year	339,966	404,000
Provision for current income taxes	$ -	$ -

The Company has non-capital loss carryforwards in the amount of $4,947,370 which may be used prior to 2028 to reduce future taxable income.

2008	$ 23,386
2009	80,623
2010	212,587
2014	508,495
2015	928,587
2026	1,077,707
2027	1,017,356
2028	1,098,629
	$ 4,947,370

In addition, the Company has the following resource deductions which may be applied against certain profits realized on its mining properties exclusive of amounts transferred to investors of flow through shares as follows:

Canadian Exploration Expenditures	$ 9,782,613
Canadian Development Expenditures	$ 6,189,627
Foreign Exploration and Development Expenditures	$ 151,343

16. FINANCIAL INSTRUMENTS

The Company manages its exposure to a number of different financial risks arising from its operations, as well as its use of financial instruments including market risks (commodity prices, foreign currency exchange rate and interest rate), credit risk and liquidity risk though its risk management strategy. The objective of the strategy is to support the delivery of the Company financial targets, while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating financing activities and, if required, through the use of derivative financial instruments. The Company does not use derivative financial instruments for purposes other than risk management. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and to up-to-date market information.

Market risk

Market risk is the risk of uncertainty arising from possible commodity market price movements and their impact on the future performance and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly.

Credit risk

The maximum exposure to credit risk is equal to the carrying amount of financial instruments classified as loans and receivables. The Company has mitigated this exposure through the obtaining of security by way of a first charge on real property, to be held against the loan receivable.

Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. The Company's main sources of liquidity are its cash and cash equivalents. These funds are primarily used to finance working capital, operating expenses, capital expenditures, and any dividends and acquisitions.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating and exploration activities, and its future budgets, to ensure adequate amounts of cash and cash equivalents. As described in note 1 to the financial statements, the Company does not earn revenues and as such is dependent on the continued support of its investors. Should this support not continue, future budgets would require review and liquidity could be impaired It is anticipated the 2009 operating and exploration budgets will be funded.

Accounts payable and accrued liabilities are current financial instruments expected to be settled in the normal course of operations.

16. FINANCIAL INSTRUMENTS (Continued...)

Fair value

The carrying value and fair value of these financial instruments at December 31, 2008 is disclosed below by financial instrument category for the years ended December 31, 2008 and 2007.

	Year ended December 31, 2008			Year ended December 31, 2007		
Financial Instrument	**Carrying Value**	**Fair Value**	**Interest Expense**	Carrying Value	Fair Value	Interest Expense
Held for trading						
Cash	$ 330,351	$ 330,351	$ -	$ 2,980,412	$ 2,980,412	$ -
Loans and receivables						
Accounts receivable	$ 37,708	$ 37,708	$ -	$ 97,832	$ 97,832	$ -
Loan receivable	417,501	417,501	-	385,703	385,703	-
Financial liabilities						
Other liabilities						
Accounts payable and accrued liabilities	$ 143,529	$ 143,529	$ -	$ 301,778	$ 301,778	$ -

There have been no changes to the classification on financial instruments since inception on January 1, 2007. The Company does not have any exposure to derivative financial instruments at December 31, 2008 and 2007.

Due to the short term nature of these financial instruments, fair value approximates carrying value. As disclosed in note 3, the face value of the loan receivable is approximately $444,000.

17. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

(a) To safeguard the Company's financial capacity and liquidity for future earning in order to continue to provide an appropriate return to shareholders and other stakeholders;

(b) To maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and

(c) To enable the Company to maximize growth by meeting its capital expenditure budget, to expand its budget to accelerate projects, and to take advantage of acquisition opportunities.

The Company regularly monitors and reviews the amount of capital in proportion to risk and future development and exploration opportunities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new debt, equity or similar instruments, reduce debt levels, adjust the amount of dividends paid to shareholders, or make adjustments to its capital expenditure program.

18. SUBSEQUENT EVENTS

On March 4, 2009, the Company terminated the Second Restated Option Agreement with Laurion Gold Inc. on the Davidson Tisdale Property in favour of creating a joint venture agreement which is currently being negotiated. The Company has an undivided interest of 68.5% in the Davidson Tisdale property.