# VG GOLD CORP.

(an exploration stage enterprise)

**FINANCIAL STATEMENTS (PREPARED BY MANAGEMENT)**
**for the three month period ended**
**March 31, 2009**
**(Unaudited)**

**Responsibility for Financial Statements:**

The accompanying financial statements for VG GOLD CORP. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these policies have been set out in the December 31, 2008 audited financial statements. These statements are presented on an accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment.

Recognizing that the Corporation is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly stated.

**Disclosure Required Under National Instrument 51-102 Continuous Disclosure Obligations - Part 4.3(3)(a)**

The auditor of VG GOLD CORP. has not performed a review of the unaudited comparative financial statements for the three month period ended March 31, 2009.

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**VG GOLD CORP.**

(an exploration stage enterprise)

**BALANCE SHEETS**

**AS AT**

| | | March 31, 2009 (Unaudited) | | March 31, 2008 (Unaudited) | | December 31, 2008 (Audited) |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current** | | | | | | |
| Cash and cash equivalents | $ | 45,804 | $ | 1,926,514 | $ | 330,351 |
| Accounts receivable | | 26,493 | | 88,569 | | 37,710 |
| Prepaid expenses and deposits | | 14,937 | | 31,123 | | 21,351 |
| Loan receivable (note 3) | | 425,851 | | 393,417 | | 417,501 |
| | | 513,085 | | 2,439,623 | | 806,913 |
| **Royalty interests** | | - | | 53,000 | | - |
| **Mineral interests (note 4)** | | 23,245,897 | | 21,652,031 | | 23,100,953 |
| **Property, Plant & Equipment (note 5)** | | 828,551 | | 830,232 | | 829,846 |
| | $ | 24,587,533 | $ | 24,974,886 | $ | 24,737,712 |
| **LIABILITIES** | | | | | | |
| **Current** | | | | | | |
| Accounts payable and accrued liabilities | $ | 98,698 | $ | 172,512 | $ | 128,529 |
| Note payable | | 10,000 | | - | | 15,000 |
| | | 108,698 | | 172,512 | | 143,529 |
| **Future income taxes** | | 493,177 | | 779,000 | | 439,034 |
| | | 601,875 | | 951,512 | | 582,563 |
| **SHAREHOLDERS' EQUITY** | | | | | | |
| Common shares **(note 6)** | | 47,331,879 | | 44,512,213 | | 47,401,079 |
| Warrants | | 65,438 | | 2,555,514 | | 65,438 |
| Contributed surplus | | 933,977 | | 889,046 | | 933,977 |
| Deficit | | (24,345,636) | | (23,933,399) | | (24,245,345) |
| | | 23,985,658 | | 24,023,374 | | 24,155,149 |
| | $ | 24,587,533 | $ | 24,974,886 | $ | 24,737,712 |

**Approved on Behalf of the Board**

*'Thomas W. Meredith'* Director

*'Robin Dunbar'* Director

See accompanying notes to the unaudited financial statements

**VG GOLD CORP.**
(an exploration stage enterprise)
**STATEMENTS OF LOSS AND DEFICIT**
**FOR THE**

| | Three Months March 31, 2009 | 2008 | Cumulative from the date of commencement of exploration |
|---|---|---|---|
| Interest | $ 8,350 | $ 25,360 | $ 348,878 |
| Option payments | - | - | 370,000 |
| | 8,350 | 25,360 | 718,878 |
| **Expenses** | | | |
| Depreciation | 1,295 | 1,226 | 292,090 |
| Loss on disposal of marketable securities | - | 1,000 | 10,170 |
| Write-down of mining interests | - | - | 1,234,492 |
| Office, general and administrative | 152,403 | 338,306 | 6,371,803 |
| Stock-based compensation | - | - | 1,053,247 |
| Impairment of loan receivable | - | - | 63,347 |
| Loss on disposal of royalty interest | - | - | 46,000 |
| Loss on settlement of note payable | - | - | 27,167 |
| | 153,698 | 340,532 | 9,098,316 |
| **Loss before undernoted items** | (145,348) | (315,172) | (8,379,438) |
| Future income tax recovery | 45,057 | - | 602,541 |
| **Net loss** | (100,291) | (315,172) | $ (7,776,897) |
| Deficit**,** beginning of period | (24,245,345) | (23,618,227) | |
| Deficit**,** end of period | $ (24,345,636) | $ (23,933,399) | |
| **Basic and fully diluted earnings per share** | $ (0.002) | $ (0.004) | |
| **Weighted average number of shares** | 93,366,014 | 86,276,014 | |

See accompanying notes to the unaudited financial statements

**VG GOLD CORP.**

(an exploration stage enterprise)

**STATEMENTS OF CASH FLOWS**
**FOR THE**

| | Three Months March 31, 2009 | 2008 | Cumulative from the date of commencement of exploration |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss for the period | $ (100,291) | $ (315,172) | $ (7,776,897) |
| Adjustments for: | | | |
| Depreciation | 1,295 | 1,226 | 292,090 |
| Stock-based compensation | - | - | 1,053,247 |
| Loss on disposal of marketable securities | - | 1,000 | 10,170 |
| Write-down of mining interest | - | - | 1,234,492 |
| Future income tax recovery | 45,057 | - | 722,573 |
| Loss on disposal of royalty interest | - | - | 46,000 |
| Write-off of loan payable | - | - | 27,167 |
| Interest on note receivable | (8,350) | (7,714) | (45,158) |
| Impairment of loan receivable | - | - | 63,347 |
| | (62,289) | (320,660) | (4,372,969) |
| Changes in non-cash working capital | (12,200) | (58,226) | (7,172,697) |
| Cash flows used in operating activities | (74,489) | (378,886) | (11,545,666) |
| **Cash flows from investing activities** | | | |
| Property, Plant & Equipment | - | (993) | - |
| Purchase of property, plant and equipment | - | (724,019) | (896,825) |
| Increase in mineral resources properties | (144,944) | - | (14,998,089) |
| Increase in loan receivable | - | - | (456,540) |
| Royalty interests | - | 51,000 | 29,638 |
| Increase in marketable securities | - | (1,000) | (37,170) |
| Cash flows used in investing activities | (144,944) | (675,012) | (16,358,986) |
| **Cash flows from financing activities** | | | |
| Increase (decrease) in capital stock | (60,114) | - | 23,206,336 |
| Issuance of share purchase warrants | - | - | 5,058,599 |
| Decrease in notes payable | (5,000) | - | (296,977) |
| Issue of convertible debenture | - | - | (32,141) |
| Cash flows provided by financing activities | (65,114) | - | 27,935,817 |
| Net increase in cash | (284,547) | (1,053,898) | 31,165 |
| Cash, beginning of period | 330,351 | 2,980,412 | 14,639 |
| Cash, end of period | $ 45,804 | $ 1,926,514 | $ 45,804 |

**SUPPLEMENTAL CASH FLOW INFORMATION (note 7)**

See accompanying notes to the unaudited financial statements

## 1. NATURE OF OPERATIONS

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.

(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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 fait value and changes in fait 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.

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 11 for additional details.

(q) Changes in accounting policies

*Section 3064*

The new Section 3064 - Goodwill and Intangible Assets ensures that intangible assets meet the definition of an assets, and eliminates the " matching" principle, whereby certain costs were being deferred and expensed to match with revenue earned. the new standard applies for interim and annual financial statements for years beginning on or after October 1, 2008.

The adoption of this standard did not have an impact on the Company's financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Future accounting changes

*Section 1582*

The new Section 1582 - Business Combinations, which replaces Section 1581 - Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. The new standard applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

The Company does not expect the adoption of this new standard to have an impact on its financial statements.

*Section 1601 & 1602*

The new Sections 1601 - Consolidated Financial Statements and Section 1602 - Non-Controlling Interest, together replace Section 1600 - Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes the accounting for a non-controlling interest in a subsidiary, in the consolidated financial states, subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

The Company does no expect the adoption of these new standards to have an impact on its 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

| **March 31, 2009** | Balance beginning of the period | Acquisition | Exploration | Balance end of the three month period |
|---|---|---|---|---|
| Fuller | $12,747,904 | $ - | $ 2,846 | $ 12,750,750 |
| Davidson-Tisdale | 5,736,955 | - | 25,254 | 5,762,209 |
| Buffalo Ankerite | 4,060,818 | - | 17,553 | 4,078,371 |
| Windsor | 125,094 | - | - | 125,094 |
| Augdome | 123,000 | - | - | 123,000 |
| Paymaster | $ 307,182 | $ - | $ 99,291 | $ 406,473 |
| | $ 23,100,953 | $ - | $ 144,944 | $ 23,245,897 |

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

## 5. PROPERTY, PLANT AND EQUIPMENT

| | Cost | Accumulated Amortization | **March 31, 2009 Net Book Value** | December 31, 2008 Net Book Value |
|---|---|---|---|---|
| Powerlines and electrical equipment | $ 141,921 | $ 128,346 | **$ 13,575** | $ 13,923 |
| Office and computer equipment | 31,930 | 17,551 | **14,379** | 15,136 |
| Mill equipment | 862,000 | 63,750 | **798,250** | 798,250 |
| Automobile | 2,900 | 553 | **2,347** | 2,537 |
| | $ 1,038,751 | $ 210,200 | **$ 828,551** | $ 829,846 |

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.

## 6. CAPITAL STOCK

Authorized
Unlimited common shares without par value

| **Common Shares** | **Number of Shares** | **Amount** |
|---|---|---|
| Balance December 31, 2006 | **70,222,264** | **$ 42,058,624** |
| Issued on private placement February 14, 2007 (i) | 5,050,000 | 414,564 |
| Issued on flow through shares on private placement February 14, 2007 | 8,700,000 | 2,529,922 |
| Issued on exercise of options | 100,000 | 30,000 |
| Issued on warrant exercise | 2,153,750 | 430,750 |
| Issued for property acquisition | 50,000 | 17,500 |
| Reallocation from Contributed Surplus relating to the options exercised | - | 17,670 |
| Less: Provision for future income taxes resulting from the renunciation of CEDE | - | (1,183,000) |
| Less: Issuance cost related to common share offerings | - | (332,781) |
| Fair value of expired warrants | - | 528,964 |
| 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 | 6,400,000 | 320,000 |
| Fair value of expired warrants | - | 2,555,514 |
| Balance December 31, 2008 | **93,066,014** | **$ 47,401,079** |
| Issued of flow though shares on private placement January 6, 2009 (i) | 600,000 | 30,000 |
| Less: Provision for future income taxes resulting from the renunciation of CEDE | - | (99,200) |
| Balance March 31, 2009 | **93,666,014** | **$ 47,331,879** |

(i) On January 6, 2009 the Company completed a $30,000 private placement offering of 600,000 flow through common shares.

## 7. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital balances

| | **March 31, 2009** | March 31, 2008 |
|---|---|---|
| Accounts receivable | $ 11,215 | $ 9,263 |
| Prepaid expenses and deposits | 6,414 | 61,777 |
| Accounts payable and accrued liabilities | (29,829) | (129,266) |
| | $ (12,200) | $ (58,226) |
| Interest (received) paid | $ (8,350) | $ (25,360) |
| Income tax paid | $ - | $ - |

## 8. RELATED PARTY TRANSACTIONS

Included in the accounts for the quarter are payments made to companies under the control or significant influence of officers and directors as follows:

| | **March 31, 2009** | March 31, 2008 |
|---|---|---|
| Management fees paid to directors and officers of the Company | $ 38,000 | $ 48,000 |
| The Company paid legal fees to a firm in which an officer of the Company is also a partner of the law firm. | $ 10,966 | $ 18,277 |
| Director's fees expensed | $ 9,000 | $ 7,500 |

Included in the year end accounts payable balances are payables in the amount of $29,400 due to directors and other officers.

All related party transactions entered into by the Company are recorded at fair market value as determined by the Issuer's directors, with no beneficial interest in respect of a particular transaction.

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.

## 9. 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 period. 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 period ended March 31, 2009 and December 31, 2008, no dilutive effect would result from the potential increase in common shares.

## 10. 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 and 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.

The Company's risk exposure and risk management policies and procedures have not changed from 2007.

**Market risk**

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The Company may use derivative, financial instruments such as foreign exchange contracts and interest rate swaps to manage certain exposures. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis.

The maximum exposure to credit risk is equal to the carrying amount of financial instruments classified as loans and receivables.

**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 fund are primarily used to finance working capital, operating expanses, capital expenditures, dividends and acquisitions.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities, holding adequate amounts of cash and cash equivalents. The current year's budget is planned to be funded and cash and cash equivalents provide additional flexibility for short-term timing fluctuations.

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

**Fair value**

The estimated fair values of purchased derivative financial instruments are recognized in the consolidated balance sheet in accounts receivable and accounts payable with resulting gains and losses being recognized in foreign exchange gain/(loss) in the statement of operations. These contracts have not been designated as hedges for accounting purposes.

## 10. FINANCIAL INSTRUMENTS (Continued)

The carrying value and fair value of these financial instruments at March 31, 2009 is disclosed below by financial instrument category as well as any related interest expense for the three month period ended March 31, 2009:

| | **Period ended March 31, 2009** | | | Year ended December 31, 2008 | | |
|---|---|---|---|---|---|---|
| **Financial Instrument** | **Carrying Value** | **Fair Value** | **Interest Expense** | Carrying Value | Fair Value | Interest Expense |
| *Held for trading* | | | | | | |
| Cash and cash equivalent | $ 45,804 | $ 45,804 | $ - | $ 330,351 | $ 330,351 | $ - |
| *Loan and receivable* | | | | | | |
| Accounts receivable | $ 26,493 | $ 26,493 | $ - | $ 37,708 | $ 37,708 | $ - |
| Loan receivable | $ 425,851 | $ 425,851 | $ - | $ 417,501 | $ 417,501 | $ - |
| *Financial liabilities* | | | | | | |
| Other liabilities | | | | | | |
| Accounts payable and accrued liabilities | $ 98,699 | $ 98,699 | $ - | $ 128,528 | $ 128,528 | $ - |

There has been no changes to the classification on financial instruments since inception on January 1, 2008.

Due to the short term nature of these financial instruments, fair value approximates carrying value.

## 11. 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 and 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 debts or equity or similar instruments, reduce debt levels, adjust the amount of dividends paid to shareholders, or make adjustments to its capital expenditure program.

The Company's objectives with regard to capital managements remain unchanged from 2007.

## 12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.