

Form 51-102F1
Management Discussion and Analysis
For
Freegold Ventures Limited

MANAGEMENT DISCUSSION & ANALYSIS

The following discussion and analysis is management's assessment of the results and financial condition of Freegold Ventures Limited (the "Company" or "Freegold") for the year ended December 31, 2008 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2008 and related notes contained in the report. The date of this management's discussion and analysis is March 30, 2009. Additional information on the Company is available on SEDAR at www.sedar.com.

Business of Freegold

Freegold is an exploration stage company engaged in the acquisition, exploration and evaluation of mineral properties of merit with the aim of developing them to a stage where they can be exploited at a profit or to arrange joint ventures whereby other companies provide funding for development and exploitation.

Forward looking statements

Certain information included in this discussion may constitute forward-looking information within the meaning of Canadian securities laws including, without limitation, statements and information regarding the Company's exploration operations and financing needs. Such forward-looking information reflects the current expectations or beliefs of the Company. Forward-looking information is subject to a number of risks, assumptions and uncertainties that may cause the actual results of the Company to differ materially from those discussed herein, including the possibility that future exploration results will not be consistent with the Company's expectations, the uncertainties involved in interpreting exploration results, other inherent risks in the mineral exploration and development industry and the possibility that the Company may not be able to obtain the necessary financing to carry out its business plan. Readers are cautioned not to place undue reliance on forward-looking information because it is possible that expectations, predictions, forecasts, projections and other form of forward-looking information will not be achieved by the Company. A change in any one of these factors could cause actual events or results to differ materially from those projected in the forward-looking information. Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, the Company can give no assurance that such expectations will prove to be correct. Forward-looking statements and information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements or information. The forward-looking statements and information are based on a number of assumptions which may prove to be incorrect. In addition to other assumptions identified herein, the Company has made assumptions regarding, among other things, the ability to conduct exploration activities in a timely manner and in accordance with the Company's drilling program, the availability and costs of financing, the degree of risk that credit approvals may be delayed or withheld, and other risks and uncertainties described elsewhere in this document or in the Company's other filings with Canadian securities authorities. Such forward-looking information speaks only as of the date on which it is made and, unless required by applicable securities laws, the Company undertakes no obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise.

Review of Exploration Projects

Golden Summit Project, Alaska

Since 1995, Freegold has accelerated its program of systematically exploring the Golden Summit Project – located 20 miles north of Fairbanks, Alaska, less than 5 miles from one of Alaska's largest gold mines (Kinross' 350,000 oz/year Fort Knox Mine), and 3 miles from Kinross' 2 million oz True North Mine. Freegold's 7-mile wide Golden Summit property is located at the center of the historic Fairbanks mining district, with approximately 7.25 million ounces of gold having been recovered from underground mines on the property and from the placer operations in the streams that drain the project area. This property contains over 80 known gold occurrences, and has hosted the district's largest and highest-grade historic underground gold producers, with over 500,000 ounces of gold being produced from 1902 to 1942 at average grades in excess of 1 oz/ton.

As a result of progressive programs of trenching, shallow drilling and bulk sampling in 2006 and 2007 in the historic Cleary Hill mine area (which is situated on the western one fifth of the total property), Freegold identified a series of multiple 100 to 300 foot wide shear zones and stacked vein swarms. In addition to identifying bulk tonnage gold mineralization, Freegold's work has also intersected numerous higher grade veins and shear zones (example: 54 g/t gold over 2m, 29 g/t over 3 m, and 9 g/t over 12 m) that are traceable with good continuity through this area.

Freegold's exploration programs in 2008 included an additional 21,000 foot RAB drilling program (Phase 2), which successfully extended the strike of these bulk tonnage zones thousands of feet to the west through further fences of shallow, closely spaced drill holes (now exceeding 1,200 holes). Phase 1 step out drilling in this western Tolovana area was conducted last year, and short drill fences 6 to 8 and 15 to 17 were able to trace an individual shear zone (Scheuyemere) across the Tolovana area which trended directly towards the central part of the 1,200 foot wide area of gold mineralization last delineated to the east in Fence 5 in 2007. This year's RAB drilling conducted in this western area was designed to test the areas to the north and south of this individual shear zone. As was reported in April 2008, drilling from the first fences (Fences 6 North and 17) successfully identified new bulk tonnage zones extending to the north of the Scheuyemere shear zone. All of the assays from the 46, 75-foot deep holes in Fence 6 North for example, which covered an 850 foot extension to the north averaged 0.52 g/t. Assays from the latest fences in this program (Fences 20, 6 South, 19 Extension and 18 South) were announced in September 2008. These fences also confirmed the extension of these shear zones to the south in the Tolovana area and in the area between Tolovana and Cleary Hill. A map showing the locations of all of the drill fences in the Cleary Hill area at Golden Summit can be found at <http://www.freegoldventures.com/i/maps/map091808ITFa.pdf>. With the 2007 and 2008 shallow RAB drilling, these parallel mineralized zones now have over 1 mile of strike length, and the mineralization continues to remain open along strike in both directions and at depth.

Freegold's exploration program in 2008 also included the first systematic core drilling to trace the gold mineralization within these shear zones to depth. In October 2008, Freegold announced assay results from the first area tested with a small grid of deeper core holes in the Fence 1 area of the Cleary Hill Vein Swarm. Deeper core drilling in this area indicates that these shear zones can be extended to depth along the strike of the gold mineralization. Significant intercepts of down dip gold mineralization included 303 feet @ 0.027 oz/ton (92.4 m @ 0.93 g/t), 101 feet @ 0.046 oz/ton (30.8 m @ 1.58 g/t) and 55 feet @ 0.18 oz/ton (16.8 m @ 6.29 g/t). Initial RAB drilling in this same area in early 2007 consisted of 3 lines of 51 foot deep holes 20 feet apart. Each line of holes was 15 feet apart (collectively called Fence 1) in order to better determine the variability of the grade along strike. The three lines each encountered a mineralized zone approximately 300 feet wide, with average assays in the zone ranging between 0.74 g/t to 1.02 g/t. Diamond drilling in this area this year was aimed at testing the continuity of this zone at depth. A total of 13 core holes were drilled on a grid of three lines, with each hole and each line spaced 100 feet apart. Twelve holes were drilled to the north at an angle of 60 degrees, as the shears and veins in this area principally dip 50 to 60 degrees to the south. As smaller cross cutting structures were seen in this area during earlier bulk sampling, one reverse hole was drilled to the south at an angle of 45 degrees. Diamond drilling in the Fence 1 area has only tested 200 feet of strike length.

Bulk sampling has also been ongoing on the project since mid 2006. Initial results from the sampling in 2007 were positive, with the first samples tested during the initial processing in late September and October of 2007 had a weighted average grade of 2.7 g/tonne (0.08 oz/ton), with individual stockpiles from a variety of areas tested ranging from 0.6 g/tonne (0.02 oz/ton) to 7.0 g/tonne (0.21 oz/ton).

For the 2008 bulk sample program, 19,600 feet of RAB drilling (in addition to the 21,000 feet of RAB drilling described above) was completed in 1,060 holes on a 10 foot by 10 foot grid pattern to an average depth of 18 feet. The 8,302 samples were taken on 2.5 foot intervals to improve the data for grade control purposes while bulk sampling. The drilling covered 3.02 acres in three separate grids and was done to assist with grade control during bulk sampling and to confirm the structural model developed from results of the 2007 and early 2008 RAB exploration drill programs. Using these sample results, 21,000 tons of mineralized material with an indicated grade greater than 2 g/t was sent to the crushing plant as part of the bulk sampling process. Another 13,000 tons of mineralized material with grades averaging between 0.5 and 2 g/t was stockpiled near the bulk sample areas. Due to lack of available funds in the fall, a hold was placed on the assaying of the head samples that were taken both from the end of the radial stacker at the end of the crushing circuit samples and also from the feed hopper where this same sample material was being fed into the gravity-based recovery plant. Since all of the head assays have not yet been completed, it is not yet possible to generate a reconciliation between gold grades seen in the grid-based shallow RAB holes and the average grades of the material sampled. This work is expected to be completed following the receipt of additional funding.

To complement the bulk sampling program, which was wound down in mid-October 2008 due to the onset of freezing temperatures, Freegold built its own gold processing circuit in 2007/2008. This plant, capable of processing up to 1,200 tons of material per day, is completely portable and is capable of recovering gold using chemical-free gravity concentration. The plant is completely stand-alone and includes a primary impact and secondary cone crushing plant capable of producing up to 250 tons per hour of minus ¼" material, three small ball mills to grind the material, followed by a gold collection circuit comprised of four varying sized Knelson concentrators. The plant is completely independent of any power grid with its own 1.2 MW of portable diesel power generation and its own material loading capabilities. Freegold commenced the shipment of gold concentrates from this seasonal processing operation in September to the Sunshine Refinery in Idaho. Gold recovery unfortunately was well below expectations due primarily to delays in the receipts of plant modification equipment which led to over-grinding of the sampled material, and the 400 ounces of gold recovered was only able to cover a small portion of the bulk sampling costs. Since this plant has been designed for quick dismantling and ease of transport, Freegold is considering the possibility of a sale of the plant, and is also investigating other projects where the plant can be transported for year-round operation among its alternatives.

With our systematic exploration programs of RAB drilling (with holes spaced 20 feet apart to depths of 75 feet, and also on 10 x 10 foot spacing for grade control and confirmation of veins and shears) and core drilling, the Company has now identified multiple areas of bulk mineable gold mineralization from which numerous bulk samples totaling in excess of 50,000 tons have been extracted. Freegold has commenced the modeling of all of its trenching, drilling and partial bulk sampling results, and is in the process of digitizing its geological mapping work. Based on this work, and on the continuity of mineralization seen in the drill fences across the Cleary Hill mine area, the Company believes that subject to receipt of additional funding it will be able to generate an initial 43-101 compliant resource on the property. A variety of drill patterns, including 10 foot x 10 foot shallow grid drilling over the areas which were subsequently bulk sampled, combined with the results of the bulk sampling program, should enable the Company to determine an optimal drill spacing for future resource delineation.

Detailed exploration conducted to date covers only a small portion of the 7 mile wide property. The balance of the property contains numerous old mines, veins and shears that have not been systematically explored, including areas with a greater density of identified gold-bearing veins and shear zones than exists in the Cleary Hill area. An airborne geophysical survey over the entire property in 2007 also suggests that there are numerous other areas on the property that are prospective for hosting gold mineralization.

Almaden Gold Project, Idaho

Freegold re-activated this project in 2006 and is currently in the process of expanding the known gold mineralization as well as the newly discovered molybdenum mineralization at its Almaden gold project. Located 12 miles east of Weiser, Idaho, this 2,980-acre property is within one mile of paved road and in close proximity (six miles) to Idaho Power's transmission lines. Freegold acquired its initial interest in this project in 1995, and increased its interest to 60% by completing a feasibility study in 1997. The 1997 study by Watts, Griffis and McOuat Limited is referenced in a report prepared in accordance with National Instrument 43-101 that was filed on SEDAR on March 15, 2006. The historic WGM 1997 study contemplated a 22,500-ton per day open-pit, heap leach operation producing an average of 95,000 ounces of gold per year at an overall 0.6 to 1 strip ratio. In 2001, Freegold purchased the remaining 40% interest and now controls 100% of this project, subject to the underlying lease and royalty agreements.

Almaden is a classic hot spring epithermal gold deposit. Gold mineralization occurs as a flat lying, tabular deposit dispersed beneath a thin impermeable opalite cap rock. There are two known zones of mineralization on the Almaden property: the Main Zone, and a smaller North Zone. Combined, these zones are roughly one mile in length, and gold mineralization extends from surface down to a currently known depth of 600 feet. Freegold's 43-101 report contained an independent resource calculation showing 515,834 ounces in the Indicated category (24,778,000 tons grading 0.021 oz/ton) and 359,802 ounces in the Inferred category (19,989,000 tons grading 0.018 oz/ton). This 2006 gold resource calculation at Almaden was defined by 677 drill holes (88% of which are less than 100 feet apart), with homogeneous mineralization exhibiting good continuity.

Freegold commenced a new drill program in July 2006 which ran until the end of 2007. One core rig and one reverse circulation rig drilled a total of 53,000 feet in 145 new holes during this period. This new drilling has successfully delineated depth extensions in the south, central and north-east sections of the Main Zone, with drilling within the area of the main feeder fault consistently extending mineralization an additional 150 to 300 feet below the 200-foot depth that was previously identified in shallow drilling. The drilling also indicates that the southern end of the Main Zone remains open for expansion, as does an area to the north west of the Main Zone, where resource grade mineralization was intersected within the Stinking Water basin. The new drilling has also intersected significant quantities of molybdenum that appears to be distributed fairly uniformly in the northern parts of the Main Zone and in the North Zone. Historically, none of the holes drilled by any Project operators prior to Freegold were assayed for molybdenum. The Company is still evaluating the significance of these molybdenum occurrences in relation to the genesis and configuration of the gold mineralization.

Our work on the 100% controlled Almaden project this year has focused on further quantification of the gold resource through refinements to our geologic model, and on defining other targets and associated minerals that have potential to add value to the project. Work on the Company's National Instrument 43-101 report by Mine Development Associates was nearing completion last fall when work was stopped pending the receipt of additional financing. With the aid of the additional drilling and geological work, management is expecting that the majority of these ounces will be upgraded to the measured and indicated category. Publication of the updated 43-101 resource is expected shortly after and subject to the receipt of additional funding.

The identification of molybdenum as an associated mineral in this deposit is also an important discovery for us, as none of the previous 741 holes drilled by prior operators were assayed for molybdenum. Preliminary work has shown that the majority of the molybdenum in the deposit is in the oxidized form, and initial metallurgical test-work has shown that it may be possible to extract both gold and molybdenum in the future using the same process flow-sheet. Following the release of the new resources, future work will focus on continuing to extend open areas of gold and molybdenum mineralization, on completing follow-up metallurgical testing to refine process design for both gold and molybdenum, and to commence preliminary studies aimed at determining the optimal economic manner (heap leach or mill) in which to develop the deposit.

Considerable work has also been undertaken during the year in further defining targets for bonanza-grade

gold mineralization in the feeder zones under the lower grade surface mineralization. Almaden shares numerous similarities with other mines in northern Nevada where high grade gold veins have been found and mined below the disseminated, lower grade surface mineralization. In order to better understand the potential of our deposit at depth, two independent consultants were engaged earlier in the year that have considerable expertise in the discovery and evaluation of epithermal gold deposit. Both consultants have concluded that there is significant evidence to suggest that conditions may have been favourable for the deposition of bonanza grade gold in the well defined feeder zones at depth, and that drill testing of the feeder structures along their projected dips is warranted.

Rob Project, Alaska

Acquired in 2002, Rob is the latest project in the Company's portfolio to undergo a new re-evaluation. Since acquiring the project, Freegold conducted limited reconnaissance work on this 106-claim property, confirming the presence of high-grade gold mineralization from various large soil anomaly locations originally identified by the WGM/Sumitomo exploration team in the early 1990's. This team was also responsible for the discovery of the nearby Pogo deposit, a 5.6 million oz gold deposit that is hosted in the same intrusive and metamorphic rocks, and on the flank of the same 18 mile long intrusive dome that hosts the Rob gold mineralization. Interest in the Goodpaster district, which hosts the Rob property, has picked up considerably with the commencement of production at the Pogo mine in 2006, scheduled to be the largest gold mine in the State with annual production ranging from 350,000 to 450,000 oz/year.

In October 2007, Freegold announced the results of its first 17 diamond drill holes on the property. A total of 3,514 feet were drilled in the Grey Lead and O'Reely vein prospects following the receipt of significant gold assays from a limited surface sampling program. Although drilling within the O'Reely vein did not intersect the multi-ounce values sampled at surface, 7 holes within the Grey Lead vein consistently intersected thick intervals of high-grade gold mineralization that exhibit geological and geochemical characteristics very similar to those seen at the Pogo gold mine. True width drill intercepts included a 13.5 foot interval averaging 20.1 g/t and 13 foot interval averaging 29.0 g/t.

Freegold was again active on the Rob property this season, with work focusing on drill testing the strike extension of high-grade Pogo-style veins intersected in last year's program, and on identifying new targets with ground geophysics and sampling. This year's drill program consisted of twelve new holes from six different pad locations, aimed at extending the strike of this vein. Assays received from the holes have continued to return good intervals including 7.9 feet @ 62 g/t gold, and 7.4 feet @ 35 g/t. As the Pogo mine is comprised of three principal stacked veins, the discovery and tracing of two additional veins running parallel to Grey Lead (both of which have returned grab samples up to 18 g/t and 75 g/t, and both of which have been traced over 850 feet at surface) was encouraging. Further work was also conducted on the eastern side of the property at the Michigan prospect, where prospecting and sampling has now traced a large intrusive hosted stock-work vein system over an approximate 3,500 foot by 2,500 foot area (with surface grab samples as high as 699, 175 and 121 g/t gold).

Vinasale Gold Project, Alaska

On March 2, 2007, Freegold announced the signing of an Exploration with Option to Lease agreement on the Vinasale gold project. Vinasale is located 16 air miles south of McGrath, Alaska in a north trending belt of igneous intrusion-related deposits that includes the 33 million oz Donlin Creek deposit and the Nixon Fork gold mine. The property is under option from Doyon, Limited an Alaskan native regional corporation, which holds 100% of the property.

Significant gold mineralization was first discovered at Vinasale by Central Alaska Gold Company (CAGC) in 1990. Subsequent drilling by CAGC and then joint venture partner Placer Dome established an initial gold resource of 614,000 oz (10.4 million tons @ 0.057 oz/ton). While the gold mineralization was found to be refractory, metallurgical testing showed that up to 95% of the gold reported to the flotation concentrate, thereby considerably reducing the volume of material that would need to be processed in order to recover the gold. The property was subsequently optioned by ASA Montague in 1994 and additional soil sampling, followed by limited in-fill and expansion drilling was successful in further increasing the gold

resource to 920,000 oz (18.04 million tons @ 0.051 oz/ton) based on the 36 holes that had been drilled into the Central Zone. (Note that these resource figures are historical in nature and are provided for informational purposes only. They are not 43-101 compliant, and as such should not be relied upon.) Previous wide-spaced drilling northeast and southeast of the Central Zone indicates these areas may have potential for resource expansion while previous limited reconnaissance work has indicated that additional gold mineralization exists on the property outside the area known to contain resources.

Freegold's exploration program in September 2007 was focused on evaluating the large land package surrounding the deposit, where limited systematic work has been conducted in the past. Freegold's reconnaissance efforts on the property in 2007 included a stream, soil and rock sampling program. This program was followed up with a 1,788 line kilometre high resolution EM and Magnetic airborne geophysical survey. While new areas of gold mineralization were detected in this regional program, the focus of exploration in 2008 was directed towards mapping, sampling and geophysics aimed at expanding the known extent of the gold mineralization within the Central Zone. This summer's geophysical program consisted of an induced polarization (IP) survey on areas north and north-east of the Central Zone. The preliminary results of this geophysical survey indicate that the anomaly associated with the Central Zone, although weaker, continues to the north and the north-east, where there is thought to be potential to expand the known resources.

The Qualified Person with respect to scientific and technical information contained herein is Michael P. Gross, M.S., P. Geo., VP Exploration, Freegold Ventures Limited, who has reviewed and approved the contents of this information.

Selected annual information

Unless otherwise noted, all currency amounts are stated in Canadian dollars.

The following table summarizes selected financial data for Freegold for each of the three most recently completed financial years. The information set forth below should be read in conjunction with the consolidated audited financial statements, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and related notes.

	Years Ended December 31, (audited)		
	2008	2007	2006
Total revenues	\$35,292	\$259,063	\$126,882
General and administrative expenses - cash	1,208,428	1,358,287	1,142,747
General and administrative expenses – stock compensation	1,641,021	1,388,088	367,918
Mineral property costs	9,934,434	8,169,365	3,310,465
Loss before extraordinary items			
➤ In total	(2,849,449)	(2,746,375)	(1,510,665)
➤ Basic and diluted loss per share	(0.04)	(0.05)	(0.04)
Loss before income taxes			
➤ In total	(5,165,861)	(4,384,463)	(1,772,633)
➤ Basic and diluted loss per share	(0.08)	(0.08)	(0.05)
Totals assets	\$31,645,153	\$23,722,900	\$12,381,233
Total long term liabilities	Nil	Nil	Nil
Cash dividends declared	Nil	Nil	Nil

Selected quarterly financial information

The following selected financial information is derived from the unaudited consolidated interim financial statements of the Company prepared in accordance with Canadian GAAP.

	For the Quarters Ended (unaudited)							
	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008	Dec. 31 2007	Sept. 30 2007	June 30 2007	Mar. 31 2007
Total revenues	\$112	\$2,670	\$19,486	\$13,024	\$84,171	\$22,462	\$37,144	\$115,286
Net loss – before tax	1,673,797	1,352,727	849,291	1,290,046	1,646,304	2,182,190	281,983	273,986
Net loss per share	0.02	0.02	0.01	0.02	0.02	0.04	0.01	0.01
Total assets	31,645,153	29,537,893	24,787,497	23,998,295	23,722,900	20,565,891	21,245,193	14,244,958

Results of operations

The year ended December 31, 2008 resulted in a net loss of \$5,165,861 which compares with a loss of \$4,384,463 for the same period in 2007. General and administrative expenses for the year ended December 31, 2008 were \$2,849,449, an increase of \$103,074 over the same period in 2007. The loss is mainly attributable to \$1,641,021 (2007: \$1,388,088) in non-cash stock-based compensation expenses that were charged upon the granting of long-term incentive stock options and performance shares.

During the year, 2,660,000 stock options were granted under a graded vesting schedule. The total fair value of stock options that vested using the Black-Scholes Option Pricing Model resulted in stock-based compensation expense of \$1,810,885 for the year ended December 31, 2008 (2007: \$572,112). \$1,128,191 of this amount was allocated as stock-based compensation expense and \$682,694 has been allocated to mineral properties in proportion to management's or consultant's time spent on specific projects. Stock-based compensation for performance shares issued was \$512,832 for the year ended December 31, 2008 (2007: \$815,976).

Professional fees of \$236,798 (2007: \$87,936) were recorded as additional legal expenses were incurred during the year to assist in the preparation of various equipment and bridge loan documents. Interest costs of \$721,494 were incurred mainly due to the interest on the US\$5,791,000 loan which included a 4% loan fee of \$165,720 and \$188,290 non cash expense associated with the value of the loan warrants.

Amortization for office equipment of \$19,161 for the year ended December 31, 2008 (2007:\$12,874) was recorded. Mining equipment amortization of \$453,968 (2007: \$161,088) was attributed to \$2,344,942 in mining equipment that was obtained for the Golden Summit project in Alaska.

A foreign exchange loss of \$1,173,327 was recorded on US\$5,791,000 in loans that are payable in US funds. This resulted as the US dollar became stronger relative to the Canadian dollar.

Shareholder relations and promotional activities undertaken by the Company, which included attendance at various trade shows, advertising, news releases, distribution fees and marketing materials, cost \$233,051 for the year ended December 31, 2008, a decrease of \$15,381 over the same period in 2007. In April, a part-time consultant was hired to assist with investor relations.

Travel costs of \$92,375 (2007: \$144,981) decreased as fewer trips were taken for promotional purposes and as a general cost cutting measure. Consulting fees of \$37,591 (2007: \$167,383) were also reduced as the Company curtailed the services of outside consultants in order to conserve cash.

Transfer and filing fees of \$118,248 (2007: \$45,751) increased due to the additional expenses incurred during the year to assist in the preparation of various equipment and bridge loan documents.

All other general and administrative costs were relatively the same when compared to the previous year.

A capital loss of \$2,913 was realized on the sale of investments in 2008 as compared to a capital gain of \$151,687 over the same period in 2007. Interest income of \$35,292 was also earned in 2008, which was less than the \$107,376 earned in 2007 as the Company had less funds on deposit and earned lower rates during the current year.

During the year ended December 31, 2008, the Company incurred mineral property deferred exploration costs of \$9,304,985. Of the deferred exploration costs, \$528,330 was incurred to review and update previous engineering and resource work and \$124,365 was incurred for assays on the Almaden project in Idaho. \$6,522,559 was incurred on the Golden Summit project in Alaska of which \$1,770,428 was for drilling and assays and \$3,483,347 was for bulk sampling/plant commissioning and infrastructure. Gold proceeds of \$306,143 were taken as a credit against Golden Summit expenditures. \$1,566,629 was incurred in mapping, geophysics and drilling on the Rob project in Alaska, and \$408,925 was incurred on the Vinasale Alaska project.

Mineral property acquisition costs of \$629,449 were also incurred which included \$98,359 for the Almaden Idaho project, \$72,100 for the Vinasale Alaska project, \$52,500 in cash and \$305,000 in shares for the Rob Alaska project and \$101,490 for the Golden Summit Alaska project.

Fourth quarter results

The fourth quarter ended December 31, 2008 resulted in a loss of \$1,673,797 which was lower than the loss of \$1,646,304 incurred in the comparative quarter ended December 31, 2007. Most of the decrease can be attributable to \$247,199 for the write-off of mineral properties in the prior year.

Interest on the US\$5,791,000 loan amounted to \$389,558 during the quarter. Warrants with a value of \$188,290 were issued along with the short term loans and are included in interest, bank charges and loan arrangement fee.

Mining equipment amortization of \$128,899 for the three month period ended December 31, 2008 was attributed to \$2,344,943 in mining equipment that was obtained for the Golden Summit project in Alaska.

A foreign exchange loss of \$968,867 was recorded on US\$5,791,000 in loans that are payable in US funds. This resulted as the US dollar became stronger relative to the Canadian dollar.

All other quarterly expenses are consistent with the discussion of the year-to-date loss in the previous paragraph and elsewhere in this interim MD&A.

The Company issued no shares during the fourth quarter of 2008.

Liquidity and capital resources

At December 31, 2008, the Company's working capital, defined as current assets less current liabilities, was a deficit of \$10,259,582 compared to a surplus of \$4,124,121 at December 31, 2007. Short term loans that have a maturity date of July 15, 2009 comprises \$4,953,503 and the convertible loan comprises \$2,200,996 of this deficit. The Company has trade payables of \$3,138,724 and is trying to settle the majority of this amount by way of shares for debt. During 2008, 554,500 options were exercised for proceeds of \$262,260 and 628,786 performance shares issued for \$6,288.

The Company had 64,226,593 issued and outstanding shares at December 31, 2008.

During the year, a US \$1,791,000 convertible loan was obtained secured against bulk sampling related equipment at Golden Summit and against private property that was purchased in January 2008 adjacent to the Golden Summit property. The loan has a term of 2 years, with the lenders having the right to accelerate the maturity of the facility any time after the first anniversary of the closing, should the Company raise additional debt, equity or receive asset sales aggregating \$3 million or more. The lenders also have the right during the term to convert the outstanding principal, in whole or in part, into the Company's common shares at a conversion price of US \$1.23/share. The interest rate for the loan is 4% per annum, payable quarterly. No fees were paid in relation to the closing or arrangement of this facility.

Subsequent to year end, the Company breached certain covenants under the convertible loan agreement, and the loan is currently in a default situation. The lenders have not provided the Company with any default notice, and the Company is in negotiations with the lenders for certain waivers and interest payment extensions to allow the Company to maintain the original May 30, 2010 maturity date.

On July 31, 2008 the Company secured a US \$2 million short term loan financing and on August 22, 2008, the Company received from a second lender an additional US \$2 million short term loan, bringing total short term loan proceeds to US \$4 million.

The first US \$2 million bridge loan facility had a maturity date of January 15, 2009. Terms for this facility include an annual interest rate of 12.5% payable monthly, a cash closing fee, and 350,000 warrants to the lenders to purchase common stock of the Company for a two year period at a price of \$0.66 per share. The lenders have the right to put the warrants back to the Company one year after closing of the bridge for value of \$100,000. The second US\$2 million loan had the identical terms, except the strike price of the warrants is at \$0.55 per share. The loans can be prepaid at any time, and all proceeds generated from subsequent financings must be used to repay the loans.

On January 14, 2009, the bridge lenders agreed to extend the maturity of their loans to February, 10, 2009. As consideration of this extension, the exercise price of the 350,000 warrants each lender received at the time the bridge loans were advanced was reduced from \$0.66 and \$0.55 respectively to \$0.30, and the Company issued each lender an additional 250,000 common shares.

On February 23, 2009, the bridge lenders agreed to further extend the maturity date of their loans to July 15, 2009. As consideration of these extensions, the interest rate on the two loans was increased from 12.5% to 15.0%, and the lenders received extension fees consisting of 720,000 common shares of the Company and 1,000,000 warrants to purchase common stock of the Company for a two year period. Of the 1,000,000 warrants, the senior lender was issued 500,000 warrants at a price of C \$0.17/share after providing the Company with an additional US\$200,000 that was added to the principal of the extended short term loan, while the subordinated lender was issued 500,000 warrants at a price of C \$0.25/share. A cash fee equal to 3% of loan principal is also payable upon the earlier of the receipt of new financing or March 31, 2009.

The Company is in a difficult financial condition, and over the past three months the Company has only been able to meet critical payments to keep its portfolio of exploration properties in good standing, and to meet other minimum sustaining requirements through the recent advances made by its senior bridge lender. Freegold continues to pursue a number of alternatives in order to satisfy its various debt obligations and to provide additional working capital to the Company. These include ongoing discussions with parties that have expressed an interest in the possible purchase of individual projects and in the possibility of business combinations. Vendors who are owed project-related payables have been working with the Company as it seeks alternative financing, and discussions have commenced with vendors representing the majority of the outstanding accounts payable debt regarding an exchange of debt for common shares of the Company. While management is hopeful that one, or a combination of these alternatives, will address the Company's current financial situation and provide additional working capital, there can be no assurances that the Company will be successful in its efforts (see "Risks and Uncertainties" below for a discussion of associated risk factors).

Contractual commitments

The Company is committed under operating leases, for its office premises in Vancouver and Idaho.

Fiscal year ended Dec. 31,	2009	2010	2011	Thereafter
Office lease - Vancouver	\$21,667	-	-	-
Office lease - Idaho	\$14,310	-	-	-

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Critical accounting estimates

A detailed summary of all the Company's significant accounting policies is included in Note 1 to the consolidated financial statements for the year ended December 31, 2008.

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, amortization, determination of net recoverable value of assets, determination of fair value on, taxes, contingencies and stock-based compensation.

Change in accounting policies

Accounting Changes

Effective January 1, 2008, the Company adopted the revised Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1506, “Accounting Changes”, which requires that a voluntary change in accounting policy can be made only if the changes result in more reliable and relevant information and are accompanied with disclosures of prior period amounts and justification of the changes. The section also requires that the nature and amount of material changes in estimates be disclosed. The Company has not made any voluntary change in accounting policies or significant changes in estimates that are not otherwise disclosed since the adoption of the revised section.

Going Concern

Effective January 1, 2008, the Company adopted changes to CICA Handbook Section 1400, “General Standards of Financial Statement Presentation”. Section 1400 has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. Management shall make an assessment of an entity’s ability to continue as a going concern. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, those uncertainties shall be disclosed. 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 entity is not regarded as a going concern.

Capital Disclosures

Effective January 1, 2008, the Company adopted the new CICA Handbook Section 1535, “Capital Disclosures” which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the Company’s objectives, policies and procedures for managing capital. The main features of the new section are as follows:

Requirements for an entity to disclose qualitative information about its objectives, policies and processes for managing capital;

- A requirement for an entity to disclose quantitative data about what it regards as capital; and
- A requirement for an entity to disclose whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

Financial Instruments – Disclosure and Presentation

Effective January 1, 2008, the Company adopted the new CICA Handbook Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation” which replace existing Section 3861, “Financial Instruments – Disclosure and Presentation”, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

NEW ACCOUNTING PRONOUNCEMENTS

The CICA issued CICA Handbook Section 3064 “Goodwill and Other Intangible Assets” which the Company will adopt, effective 1 December 2008. The new requirements of Section 3064 are for recognition, measurement, presentation and disclosure. Section 3064 replaces Section 3062, “Goodwill and Other Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. Management is currently assessing the impact of these new accounting standards on its financial statements.

Future Changes in Accounting Policies

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Financial instruments and other instruments

Freegold’s financial instruments consist of cash and cash equivalents, term deposits, accounts and advances receivable, available-for-sale investments, accounts payable, accrued liabilities, secured loans and amounts due to related parties. Unless otherwise noted, it is management’s opinion that Freegold is exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

The Company is exposed to currency risk on its acquisition and exploration expenditures on its U.S. properties since it has to convert Canadian dollars raised through equity financing in Canada to US dollars. The Company’s expenditures are negatively impacted by increases in the U.S. versus the Canadian dollar.

Outstanding share data

The Company is authorized to issue unlimited common shares without par value. As at March 30, 2009, there were 65,446,593 outstanding common shares compared to 62,543,307 outstanding shares at December 31, 2007. The increase reflects the issuance of 628,786 performance shares, 554,500 shares on the exercise of options, 500,000 for the Rob mineral property. Subsequent to year end, 1,220,000 shares were issued to lenders for loan extension fees.

As at March 30, 2009, there were 4,450,000 warrants outstanding which include 1,000,000 warrants issued subsequent to year end to our lenders.

	Number	Price per Share	Expiry Date
	2,750,000	\$1.60	26 June 2009
	350,000	\$0.30	31 July 2010
	350,000	\$0.30	22 August 2010
	500,000	\$0.25	10 February 2011
	500,000	\$0.17	26 February 2011
Total	4,450,000		

Directors, officers, employees and contractors are granted options to purchase common shares under the Company Stock Option Plan. This plan and its terms and outstanding balance are disclosed in Note 8d to the consolidated financial statements to December 31, 2008.

Number Outstanding 31 December 2007	Granted	Exercised	Cancelled	Expired	Number Outstanding 31 December 2008	Exercise Price Per Share	Expiry Date
820,000	-	(524,500)	-	(295,500)	-	\$0.48	10 September 2008
310,000	-	-	-	-	310,000	\$0.40/\$0.50	5 November 2009
500,000	-	-	-	-	500,000	\$0.20	30 September 2010
320,000	-	(30,000)	-	-	290,000	\$0.35	13 March 2011
80,000	-	-	-	-	80,000	\$0.50	17 July 2011
100,000	-	-	-	-	100,000	\$0.50	21 September 2011
350,000	-	-	-	-	350,000	\$0.50	11 January 2012
400,000	-	-	-	-	400,000	\$0.75	25 January 2010
40,000	-	-	-	-	40,000	\$1.20	4 June 2010
25,000	-	-	-	-	25,000	\$1.50	13 July 2012
40,000	-	-	-	-	40,000	\$1.71	16 October 2012
150,000	-	-	-	-	150,000	\$2.10	1 November 2012
-	100,000	-	-	-	100,000	\$1.50	8 February 2013
-	2,410,000	-	(125,000)	-	2,285,000	\$1.42	21 February 2013
-	150,000	-	-	-	150,000	\$1.42	10 April 2010
3,135,000	2,660,000	(554,500)	(125,000)	(295,500)	4,820,000		

Related party transactions

The related party transactions during the year ended December 31, 2008, which occurred in the normal course of operations and were measured at the exchange amount (the amount of consideration established and agreed to by the related parties), were as follows:

- Each outside director is entitled to receive \$500 per month, \$500 per directors meeting and \$500 per committee meeting. The Chairman is entitled to receive an additional \$833 per month. During the year, the Company paid/accrued \$50,500 (2007: \$27,500) to directors. As at December 31, 2008, amounts due to related parties consists of \$35,761 (2007: \$10,000) owing to directors and officers.
- During the year, the Company paid/accrued \$125,588 (2007: \$150,680) for engineering and consulting fees to a company controlled by the Vice-President of Project Development. As at December 31, 2008, \$21,603 is included in due to related parties.
- During the year, the Company paid/accrued \$59,166 (2007: \$35,500) for professional fees to a company controlled by the Chief Financial Officer. As at December 31, 2008, \$23,125 is included in due to related parties.
- During the year, legal fees of \$65,424 (2007: Nil) were paid/accrued to a law firm of which a Company director is a partner. As at December 31, 2008, \$39,964 is included in due to related parties.
- During the year, the Company secured a US\$2 million short term loan from a company with a director in common. As at December 31, 2008, Cdn \$2,472,923 is owing.

Disclosure controls and internal controls over financial reporting

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD & A and the related consolidated financial statements was properly recorded, processed, summarized and reported to the Company's Board and Audit Committee. The Company's CEO and CFO have evaluated and are satisfied with the effectiveness of these disclosure controls and procedures for the year ending December 31, 2008.

The CEO and CFO acknowledge responsibility for the design of internal control over financial reporting (ICFR), and confirm that there were no changes in these controls that occurred during the most recent period ended December 31, 2008 which materially affected, or are reasonably likely to materially affect the Company's ICFR.

Risks and uncertainties

The Company believes that the following items represent significant areas for consideration.

Cash Flows and Additional Funding Requirements

The Company has limited financial resources, no sources of operating cash flows and no assurances that sufficient funding, including adequate financing, will be available. If the Company's exploration programs are successful, additional funds will be required in order to complete the development of its properties. The sources of funds currently available to the Company include, raising equity or debt capital, or offering an interest in its projects to another party. There is no assurance that the Company will be successful in raising sufficient funds to conduct further exploration and development of its projects or to fulfill its obligations under the terms of any option or joint venture agreements, in which case the Company may have to delay or indefinitely postpone further exploration and development, or forfeit its interest in its properties or prospects.

Industry

The Company is engaged in the exploration of mineral properties, an inherently risky business. There is no assurance that funds spent on the exploration and development of a mineral deposit will result in the discovery of an economic ore body. Most exploration projects do not result in the discovery of commercially mineable ore deposits.

Commodity Prices

The profitability of the Company's operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The prices of mineral commodities have fluctuated widely in recent years. Current and future price declines could cause commercial production to be impracticable. The Company's revenues and earnings also could be affected by the prices of other commodities such as fuel and other consumable items, although to a lesser extent than by the price of mineral commodities.

Competition

The mining industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself with respect to the discovery and acquisition of interests in mineral properties, the recruitment and retention of qualified employees and other persons to carry out its mineral exploration activities. Competition in the mining industry could adversely affect the Company's prospects for mineral exploration in the future.

Foreign Political Risk

The Company's material property interests are currently located in the United States. A significant portion of the Company's interests are exposed to various degrees of political, economic and other risks and uncertainties. The Company's operations and investments may be affected by local political and economic developments, including expropriation, nationalization, invalidation of government orders, permits or agreements pertaining to property rights, political unrest, labour disputes, limitations on repatriation of earnings, limitations on mineral exports, limitations on foreign ownership, inability to obtain or delays in obtaining necessary mining permits, opposition to mining from local, environmental or other non-governmental organizations, government participation, royalties, duties, rates of exchange, high rates of inflation, price controls, exchange controls, currency fluctuations, taxation and changes in laws, regulations or policies as well as by laws and policies of Canada affecting foreign trade, investment and taxation.

Government Laws, Regulation & Permitting

Mining and exploration activities of the Company are subject to both domestic and foreign laws and regulations governing prospecting, development, production, taxes, labour standards, occupational health, mine safety, waste disposal, toxic substances, the environment and other matters. Although the Company believes that all exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a substantial adverse impact on the Company.

The operations of the Company will require licenses and permits from various governmental authorities to carry out exploration and development at its projects. There can be no assurance that the Company will be able to obtain the necessary licences and permits on acceptable terms, in a timely manner or at all. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities.

Title to Properties

Acquisition of rights to the mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed. Although the Company has investigated the title to all of the properties for which it holds mineral leases or licenses or in respect of which it has a right to earn an interest, the Company cannot give an assurance that title to such properties will not be challenged or impugned.

The Company has the right to earn an increased interest in certain of its properties. To earn its 100% this increased interest in each property, the Company is required to make certain cash payments. If the Company fails to make these payments, the Company may lose its right to such properties and forfeit any funds expended to such time.

Estimates of Mineral Resources

The mineral resource estimates used by the Company are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit which can be legally or commercially exploited. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material.

Key Management

The success of the Company will be largely dependent upon the performance of its key officers, consultants and employees. Locating mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. The success of the Company is largely dependent on the performance of its key individuals. Failure to retain key individuals or to attract or retain additional key individuals with necessary skills could have a materially adverse impact upon the Company's success.

Volatility of Share Price

Market prices for shares of early stage companies are often volatile. Factors such as announcements of mineral discoveries, financial results, and other factors could have a significant effect on the price of the Company's shares.

Foreign Currency Risk

A substantial portion of the Company's expenses and loans are now, and are expected to continue to be incurred in United States currency. The Company's business will be subject to risks typical of an international business including, but not limited to, differing tax structures, regulations and restrictions and general foreign exchange rate volatility. Fluctuations in the exchange rate between the Canadian dollar and United States dollar may have a material effect on the Company's business, financial condition and results of operations and could result in downward price pressure for the Company's products in or losses from currency exchange rate fluctuations. The Company does not actively hedge against foreign currency fluctuations.

Conflict of Interest

Some of the Company's directors and officers are directors and officers of other natural resource or mining-related companies. These associations may give rise from time to time to conflicts of interest. As a result of such conflict, the Company may miss the opportunity to participate in certain transactions.

Outlook

As of December 31, 2008, the Company had a working capital deficit of \$10,259,582. The Company is in a difficult financial condition, and over the past three months the Company has only been able to meet critical payments to keep its portfolio of exploration properties in good standing, and to meet other minimum sustaining requirements through a recent advance made by its senior bridge lender. Subsequent to year end, the Company's bridge lenders also provided it with a number of extensions, with the loan amounts for this US \$4.3 million now due on July 15, 2009. Subsequent to year end, the Company also breached certain covenants under a US \$1.79 million convertible loan agreement, and the loan is currently in a default situation. The lenders of this convertible facility have not provided the Company with any default notice to date, and the Company is in negotiations with these lenders for certain waivers and interest payment extensions to allow the Company to maintain the original May 30, 2010 maturity date.

Freegold continues to pursue a number of alternatives in order to satisfy its various debt obligations and to provide additional working capital to the Company. These include ongoing discussions with parties that have expressed an interest in the possible purchase of individual projects and in the possibility of business combinations. Vendors who are owed project-related payables have been working with the Company as it seeks alternative financing, and discussions have commenced with vendors representing the majority of the outstanding accounts payable debt regarding an exchange of debt for common shares of the Company. While management is hopeful that one, or a combination of these alternatives, will address the Company's current financial situation and provide additional working capital, there can be no assurances that the Company will be successful in its efforts

Approval

The Board of Directors of Freegold has approved the disclosure contained in this annual MD&A. A copy of this annual MD&A will be provided to anyone who requests it.

FREEGOLD VENTURES LIMITED

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008 and 2007

JAMES STAFFORD

James Stafford
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* Incorporated professional, James Stafford, Inc.

Independent Auditors' Report

To the Shareholders of Freegold Ventures Limited

We have audited the consolidated balance sheets of **Freegold Ventures Limited** (the "Company") as at 31 December 2008 and 2007 and the related consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). 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. We believe that our audits provide a reasonable basis for our opinion.

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

The consolidated financial statements as at 31 December 2006 were audited by predecessor auditors who expressed an opinion without reservation on those statements in their report dated 8 March 2007.

Vancouver, British Columbia, Canada

6 March 2009

/s/ James Stafford
Chartered Accountants

Comments by Independent Registered Chartered Accountants for United States of America Readers on Canada – United States of America Reporting Differences

The standards of the Public Company Accounting Oversight Board (United States of America) require the addition of an explanatory paragraph (following the opinion paragraph) when the consolidated financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the consolidated financial statements. Although we conducted our audits in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States of America), our report to the shareholders dated 6 March 2009 is expressed in accordance with Canadian reporting standards, which do not permit a reference to such conditions and events in the report when these are adequately disclosed in the consolidated financial statements.

Vancouver, British Columbia, Canada

6 March 2009

/s/ James Stafford
Chartered Accountants

Consolidated Balance Sheets

As at 31 December

Canadian Funds

ASSETS	2008	2007
Current		
Cash and cash equivalents	\$ 7,335	\$ 4,303,786
Accounts and advances receivable	42,493	46,581
Available-for-sale investments (Note 3)	51,000	122,915
Prepaid expenses and deposits	73,266	74,978
	<u>174,094</u>	4,548,260
Mineral Property Costs – Statement 5 (Note 4)	28,053,152	18,118,718
Property, Plant and Equipment (Note 5)	3,417,907	1,055,922
	<u>\$ 31,645,153</u>	<u>\$ 23,722,900</u>
LIABILITIES		
Current		
Accounts payable	\$ 3,138,724	\$ 384,472
Accrued liabilities	30,000	29,667
Due to related parties (Note 6)	110,453	10,000
Loans payable (Note 7)	7,154,499	-
	<u>10,433,676</u>	424,139
SHAREHOLDERS' EQUITY		
Share Capital - Statement 2 (Note 8)		
Authorized:		
Unlimited common shares without par value		
Issued, allotted and fully paid:		
64,226,593 (2007 – 62,543,307) shares	50,970,637	49,370,919
Contributed Surplus	3,091,812	1,794,265
Warrants	1,086,116	897,826
Deficit Accumulated During Exploration Stage - Statement 2	(33,937,088)	(28,764,249)
	<u>21,211,477</u>	23,298,761
	<u>\$ 31,645,153</u>	<u>\$ 23,722,900</u>

Going Concern, Nature and Continuance of Operations and Significant Accounting Policies (Note 1), **Commitments** (Note 10), **Subsequent Events** (Note 13) and **Contingency** (Note 14)

ON BEHALF OF THE BOARD:

“Steve Manz”, Director “Hubert Marleau”, Director

Consolidated Statements of Changes in Shareholders' Equity

Canadian Funds

	Common Shares	Amount	Contributed Surplus	Warrants	Accumulated Deficit	Total
Balance – 31 December 2005	31,562,590	\$ 30,714,606	\$ 1,072,794	\$ -	\$ (22,479,334)	\$ 9,308,066
Issuance and allotment of shares for:						
- Private placements	8,146,542	2,737,401	-	-	-	2,737,401
- Value assigned to warrants	-	(328,813)	-	378,381	-	49,568
- Property	50,000	15,000	-	-	-	15,000
- Exercise of options	453,750	207,590	(54,465)	-	-	153,125
- Performance shares	50,000	19,000	-	-	-	19,000
- Performance shares reserved for issuance	-	-	265,583	-	-	265,583
Share issuance costs	-	-	-	-	(39,718)	(39,718)
Stock-based compensation	-	-	83,835	-	-	83,835
Loss for the year	-	-	-	-	(1,772,633)	(1,772,633)
Balance – 31 December 2006	40,262,882	\$ 33,364,784	\$ 1,367,747	378,381	\$ (24,291,685)	\$ 10,819,227
Issuance and allotment of shares for:						
- Private placements	10,600,000	9,130,000	-	-	-	9,130,000
- Value assigned to warrants (Note 8c)	-	(1,645,559)	-	1,645,559	-	-
- Property	75,000	60,000	-	-	-	60,000
- Exercise of options	1,891,250	845,075	-	-	-	845,075
- Exercise of warrants	8,673,269	5,518,527	-	-	-	5,518,527
- Performance shares	1,040,906	780,797	(194,583)	-	-	586,214
- Performance shares reserved for issuance	-	-	534,652	-	-	534,652
Share issuance costs	-	-	-	-	(88,101)	(88,101)
Stock-based compensation	-	-	277,630	-	-	277,630
Transferred on exercise of options	-	191,181	(191,181)	-	-	-
Transferred on exercise of warrants	-	1,126,114	-	(1,126,114)	-	-
Loss for the year	-	-	-	-	(4,384,463)	(4,384,463)
Balance – 31 December 2007	62,543,307	\$ 49,370,919	\$ 1,794,265	897,826	\$ (28,764,249)	\$ 23,298,761
Issuance and allotment of shares for:						
- Value assigned to warrants (Notes 7ii and 8c)	-	-	-	188,290	-	188,290
- Property	500,000	305,000	-	-	-	305,000
- Exercise of options (Note 8b)	554,500	262,260	-	-	-	262,260
- Performance shares (Note 8e)	628,786	964,043	(605,653)	-	-	358,390
- Performance shares reserved for issuance (Note 8e)	-	-	160,730	-	-	160,730
Share issuance costs	-	-	-	-	(6,978)	(6,978)
Stock-based compensation	-	-	1,810,885	-	-	1,810,885
Transferred on exercise of options	-	68,415	(68,415)	-	-	-
Loss for the year	-	-	-	-	(5,165,861)	(5,165,861)
Balance – 31 December 2008	64,226,593	\$ 50,970,637	\$ 3,091,812	\$ 1,086,116	\$ (33,937,088)	\$ 21,211,477

Consolidated Statements of Loss and Comprehensive Loss

Canadian Funds

	Years Ended 31 December		
	2008	2007	2006
General and Administrative Expenses			
Consulting fees	\$ 37,591	\$ 167,383	\$ 207,651
Consulting fees – Stock-based compensation (Note 8d)	307,331	491,008	18,615
Travel	92,375	144,981	127,365
Promotion and shareholder relations	233,051	248,432	200,065
Management fees (Note 6b)	-	190,080	107,602
Director fees (Note 6a)	50,500	27,500	22,000
Director fees – Stock-based compensation (Note 8d)	285,955	9,554	1,461
Professional fees	236,798	87,936	84,694
Wages, salaries and benefits	252,046	267,512	244,683
Wages – Stock-based compensation (Note 8d)	1,019,599	729,396	280,058
Shareholder relations – Stock-based compensation (Note 8d)	28,138	158,130	5,761
Transfer and filing fees	118,248	45,751	64,778
Rent and utilities	111,569	71,886	40,386
Office and miscellaneous	57,089	93,952	92,543
Amortization	19,161	12,874	13,003
Loss Before the Undernoted	(2,849,451)	(2,746,375)	(1,510,665)
Other Income (Expenses)			
Gain (loss) on sale of available-for-sale investments (Note 3)	(2,913)	151,687	85,884
Interest income	35,292	107,376	40,998
Amortization of mining equipment	(453,968)	(161,088)	-
Foreign exchange gain (loss), net	(1,173,327)	(61,373)	(28,675)
Interest, bank charges and loan arrangement fees (Note 7)	(721,494)	(62,206)	(27,369)
Write-off of mineral property costs (Note 4)	-	(1,612,484)	(332,806)
	(2,316,410)	(1,638,088)	(261,968)
Net Loss and Comprehensive Loss for the Year	\$ (5,165,861)	\$ (4,384,463)	\$ (1,772,633)
Loss per Share - Basic and Diluted	\$ (0.08)	\$ (0.08)	\$ (0.05)
Weighted Average Number of Shares Outstanding	63,687,408	52,257,573	37,459,602

Consolidated Statements of Cash Flows

Canadian Funds

Cash Resources Provided By (Used In)	Years Ended 31 December		
	2008	2007	2006
Operating Activities			
Loss for the year	\$ (5,165,861)	\$ (4,384,463)	\$ (1,772,633)
Items not affecting cash:			
Amortization	473,129	173,962	13,003
Loss (Gain) on sale of available-for-sale investments (Note 3)	2,913	(151,687)	(85,884)
Write-off of mineral property costs	-	1,612,484	332,806
Stock-based compensation	1,128,191	572,112	83,835
Stock-based compensation – performance shares issued	352,102	510,825	18,500
Wages and consulting fees – performance shares reserved for issuance	160,730	305,151	265,583
Loan arrangement fee	188,290	-	15,437
Net changes in non-cash working capital components:			
Accounts and advances receivable	4,088	(30,401)	33,444
Prepaid expenses and deposits	1,712	55,843	(74,309)
Accounts payable	(279,545)	(465,212)	(47,868)
Accrued liabilities	333	(8,333)	(18,695)
Due to related parties	100,453	2,000	8,000
	(3,033,465)	(1,807,719)	(1,228,781)
Investing Activities			
Purchase of available-for-sale investments	-	-	(7,800)
Proceeds on sale of available-for-sale investments	69,002	311,452	108,158
Mineral property acquisition costs	(324,449)	(325,277)	(188,997)
Mineral property deferred exploration costs	(5,588,494)	(7,498,088)	(2,908,723)
Mineral tax credit	-	47,675	169,186
Option payments received	-	-	30,000
Purchase of property and equipment (Note 5)	(2,835,114)	(1,167,134)	(41,660)
	(8,679,055)	(8,631,372)	(2,839,836)
Financing Activities			
Share capital issued	262,260	15,493,602	2,890,526
Share issuance costs	(6,978)	(88,101)	(39,718)
Performance shares	6,288	10,410	500
Loan proceeds	7,154,499	(1,000,000)	1,000,000
	7,416,069	14,415,911	3,851,308
Net Increase (Decrease) in Cash and Cash Equivalents	(4,296,451)	3,976,820	(217,309)
Cash and cash equivalents - Beginning of year	4,303,786	326,966	544,275
Cash and Cash Equivalents - End of Year	\$ 7,335	\$ 4,303,786	\$ 326,966

Consolidated Statements of Cash Flows – *Continued*

Canadian Funds

Cash Resources Provided By (Used In)	Years Ended 31 December		
	2008	2007	2006

Supplemental Disclosure of Non-Cash Investing and Financing Activities

Exploration expenditures included in accounts payable	\$	(3,033,797)	\$	333,675	\$	496,931
Shares issued or allotted for mineral property	\$	(305,000)	\$	(60,000)	\$	(15,000)
Stock option benefits included in mineral properties	\$	(682,694)	\$	-	\$	-
Option payments received in shares	\$	-	\$	-	\$	100,000
Warrants issued for loan arrangement fee	\$	188,290	\$	-	\$	15,437

Consolidated Schedules of Mineral Property Costs

For the Years Ended 31 December

Canadian Funds

	2008	2007
Golden Summit Property, Alaska, USA		
Acquisition costs		
Cash - option payments	\$ 101,490	\$ 178,358
Shares - option payments	-	17,000
	<u>101,490</u>	<u>195,358</u>
Deferred exploration expenditures		
Geological and field expenses	212,405	244,456
Mineral property fees	25,438	33,870
Drilling	1,285,898	437,085
Assaying	484,530	508,043
Engineering and consulting	230,822	268,398
Geophysical	5,400	161,275
Personnel	1,052,511	440,632
Bulk sampling/plant commissioning & infrastructure	3,483,347	1,902,641
Refining charges	48,351	-
Bulk sample gold recovered	(306,143)	-
	<u>6,522,559</u>	<u>3,996,400</u>
Total	<u>6,624,049</u>	<u>4,191,758</u>
Almaden Property, Idaho, USA		
Acquisition costs		
Cash - option payments	98,359	52,159
	<u>98,359</u>	<u>52,159</u>
Deferred exploration expenditures		
Geological and field expenses	124,302	228,407
Drilling	-	1,604,340
Mineral property fees	15,934	18,294
Assaying	124,365	355,471
Metallurgical testing	5,148	257,940
Geophysics	-	20,655
Resource engineering	174,136	12,541
Engineering and consulting	354,194	381,222
	<u>798,079</u>	<u>2,878,870</u>
Total	<u>896,438</u>	<u>2,931,029</u>
Balance Forward	<u>\$ 7,520,487</u>	<u>\$ 7,122,787</u>

Consolidated Schedules of Mineral Property Costs – Continued
For the Years Ended 31 December

Canadian Funds

	2008	2007
Balance Carried Forward	\$ 7,520,487	\$ 7,122,787
Rob Property, Alaska, USA		
Acquisition costs		
Treasury shares - option payments	305,000	-
Cash - option payments	52,500	28,325
	<u>357,500</u>	<u>28,325</u>
Deferred exploration expenditures		
Drilling	239,153	295,470
Mineral property fees	19,465	19,211
Engineering and consulting	155,371	69,206
Geological and field expenses	649,446	83,848
Assaying	24,277	22,253
Wages	412,339	77,876
Geophysics	66,578	-
	<u>1,566,629</u>	<u>567,864</u>
Total	<u>1,924,129</u>	<u>596,189</u>
Vinasale Property, Alaska, USA		
Acquisition costs		
Cash - option payments	72,100	66,435
	<u>72,100</u>	<u>66,435</u>
Deferred exploration expenditures		
Geological and field expenses	107,138	61,664
Geophysics	68,607	244,631
Assaying	-	6,401
Mineral property fees	4,013	9,053
Engineering and consulting	41,112	26,413
Wages	188,055	21,246
	<u>408,925</u>	<u>369,408</u>
Total	<u>481,025</u>	<u>435,843</u>
Union Bay Property, Alaska, USA		
Deferred exploration expenditures		
Mineral property fees	8,130	12,286
Engineering and consulting	663	878
Total	<u>8,793</u>	<u>13,164</u>
Balance Forward	\$ 9,934,434	\$ 8,167,983

Consolidated Schedules of Mineral Property Costs – Continued
For the Years Ended 31 December

Canadian Funds

	2008	2007
Balance Carried Forward	\$ 9,934,434	\$ 8,167,983
Grew Creek Property, Yukon, Canada		
Acquisition costs		
Shares - option payments	-	43,000
	-	43,000
Deferred exploration expenditures		
Geological and field expenses	-	6,057
Mineral tax credit	-	(47,675)
	-	(41,618)
Total	-	1,382
Costs for the Year	9,934,434	8,169,365
Balance - Beginning of year	18,118,718	11,561,837
Write-off of mineral property costs <i>(Note 4)</i>	-	(1,612,484)
Balance - End of Year	\$ 28,053,152	\$ 18,118,718

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

1. Going Concern, Nature and Continuance of Operations and Significant Accounting Policies

a) Going Concern and Nature and Continuance of Operations

Freegold Ventures Limited (the "Company") is in the process of acquiring, exploring and developing precious metal mineral properties. The Company will attempt to bring the properties to production, structure joint ventures with others, option or lease properties to third parties or sell the properties outright. The Company has not determined whether these properties contain ore reserves that are economically recoverable and the Company is considered to be in the exploration stage. The recoverability of the amounts expended by the Company on acquiring and exploring mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to complete the acquisition and/or development of the properties and upon future profitable production.

The Company's consolidated financial statements as at 31 December 2008 and for the year then ended have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Several adverse conditions cast substantial doubt on the validity of this assumption and the Company is exposed to significant foreign currency risk (*Note 1p*). The Company has a loss of \$5,165,861 for the year ended 31 December 2008 (2007 - \$4,384,463; 2006 - \$1,772,633) and has working capital deficit of \$10,259,582 at 31 December 2008 (2007 – working capital of \$4,124,121).

The Company had cash and cash equivalents of \$7,335 at 31 December 2008 (2007 - \$4,303,786), but management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. If the Company is unable to raise additional capital in the immediate future, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favourable terms and/or pursue other remedial measures or cease operations. These consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

b) Consolidation

These consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Free Gold Recovery, USA, Freegold Ventures Limited, USA, Ican Minerals, Inc. and Canu Resources, Inc. All subsidiaries are US corporations which are involved in mineral property exploration. Inter-company balances are eliminated upon consolidation.

c) Cash and Cash Equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash equivalents with institutions of high-credit worthiness.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

1. Going Concern, Nature and Continuance of Operations and Significant Accounting Policies - *Continued*

d) Available-for-sale Investments

Financial assets classified as available-for-sale are carried at fair value (where determinable based on market process of actively traded securities) with changes in fair value recorded in other comprehensive income. Available-for-sale investments are written down to fair value through earnings whenever it is necessary to reflect an other-than-temporary impairment. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are added to its fair value.

e) Mineral Properties and Deferred Exploration Expenditures

The Company records its interests in mineral properties at cost. The costs of acquiring mineral properties and related exploration and development expenditures, holding costs to maintain a property and related foreign exchange amounts are deferred and would be amortized against future production following commencement of commercial production or are written-off if the properties are sold, allowed to lapse or are abandoned.

Option payments received are treated as a reduction of the carrying value of the related mineral property and deferred costs until the receipts are in excess of costs incurred, at which time they are credited to income. Option payments are at the discretion of the optionee, and accordingly, are recorded on a cash basis.

Management of the Company regularly reviews the net carrying value of each mineral property. Where events or changes in circumstances suggest impairment, estimated future cash flows are calculated using estimated future prices, proven and probable reserves, value beyond proven and probable reserves, probability weighted outcomes and operating capital and reclamation costs on an undiscounted basis. If it is determined that the future cash flows are less than the carrying value, a write-down to the estimated fair value is expensed for the period. The Company presently has no proven or probable reserves. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses if carrying values can be recovered. If the carrying values exceed estimated recoverable values, then the project is written-down to estimated fair values with the write-down expensed in the period.

Management's estimates of future mineral prices, recoverable resources, initial and operating capital and reclamation costs are subject to certain risks and uncertainties that may affect the recoverability of mineral property costs. Although management has made its best estimate of these factors, it is possible that changes could occur that could adversely affect management's estimate of the net cash flows to be generated from its properties.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects. Acquisition of rights to the mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed. Although the Company has investigated the title to all of the properties for which it holds mineral leases or licenses or in respect of which it has a right to earn an interest, the Company cannot give an assurance that the title to such properties will not be challenged or impugned.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

1. Going Concern, Nature and Continuance of Operations and Significant Accounting Policies -
Continued

e) Mineral Properties and Deferred Exploration Expenditures - Continued

The Company has the right to earn an increased interest in certain of its properties. To earn its this 100% increased interest in each property, the Company is required to make certain cash payments. If the Company fails to make these payments, the Company may lose its right to such properties and forfeit any funds expended to such time.

f) Asset Retirement Obligation

On 1 May 2004, the Company retroactively adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, "Asset Retirement Obligations". Operating under this Section, future obligations to retire an asset or property are recognized and recorded as a liability at fair value as at the time the asset is acquired or the event occurs giving rise to such an obligation. At each reporting period, asset retirement obligations are increased to reflect the interest element (accretion expense) considered in the initial fair value of the measurement of the liabilities. In addition, an asset retirement cost is added to the carrying amount of the related asset and depreciated over the life of the asset. The capitalized asset retirement cost is amortized on the same basis as the related asset and along with the accretion expense, before arriving at the net income.

g) Amortization

The Company provides for amortization on its property, plant and equipment at 20% - 45% on a declining balance method. One half of the rate is applied in the year of acquisition.

h) Share Capital

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

i) Stock-Based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using the Black-Scholes valuation model. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of the options is accrued and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company estimates forfeiture of stock-based awards based on historical data and adjusts the forfeiture rate periodically.

j) Loss per Share

Basic loss per share is based on the weighted average number of common shares issued and outstanding during the year. The effect of potential issuances of shares under options and warrants would be anti-dilutive, and therefore basic and diluted loss per share are the same.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

1. Going Concern, Nature and Continuance of Operations and Significant Accounting Policies - *Continued*

k) Income Taxes

The asset and liability method is used for determining future income taxes. Under the asset and liability method, the change in the net future income tax asset or liability is included in income. The income tax effects of differences in the periods when revenue and expenses are recognized, in accordance with the Company's accounting practices, and the periods they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using the statutory income tax rates which are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

l) Foreign Currency Translation

The Company's subsidiaries are integrated foreign operations and their results and financial position are translated into the Company's functional currency, the Canadian dollar, using the temporal method as follows:

- Monetary assets and liabilities at year-end rates;
- All other assets and liabilities at historical rates; and
- Revenue and expense items at the average rate of exchange prevailing during the year.

Translation gains and losses arising from these transactions are reflected in income or expense in the year that they occur.

m) Management's Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("Canadian GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant areas where management's judgement is applied are the determination of asset impairment, stock-based compensation and future income tax valuation allowances. Actual results could differ from those estimates.

n) Flow-through Shares

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

o) Performance Shares

The Company grants performance shares to attract consultants and/or employees to the Company. Performance shares are valued at market price on the date of issuance and charged to operations with the offsetting credit to share capital.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

1. Going Concern, Nature and Continuance of Operations and Significant Accounting Policies - *Continued*

p) Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts and advances receivable, available-for-sale investments, accounts payable, accrued liabilities, loans payable and amounts due to related parties. The Company is exposed to significant interest, currency and credit risks arising from its financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

The Company's loans payables are denominated in US dollars and are currently in default (*Note 7*). The Company is exposed to significant currency risk on its loan payables and the Company will be negatively impacted if the US dollar increases versus the Canadian dollar.

The Company is exposed to currency risk on its acquisition and exploration expenditures on its US properties since it has to convert Canadian dollars raised through equity financing in Canada to US dollars. The Company's expenditures will be negatively impacted if the US dollar increases versus the Canadian dollar.

q) Recent Accounting Pronouncements

The CICA issued CICA Handbook Section 3064 "*Goodwill and Other Intangible Assets*" which the Company will adopt, effective 1 January 2009. The new requirements of Section 3064 are for recognition, measurement, presentation and disclosure. Section 3064 replaces Section 3062, "*Goodwill and Other Intangible Assets*". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011. The transition date of 1 January 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended 30 December 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

2. Changes in Accounting Policies and Presentation

a) Going Concern

Effective 1 January 2008, the Company adopted changes to CICA Handbook Section 1400, "General Standards of Financial Statement Presentation". Section 1400 has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Management shall make an assessment of an entity's ability to continue as a going concern. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. 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 entity is not regarded as a going concern.

b) Capital Disclosures

Effective 1 January 2008, the Company adopted the new CICA Handbook Section 1535, "Capital Disclosures" which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the Company's objectives, policies and procedures for managing capital. The main features of the new section are as follows:

- a. Requirements for an entity to disclose qualitative information about its objectives, policies and processes for managing capital;
- b. A requirement for an entity to disclose quantitative data about what it regards as capital; and
- c. A requirement for an entity to disclose whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

c) Financial Instruments – Disclosure and Presentation

Effective 1 January 2008, the Company adopted the new CICA Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" which replace existing Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3. Available-for-sale Investments

	2008		2007
	Book Value	Fair Value	Fair Value
Pacific North West Capital Corp. ("PFN")	\$ -	\$ -	\$ 70,663
Redeemable Guaranteed Investment Certificate	<u>51,000</u>	<u>51,000</u>	<u>52,252</u>
	\$ 51,000	\$ 51,000	\$ 122,915

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

3. Available-for-sale Investments - Continued

During the year, the Company had a net loss on the sale of available-for-sale investments of \$2,915 (2007 – gain of \$151,687) which was due to the sale of PFN shares (2007 – gain of \$43,717). PFN is a company that previously had a certain director in common with the Company.

The redeemable guaranteed investment certificate matures on 31 October 2009 and is pledged as security for certain payables of the Company.

4. Mineral Property Costs

	Acquisition	Deferred Exploration	Payments/grants	Write-offs	Totals 2008	Totals 2007
Golden Summit Property	\$ 760,365	\$ 16,208,727	\$ -	\$ -	\$ 16,969,092	\$ 10,345,043
Almaden Property	841,345	6,022,065	-	-	6,863,410	5,966,972
Rob Property	907,500	2,320,451	-	-	3,227,951	1,303,822
Vinasale Property	138,535	794,244	-	-	932,779	451,754
Union Bay Property	110,658	183,462	(234,200)	-	59,920	51,127
	\$ 2,758,403	\$ 25,528,949	\$ (234,200)	\$ -	\$ 28,053,152	\$ 18,118,718

a) Golden Summit Property, Alaska, USA

By various agreements dated from 1 December 1992 to 9 May 1997, the Company acquired from Fairbanks Exploration Inc. ("FEI") certain mineral claims in the Fairbanks Mining District of Alaska known as the Golden Summit Property, subject to a 7% working interest held in trust for FEI by the Company. The property is controlled by the Company through long-term lease agreements or outright claim ownership. As consideration, the Company issued 125,000 shares and expended US\$1,767,000 on the property before 2000. The Company is also required to make all underlying lease payments (*Note 4a(i-iii)*).

The Company will fund 100% of the project until commercial production is achieved at which point FEI will be required to contribute 7% of any approved budget. The property is subject to a 2% Net Smelter Royalty ("NSR") to FEI. The Company has a 30 day right of first refusal in the event that the 7% working interest of FEI or the NSR is to be sold. The Company can also purchase the NSR at any time following commercial production, based on its net present value as determined by mineable reserves.

Underlying Leases

(i) Keystone Claims

By agreement dated 17 May 1992, the Company agreed to make advance royalty payments of US\$15,000 per year. By an agreement dated 15 May 2000 and 30 November 2001, the Company agreed to make advance royalty payments as follows:

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

4. Mineral Property Costs - *Continued*

a) Golden Summit Property, Alaska, USA - *Continued*

(i) Keystone Claims - *Continued*

	US Funds	
1992 – 1998 (US\$15,000 per year)	\$ 105,000	(paid)
2000	\$ 50,000	(\$25,000 paid in cash and \$25,000 with 58,898 treasury shares issued)
2001- 2006 (US\$50,000 per year)	\$ 300,000	(paid)
2007 (US\$150,000 per year)	\$ 150,000	(paid)
2008 (US\$150,000 per year)	\$ 150,000	(paid \$75,000 in 2008 with the remaining \$75,000 paid in 2009, subject to a payment extension (<i>Note 14</i>))
2009 – 2019 (US\$150,000 per year)	\$ 1,650,000	

An amendment signing bonus of US\$50,000 was paid 1 October 2000.

The leased property is subject to a 3% NSR.

(ii) Newsboy Claims

By lease agreement dated 28 February 1986 and amended 26 March 1996, the Company assumed the obligation to make advance royalty payments of US\$2,500 per year until 1996 (paid) and US\$5,000 per year until 2006 (paid). During 2006, the Company renewed the existing lease term for an additional 5 years on the same terms and conditions. The claims are subject to a 4% NSR. The Company has the option to purchase the NSR for the greater of the current value or US\$1,000,000 less all advance royalty payments made. These payments are current.

(iii) Tolovana Claims

In May 2004, the Company entered into an agreement with a third party (the "Seller") whereby the Seller transferred 100% of the rights via Quit Claim Deed to a 20-year lease on the Tolovana Gold Property in Alaska.

Under the terms of the agreement, the Company assumed all of the Seller's obligations under the lease, which include making annual payments of \$1,000 per month for the first 23 months increasing to \$1,250 per month for the 24th to the 48th months and increasing to \$1,500 after the 49th month and for the duration of the lease. These payments are current.

The property is subject to a sliding scale NSR as follows: 1.5% NSR if gold is below US\$300, 2.0% NSR in the event the price of gold is between US\$300 to US\$400, and 3.0% NSR in the event that the price of gold is above US\$400. In addition, the Company made a cash payment of US\$7,500 on signing and issued 400,000 shares on regulatory approval. An additional 200,000 shares are to be issued within 30 days of a minimum 200,000 ounce mineral resource being calculated on the property if the resource is established in five years or less from the date of the agreement.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

4. Mineral Property Costs – Continued

b) Almaden Property, Washington County, Idaho, USA

By agreement dated 13 December 1995 and various amendments thereto, the Company purchased a 60% interest in certain mineral claims located in Washington County, Idaho, known as the Almaden Property. As consideration, the Company paid US\$250,000 to underlying optionors, issued 4,621,714 common shares and completed a feasibility study.

Pursuant to the Company submitting a feasibility report, the Company entered into a joint venture agreement whereby 60% of all further costs spent on the property were the responsibility of the Company. The joint venture assumed the requirements to pay US\$250,000 to underlying optionors (paid), US\$4 per month for each acre acquired (approximately US\$10,000 per year [paid to date]) and US\$24,000 per year (US\$6,000 annually [paid to date] with the remaining US\$18,000 deferred for payment upon commencement of commercial production). The accumulated contingent liability for lease payments due on commencement of commercial production is US\$468,000. In 2007, the Company entered into an agreement whereby in consideration for the conversion of the 4% net returns royalty to a 1.5% NSR, the Company agreed to advance the accumulated lease payments over 4 years and waive its right to defer US\$18,000 per year in lease payments. The Company is now responsible for making US\$24,000 per year in lease payments. In the event that the Company does not make the total accrued lease payments, the lease holders shall retain the 4% net returns royalty, the Company will remain responsible for making the US\$24,000 annual lease payments and the accumulated payments under the conversion agreement of US\$118,000 will remain as a reduction against the US\$468,000 accumulated contingent liability.

By agreement dated 17 April 2001, the Company acquired the remaining 40% portion of the joint venture interest and 100% of the shares of Ican Minerals, Inc. and Canu Resources, Inc. for 500,000 shares of the Company (issued). The Company now owns a 100% interest in the Almaden Property, subject to underlying lease agreements.

The property is also subject to a 1% NSR if the average price of gold is less than US\$425 per ounce and 2% if the average price of gold is equal to or greater than US\$425 per ounce.

c) Rob Property, Alaska, USA

By agreement dated 9 July 2002, the Company has the option to earn a 100% interest in a 20-year lease on certain mineral claims located in the Good Paster Mining District, Alaska, known as the Rob Property.

As consideration, the Company paid US\$29,000 and issued 1,000,000 shares. In addition, the Company is also required to expend a total of US\$1,000,000 in exploration expenditures on the property prior to 31 December 2008 (completed). Minimum work in any given year shall not be less than US\$10,600 per year.

During the year, the company reached the US\$1,000,000 level of cumulative expenditures on the property and issued an additional 500,000 shares of the Company valued at \$305,000. In addition, the vendor retains a 1% NSR which the Company may purchase for US\$1,000,000 (Note 8a).

The Company is also responsible to make cash payments of US\$80,000 (paid) for an underlying agreement with the vendor.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

4. Mineral Property Costs – Continued

c) Rob Property, Alaska, USA – Continued

Commencing 1 December 2008, annual advance royalty payments must be made depending on the average gold price for the proceeding year as follows:

Gold Price Per Ounce	Annual Royalty Payment
Less than US\$350	US\$30,000
US\$350 to US\$400	US\$40,000
More than US\$400	US\$50,000

The vendor shall retain a NSR, which shall vary according to the London gold price for the preceding six-month period as follows: 1% for gold prices less than US\$300, 1.5% for gold prices between US\$301 and US\$350, and 2% for gold prices greater than US\$350. The NSR may be purchased for US\$500,000 for each percentage point. An undivided 100% interest in the property may be purchased for US\$1,500,000.

d) Vinasale Property, Alaska, USA

During the previous year, the Company entered into a mineral exploration agreement with an option to lease from the Doyon Native Corporation on the Vinasale property in central Alaska. Under the Agreement, the Company must make cash payments of US\$320,000 over five years (US\$50,000 first year paid, US\$60,000 second year paid), make annual scholarship donations of US\$10,000, (US\$10,000 first and second year paid) and make minimum exploration expenditures totalling US\$4,750,000 (US\$300,000 first year - completed).

During 2008, the Company requested that Doyon consider deferring the remaining 2008 expenditures to 2009, 2010 and 2011 in exchange for an additional contribution of US \$20,000 to the scholarship fund. In 2009, the Company again requested that Doyon give consideration to reducing the 2009 exploration expenditures to \$300,000 US. Doyon has granted this consideration. The Company has made the 2009 option payment.

The Company may at its option enter into a one year extension by making an additional cash payment of US\$100,000 and incurring an additional US\$1,500,000 in exploration expenditures. In the event the property is reduced by 50% or more, the additional exploration expenditures shall be reduced to US\$1,000,000.

e) Union Bay Property, Alaska, USA

The Company acquired certain mineral claims known as the Union Bay Property, in Alaska, USA, by way of staking.

(i) By agreement dated 1 October 2002 and amended 2 April 2003, the Company granted to PFN, a company that previously had certain directors in common, an option to earn a 70% interest in the property by purchasing a private placement of \$165,000 (2002) and making cash payments of \$100,000 (received), issuing 60,000 shares (received) and incurring exploration expenditures of \$1,000,000 (completed).

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

4. Mineral Property Costs – Continued

e) Union Bay Property, Alaska, USA – Continued

PFN vested with a 50% interest on 1 July 2006 and accordingly issued 253,586 shares pursuant to the agreement. Following vesting, PFN had the right to elect within 45 days to increase its interest to 60% by completing a feasibility study within 12 months of having vested. This election was not made.

By Memorandum of Agreement dated 4 May 2007, the Company and PFN confirmed their 50:50 interest in the property.

f) PGM A Property, Sudbury Region, Ontario, Canada

By various agreements dated between 6 March and 19 December 2000, the Company acquired a property in the Sudbury region, Ontario known as the PGM A Property. During a prior year, the Company earned a 100% interest in the property by making cash payments of \$100,000, issuing 300,000 shares and incurring exploration expenditures of \$50,000. The Company is also required to issue a further 100,000 shares to the optionor upon the completion of a bankable feasibility study.

The property is subject to a 3% NSR. The Company has the right to purchase up to 2% of the NSR for \$3,000,000 (the first 1% for \$1,000,000 and the second 1% for \$2,000,000).

By Letter Agreement dated 16 November 2001, the Company granted to PFN, a company that previously had certain directors in common with the Company, an option to earn a 70% interest in PGM A Property for cash payments of \$55,000 (received), issuance of 20,000 PFN shares (received) and exploration expenditures on the property of \$50,000 (completed).

PFN has the right to purchase an additional 30% interest in the property by paying the Company \$750,000. The Company and PFN will share the NSR buyout privileges in proportion to their respective interests.

During the prior year, all costs associated with the property have been written off.

g) Grew Creek Property, Yukon Territory, Canada

By Letter Agreement dated 27 May 2004, the Company had the right to acquire, from a third party, up to a 100% interest in certain mineral claims known as the Grew Creek Property located in Whitehorse Mining District, Yukon Territory. To acquire a 100% interest in the property, the Company was, at its option, required to complete the following: issue 200,000 shares (issued), make cash payments of \$305,000 (\$150,000 paid) and incur exploration expenditures of \$1,500,000.

During the prior year, the Company terminated this agreement. Accordingly, all costs associated with the property have been written off.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

5. Property, Plant and Equipment

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Mining equipment	\$ 2,344,942	\$ (615,056)	\$ 1,729,886	\$ 889,875
Automotive	38,079	(5,712)	32,367	-
Land	1,603,996	-	1,603,996	107,000
Office equipment	114,218	(62,560)	51,658	59,047
	<u>\$ 4,101,235</u>	<u>\$ (683,328)</u>	<u>\$ 3,417,907</u>	<u>\$ 1,055,922</u>

During the year ended 31 December 2008, total additions to property, plant and equipment were \$2,835,114 (31 December 2007 - \$1,167,134).

6. Related Party Balances and Transactions

Except as noted elsewhere in these consolidated financial statements, related party transactions are as follows:

- Effective 1 January 2005, each outside director is entitled to receive \$500 per month, \$500 per directors' meeting and \$500 per committee meeting. During the year, \$50,500 (2007 - \$27,500; 2006 - \$22,000) was paid/accrued to directors. As at 31 December 2008, amounts due to related parties includes \$25,761 (2007 - \$10,000) owing to directors. These amounts were incurred in the ordinary course of business, are non-interest bearing, unsecured and due on demand.
- During the year, management and severance fees of \$Nil (2007 - \$190,080; 2006 - \$107,602) were paid to a company controlled by the former Chairman.
- During the year, consulting fees of \$Nil (2007 - \$20,982; 2006 - \$28,231) were paid to a company controlled by the former Corporate Secretary.
- During the year, professional fees of \$59,166 (2007 - \$35,500; 2006 - \$28,831) were paid/accrued to a company controlled by the Chief Financial Officer. As at 31 December 2008, \$23,125 of this amount is included in due to related parties (2007 - \$Nil).
- During the year, legal fees of \$65,424 (2007 - \$Nil; 2006 - \$Nil) were paid/accrued to a Law Firm of which a director is a partner. As at 31 December 2008, \$39,964 of this amount is included in due to related parties (2007 - \$Nil).
- During the year, rent of \$Nil (2007 - \$Nil; 2006 - \$36,681) was paid to a company controlled by the former Chairman.
- During the year, consulting fees of \$7,083 (2007 - \$98,633; 2006 - \$73,042) were paid/accrued to a company controlled by the Vice-President of Business Development. During the year, the consultant became an employee and the related compensation is recorded under wages, salaries and benefits. During the year ended 31 December 2006, 400,000 performance shares (vested as described in Note 8e) were reserved for issuance and 300,000 of the 400,000 performance shares have been issued.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

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6. Related Party Balances and Transactions – Continued

- h) During the year, consulting fees of \$125,588 (2007 - \$150,680, 2006 - \$Nil) were paid/accrued to a company controlled by the Vice-President of Project Development. During the year ended 31 December 2007, 400,000 performance shares (vested as described in *Note 8e*) were reserved for issuance and 300,000 of the 400,000 performance shares were issued. As at 31 December 2008, \$21,603 of this amount is included in due to related parties (2007 - \$Nil) (*Note 13 iv*).
- i) During the year, the Company secured a US \$2 million short term loan from a company with a director in common with the Company. As at 31 December 2008, Cdn \$2,472,923 is outstanding on this loan (*Note 7 ii*).

The above transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. Loans Payable

	2008 \$	2007 \$
i. Convertible loans totalling US \$1,791,000 bearing interest at 4% per annum with interest only payments payable quarterly beginning August 2008, secured by both bulk sampling equipment located at and land adjacent to the Golden Summit property. The convertible loans are repayable in full on 30 May 2010. The convertible loans lenders (the "Convertible Loans Lenders") have the right to convert the outstanding principal, in whole or in part, into the common shares of the Company at a conversion price of US \$1.23 per share at any time during the term of the loans. The Convertible Loans Lenders also have the right to accelerate the maturity of the loans payable any time after 30 May 2009, should the Company raise additional debt, equity or receive asset sales aggregating \$3 million or more. Included in accounts payable at 31 December 2008 is interest of \$19,558 (2007 - \$Nil) related to the convertible loans.		
Subsequent to the year end, the Company breached the terms of the convertible loans, and the convertible loans are in default (<i>Notes 10, 13 and 14</i>).	2,200,996	Nil

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

7. Loans Payable – Continued

	2008 \$	2007 \$
ii. Short term loans totalling US \$4,000,000 bearing interest at 12.5% per annum with interest only payments payable monthly. The short term loans are repayable in full on 15 January 2009. Collateral for the short term loans is a first priority security arrangement on the shares in the Company's wholly owned US subsidiaries and a general security arrangement against the assets of the Company including a second charge against both bulk sampling equipment located at and land adjacent to the Golden Summit property. The loans can be prepaid at any time, and all proceeds generated from any subsequent financings completed by the Company must be used to repay the short term loans. During the year ended 31 December 2008, the Company paid placement closing fees related to the short term loans consisting of \$160,000 and the issuance of 700,000 warrants valued at \$188,290 to the short term loan lenders (the "Short Term Loans Lenders") (Note 8c). The lenders have the right to return the warrants to the Company after one year from the closing of the loan for total proceeds of \$200,000. A total of \$2,472,923 (2007 - \$Nil) of loans payable at 31 December 2008 is payable to a company with a director in common (Note 6 i). Included in accounts payable at 31 December 2008 is \$55,103 (2007 - \$Nil) related to interest on the short term loans.		
Subsequent to year end, the Company amended the loan agreements to extend the maturity of the loan to 10 February 2009 and again to 15 July 2009 (Notes 10, 13 and 14).	<u>4,953,503</u>	<u>Nil</u>
	<u>7,154,499</u>	<u>Nil</u>

8. Share Capital

a) Share Issuances

During the current year, the Company issued 500,000 common shares valued at \$305,000 as acquisition costs on the Rob Property (Note 4c).

During the prior year, the Company closed a non-brokered private placement of 5,500,000 units for gross proceeds of \$6,325,000. Each unit was priced at \$1.15 and consisted of one common share and one-half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$1.60 per share exercisable until 26 June 2009. At 31 December 2008, all of these share purchase warrants in this series remained outstanding.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

8. Share Capital – Continued

a) Share Issuances – Continued

During the prior year, the Company closed a non-brokered private placement of 5,100,000 units for gross proceeds of \$2,805,000. Each unit was priced at \$0.55 and consisted of one common share and one non-transferable share purchase warrant. Each warrant entitled the holder to purchase one additional common share at a price of \$0.75 per share exercisable until 28 February 2009. The Company had the right to accelerate the warrant expiration on 30 days written notice in the event that after 6 months, the closing bid price of the shares was equal to or above \$1.10 per share for any consecutive 20-day period. At 31 December 2008, none of the share purchase warrants in this series remained outstanding.

b) Exercise of Warrants and Options

- i) During the year, Nil (2007 – 8,673,269) warrants were exercised for gross proceeds of \$Nil (2007 – \$5,518,527).
- ii) During the year, 554,500 (2007 – 1,891,250) options were exercised for gross proceeds of \$262,260 (2007 – \$845,075).

c) Share Purchase Warrants

As at 31 December 2008, the following share purchase warrants are outstanding:

	Number	Price per Share	Expiry Date
	2,750,000	\$1.60	26 June 2009
	350,000	\$0.66	31 July 2010 *
	<u>350,000</u>	\$0.55	22 August 2010 *
Total	<u>3,450,000</u>		

During the year, 700,000 common share purchase warrants having a fair value of \$188,290 were issued as payment for placement closing fees related to short term loan financing of US \$4,000,000 (Notes 7 ii and 13).

Subsequent to year end, these warrants were reduced to \$0.30 (Note 13).

During the prior year, 7,850,000 common share purchase warrants having a fair value of \$1,645,559 were issued relating to two private placements.

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31 December 2008 and 2007

Canadian Funds

8. Share Capital – Continued

d) Share Purchase Options

The Company has established share purchase option plans whereby the Board of Directors (the "Board"), may from time to time, grant options to directors, officers, employees or consultants to a maximum of 10,129,247 options. At the Company's Annual and Special Meeting held on 28 April 2008, shareholders approved a resolution which amended the option plans to cap the number of options and performance shares outstanding to 10 % of the issued and outstanding shares, which at the time of the approval was 6,353,543. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Board. The exercise price of an option is not less than the closing price on the Toronto Stock Exchange on the last trading day preceding the grant date. Options vest upon the discretion of the Board.

A summary of the Company's options at 31 December 2008 and the changes for the year are as follows:

Number Outstanding 31 December 2007	Granted	Exercised	Cancelled	Expired	Number Outstanding 31 December 2008	Exercise Price Per Share	Expiry Date
820,000	-	(524,500)	-	(295,500)	-	\$0.48	10 September 2008
310,000	-	-	-	-	310,000	\$0.40/\$0.50	5 November 2009
500,000	-	-	-	-	500,000	\$0.20	30 September 2010
320,000	-	(30,000)	-	-	290,000	\$0.35	13 March 2011
80,000	-	-	-	-	80,000	\$0.50	17 July 2011
100,000	-	-	-	-	100,000	\$0.50	21 September 2011
350,000	-	-	-	-	350,000	\$0.50	11 January 2012
400,000	-	-	-	-	400,000	\$0.75	25 January 2010
40,000	-	-	-	-	40,000	\$1.20	4 June 2010
25,000	-	-	-	-	25,000	\$1.50	13 July 2012
40,000	-	-	-	-	40,000	\$1.71	16 October 2012
150,000	-	-	-	-	150,000	\$2.10	1 November 2012
-	100,000	-	-	-	100,000	\$1.50	8 February 2013
-	2,410,000	-	(125,000)	-	2,285,000	\$1.42	21 February 2013
-	150,000	-	-	-	150,000	\$1.42	10 April 2010
3,135,000	2,660,000	(554,500)	(125,000)	(295,500)	4,820,000		

Effective 1 January 2003, the Company adopted the recommendations of CICA Handbook Section 3870, Stock-based compensation (*Note 1i*). The standard requires that stock-based awards made to employees and non-employees are to be measured and recognized using a fair value based method. During the year, the Company transferred \$68,415 from contributed surplus to share capital as required when options were exercised.

Notes to Consolidated Financial Statements

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Canadian Funds

8. Share Capital – Continued

d) Share Purchase Options - Continued

During the year, the Company granted the following options and recognized the following costs with respect to options granted in 2008:

Grant Date	Granted	Exercise Price	Fair Value	2008 Vested Amount
8 February 2008	100,000	\$1.50	\$94,562	\$42,160
21 February 2008	2,410,000	\$1.42	2,275,312	1,544,200
10 April 2008	150,000	\$1.42	75,038	28,138
Total	2,660,000		\$2,444,912	\$1,614,498

During prior years, the Company granted the following options and recognized the 2008 vested amount as follows:

Grant Date	Granted	Exercise Price	Fair Value	2008 Vested Amount
13 March 2006	350,000	\$0.35	\$86,864	\$10,858
21 September 2006	100,000	\$0.50	28,662	11,943
11 January 2007	350,000	\$0.50	106,095	53,048
13 July 2007	25,000	\$1.50	25,280	12,640
16 October 2007	40,000	\$1.71	40,412	20,206
1 November 2007	150,000	\$2.10	193,384	87,692
Total	1,015,000		\$480,697	\$196,387

The total estimated fair value of the 3,675,000 options is \$2,925,609. Since the options were granted under a graded vesting schedule, \$1,128,191 of the total fair value has been recorded in the Company accounts as stock-based compensation expenses and \$682,694 of the total fair value has been recorded in the mineral properties during 2008. The offsetting entry for the total fair value of \$1,810,885 is to contributed surplus.

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31 December 2008 and 2007

Canadian Funds

8. Share Capital – Continued

d) Share Purchase Options – Continued

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2008	2007	2006
Expected dividend yield	0.00%	0.00%	0.00%
Expected stock price volatility	104.67%	68.93%	74.70%
Risk-free interest rate	2.31%	4.12%	4.08%
Expected life of options	3.38 years	4.12 years	5.0 years

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.

e) Performance Shares

A total of 2,187,482 performance shares were reserved for issuance. At the discretion of the Board, these shares may be issued to such arm's length parties as the Board considers desirable to attract consultants and/or employees to the Company.

During a prior year, the Board authorized the issuance of up to 400,000 performance shares at an exercise price of \$0.01 per share to attract a Vice-President of Business Development to the Company. These shares are to be granted as follows:

Shares	Date	
50,000	5 September 2005	(issued)
50,000	5 March 2006	(issued)
50,000	5 September 2006	(issued)
50,000	5 March 2007	(issued)
50,000	5 September 2007	(issued*)
50,000	5 March 2008	(issued**)
50,000	5 September 2008	(reserved for issuance***)
50,000	5 March 2009	(reserved for issuance****)
<u>400,000</u>		

* 50,000 performance shares were reserved for issuance at \$0.01 per share during the prior year. The fair market value of the performance shares at the date of the allotment/accrual was \$71,000 and was recorded in the accounts as consulting fees in the prior year. The offsetting entry was to contributed surplus. During the current year, these shares were issued for total proceeds of \$500 with the offsetting entry to share capital.

** 50,000 performance shares were issued at \$0.01 per share for total proceeds of \$500 during the year. The fair market value of the performance shares at the dates of allotment was \$83,500 of which \$64,675 was recorded as stock-based compensation in the prior year and \$18,825 recorded in the current year. The difference between the issue price and the fair market value was recorded in the accounts as stock-based compensation. The offsetting entry is to share capital.

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Canadian Funds

8. Share Capital – Continued

e) Performance Shares – Continued

*** 50,000 performance shares were reserved for issuance at \$0.01 per share. The accrued amount of 50,000 shares with the fair market value of \$25,500 was accrued to 5 September 2008 and was recorded in the accounts as stock-based compensation. The offsetting entry is to contributed surplus.

**** 50,000 performance shares were reserved for issuance at \$0.01 per share. The accrued amount of 32,500 shares with the fair market value of \$6,500 was accrued to 31 December 2008 and was recorded in the accounts as stock-based compensation. The offsetting entry is to contributed surplus.

During a prior year, the Board authorized the issuance of up to 1,000,000 performance shares at an exercise price of \$0.01 per share to attract a new President & CEO to the Company. These shares are available for issuance as follows:

Shares	Date	
100,000	1 January 2006	(issued)
81,818	1 April 2006	(issued)
81,818	1 July 2006	(issued)
81,818	1 October 2006	(issued)
81,818	1 January 2007	(issued)
81,818	1 April 2007	(issued)
81,818	1 July 2007	(issued)
81,818	1 October 2007	(issued*)
81,818	1 January 2008	(issued**)
81,818	1 April 2008	(issued**)
81,818	1 July 2008	(reserved for issuance***)
81,820	1 August 2008	(reserved for issuance****)
<u>1,000,000</u>		

* 81,818 performance shares were reserved for issuance at \$0.01 per share in the prior year. The fair market value of the performance shares at the date of the allotment/accrual was \$135,000 and was recorded in the accounts as wages and benefits in the prior year. The offsetting entry was to contributed surplus. During the current year, these shares were issued for total proceeds of \$818 with the offsetting entry to share capital.

** 163,636 performance shares were issued at \$0.01 per share for total proceeds of \$1,637 during the year. The fair market value of the performance shares at the dates of allotment was \$283,090 of which \$162,818 was recorded as stock-based compensation in the prior year and \$120,272 recorded in the current year. The difference between the issue price and the fair market value was recorded in the accounts as stock-based compensation. The offsetting entry is to share capital.

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8. Share Capital – Continued

e) Performance Shares – Continued

*** 81,818 performance shares were reserved for issuance at \$0.01 per share. The accrued amount of 81,818 shares with the fair market value of \$74,455 was accrued to 1 July 2008 and was recorded in the accounts as stock-based compensation. The offsetting entry is to contributed surplus.

**** 81,820 performance shares were reserved for issuance at \$0.01 per share. The accrued amount of 81,820 shares with the fair market value of \$48,275 was accrued to 1 August 2008 and was recorded in the accounts as stock-based compensation. The offsetting entry is to contributed surplus.

During a prior year, the Board authorized the issuance of up to 400,000 performance shares at an exercise price of \$0.01 per share to attract a new Vice-President of Exploration to the Company. These shares are available for issuance as follows:

Shares	Date	
33,333	13 June 2006	(issued)
33,333	13 September 2006	(issued)
33,333	13 December 2006	(issued)
33,333	13 March 2007	(issued)
33,333	13 June 2007	(issued)
33,333	13 September 2007	(issued)
33,333	13 December 2007	(issued*)
33,333	13 March 2008	(issued**)
33,333	13 June 2008	(issued**)
33,333	13 September 2008	(issued**)
33,333	13 December 2008	(reserved for issuance***)
33,337	13 March 2009	(reserved for issuance****)
<u>400,000</u>		

* 33,333 performance shares were reserved for issuance at \$0.01 per share in the prior year. The fair market value of the performance shares at the date of the allotment/accrual was \$71,333 and was recorded in the accounts as wages and benefits in the prior year. The offsetting entry was to contributed surplus. During the current year, these shares were issued for total proceeds of \$333 with the offsetting entry to share capital.

** 99,999 performance shares were issued at \$0.01 per share for total proceeds of \$1,000 during the year. The fair market value of the performance shares at the dates of allotment was \$103,332 of which \$13,267 was recorded as stock-based compensation in the prior year and \$90,065 recorded in the current year. The difference between the issue price and the fair market value was recorded in the accounts as stock-based compensation. The offsetting entry is to share capital.

Notes to Consolidated Financial Statements

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Canadian Funds

8. Share Capital – Continued

e) Performance Shares – Continued

*** 33,333 performance shares were reserved for issuance at \$0.01 per share. The accrued amount of 33,333 shares with the fair market value of \$4,667 was accrued to 13 December 2008 and was recorded in the accounts as stock-based compensation. The offsetting entry is to contributed surplus.

**** 33,333 performance shares were reserved for issuance at \$0.01 per share. The accrued amount of 6,667 shares with the fair market value of \$1,333 was accrued to 31 December 2008 and was recorded in the accounts as stock-based compensation. The offsetting entry is to contributed surplus.

During the prior year, the Board authorized the issuance of up to 400,000 performance shares at an exercise price of \$0.01 per share to attract a new Vice-President Project Development to the Company. These shares are available for issuance as follows:

Shares	Date
50,000	11 April 2007 (issued)
50,000	11 July 2007 (issued)
50,000	11 October 2007 (issued)
50,000	11 January 2008 (issued*)
50,000	11 April 2008 (issued**)
50,000	11 July 2008 (issued**)
50,000	11 October 2008 (reserved for issuance***)
50,000	11 January 2009 (reserved for issuance****)
<u>400,000</u>	

* 50,000 performance shares were reserved for issuance at \$0.01 per share in the prior year. The fair market value of the performance shares at the date of the allotment/accrual was \$99,500 of which \$87,560 was recorded as stock-based compensation in the prior year and \$11,940 recorded in the current year. The difference between the issue price and the fair market value was recorded in the accounts as stock-based compensation. During the current year, these shares were issued for total proceeds of \$500 with the offsetting entry to share capital.

** 100,000 performance shares were issued at \$0.01 per share for total proceeds of \$1,000 during the year. The fair market value of the performance shares at the dates of allotment was \$111,000. The difference between the issue price and the fair market value was recorded in the accounts as stock-based compensation. The offsetting entry is to share capital.

*** 50,000 performance shares were reserved for issuance at \$0.01 per share. The accrued amount of 50,000 shares with the fair market value of \$14,500 was accrued to 11 October 2008 and was recorded in the accounts as stock-based compensation. The offsetting entry is to contributed surplus. Subsequent to year end, these shares were cancelled (*Note 13 iv*).

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

8. Share Capital – Continued

e) Performance Shares – Continued

**** 50,000 performance shares were reserved for issuance at \$0.01 per share. The accrued amount of 44,000 shares with the fair market value of \$8,800 was accrued to 31 December 2008 and was recorded in the accounts as stock-based compensation. The offsetting entry is to contributed surplus. Subsequent to year end, these shares were cancelled (*Note 13 iv*).

9. Income Taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2008	2007
Loss before income taxes	\$ 5,165,861	\$ 4,384,463
Expected income tax (recovery)	\$ (1,616,286)	\$ (1,495,102)
Items not deductible for income tax purposes	650,734	1,025,844
Unrecognized benefit of non-capital losses	965,552	469,258
Total income taxes	\$ -	\$ -
Represented by:		
Current income tax	\$ -	\$ -
Future income tax	\$ -	\$ -

The significant components of the Company's future income tax assets and liabilities are as follows:

	2008	2007
Future income tax assets		
Financing costs	\$ 23,661	\$ 36,787
Loss carry-forwards	8,043,271	7,720,549
Undepreciated capital cost in excess of accounting net book value	308,199	174,539
Mineral properties	8,845,261	6,252,637
	17,220,392	14,184,512
Valuation allowance	(17,220,392)	(14,184,512)
Net future income tax assets	\$ -	\$ -

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9. Income Taxes – Continued

The Company has non-capital losses for Canadian tax purposes of approximately \$9,000,000 available to offset against taxable income in future years, which, if unutilized, will expire through to 2028. In addition, the Company has net operating loss carryovers for US tax purposes of approximately US\$16,500,000 available to offset against taxable income in future years, which, if unutilized, will expire through to 2028. Subject to certain restrictions, the Company also has resource exploration expenditures of approximately \$28,250,000 available to reduce taxable income of future years. Future tax benefits which may arise as a result of these losses, resource deductions and other tax assets have not been recognized in these financial statements, and have been offset by a valuation allowance.

10. Commitments

- i) The Company has outstanding and future commitments under mineral property option agreements to pay cash and issue common shares of the Company (*Note 4*).
- ii) The Company has outstanding and future commitments under various loan agreements with the Convertible Loan Lenders and the Short Term Loan Lenders (*Note 7*).
- iii) The Company has outstanding future commitments related to share purchase warrants and options (*Note 8*).
- iv) The Company has outstanding future commitments related to amounts due to related parties (*Note 6*).
- v) The Company is committed under operating lease agreements for its office premises in Vancouver and Idaho with the following estimated lease payments and dates:

Fiscal year ended 31 Dec	2009	2010	2011
Office lease - Vancouver	\$21,667	-	-
Office lease - Idaho	\$14,310	-	-

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

11. Segmented Information

Details on a geographic basis as at 31 December 2008 are as follows:

	USA		Canada		Total
Assets	\$ 31,449,851	\$	195,302	\$	31,645,153
Mineral property costs	\$ 28,053,152	\$	-	\$	28,053,152
Loss for the year	\$ (611,476)	\$	(4,554,385)	\$	(5,165,861)

Details on a geographic basis as at 31 December 2007 are as follows:

	USA		Canada		Total
Assets	\$ 19,115,593	\$	4,607,307	\$	23,722,900
Mineral property costs	\$ 18,118,718	\$	-	\$	18,118,718
Loss for the year	\$ (165,126)	\$	(4,219,337)	\$	(4,384,463)

Details on a geographic basis as at 31 December 2006 are as follows:

	USA		Canada		Total
Assets	\$ 9,950,735	\$	2,430,498	\$	12,381,233
Mineral property costs	\$ 9,950,735	\$	1,611,102	\$	11,561,837
Loss for the year	\$ (2,006)	\$	(1,770,627)	\$	(1,772,633)

12. Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP")

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Except as set out below, these consolidated financial statements also comply, in all material aspects, with accounting principles generally accepted in the United States and the rules and regulations of the Securities and Exchange Commission (the "SEC").

- a) SEC staff have interpreted US GAAP to require that mineral property exploration and land use costs must be expensed as incurred, until commercially mineable deposits are determined to exist within a particular property. Accordingly, for US GAAP purposes, for all periods presented, the Company has expensed all land use costs for mineral properties and deferred exploration costs, which have been incurred by the Company, for which commercially mineable revenues do not exist. Under Canadian GAAP, such costs have been deferred. For Canadian GAAP, cash flows relating to mineral property exploration and land use costs are reported as investing activities. For US GAAP, these costs would be characterized as operating activities.
- b) Under US GAAP, investments classified as available-for-sale are recorded at market value. The difference between the market value and the cost of the investment is recorded in comprehensive income. Once the investment is sold, the comprehensive income for that investment is transferred to income. Under Canadian GAAP, investments held as available-for-sale are reported at fair value based on quoted market price. There is no comprehensive income category in Canada prior to the adoption of CICA Handbook Section 3835, "Financial Instruments – Recognition and Measurement" and CICA Handbook Section 1530, "Comprehensive Income".

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

12. Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – Continued

c) Flow-through Shares

In 2004, the Company received a premium to market on the issuance of flow-through shares of \$77,100 which was recorded in share capital under Canadian GAAP. For US GAAP purposes, SFAS 109, "Accounting for Income Taxes", the proceeds should be allocated between the offering of the shares and the sale of tax benefits when the shares are offered. The allocation is made based on the difference between the quoted price of the shares and the amount the investor pays for the flow-through shares. A future tax liability is recognized for the premium paid by the investors.

In 2004, for Canadian GAAP purposes, the Company recorded a future income tax recovery of \$365,968 and a corresponding reduction of share capital in respect of flow-through share financing.

d) 514,501 performance shares were released upon regulatory approval prior to 1991 from an escrow arrangement based on the maintenance of the current level of cash flow. The excess of the fair value of these shares when the required level of cash flow was attained over the nominal original consideration paid of \$0.01 per share (\$5,145) would be charged to operations as compensation expense under US GAAP.

e) Under US GAAP, share issue costs are charged to share capital in the year and not to deficit.

f) The impact of the above differences between Canadian and US GAAP on loss for the period is as follows:

	Year Ended 31 December 2008	Year Ended 31 December 2007	Year Ended 31 December 2006
Loss for the period as reported	\$ (5,165,861)	\$ (4,384,463)	\$ (1,772,633)
Write-off of mineral exploration costs (Note 12a)	(9,304,985)	(6,556,881)	(2,977,659)
Loss for the period in accordance with US GAAP	\$ (14,470,846)	\$ (10,941,344)	\$ (4,750,292)
Basic loss per share for the year in accordance with US GAAP	\$ (0.23)	\$ (0.21)	\$ (0.13)

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

12. Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – Continued

- g) The impact of the above differences between Canadian and US GAAP on the deficit, as reported, is as follows:

	Year Ended 31 December 2008	Year Ended 31 December 2007
Deficit – As reported	\$ (33,937,088)	\$ (28,764,249)
Stock compensation expense (Note 12d)	(244,404)	(244,404)
Write-off of mineral property costs (Note 12a)	(27,423,703)	(18,118,718)
Share issue costs (Note 12e)	1,106,823	1,099,845
Future Income Tax recovery (Note 12c)	(288,868)	(288,868)
Deficit in accordance with US GAAP	\$ (60,787,240)	\$ (46,316,394)

- h) The impact of the above differences between Canadian and US GAAP on the statement of changes in shareholders' equity, as reported, is as follows:

	Common Shares		Deficit	Contributed Surplus	Warrants	Total
	Number	Amount				
Shareholders' equity balance as reported at 31 December 2007	62,543,307	\$ 49,370,919	\$ (28,764,249)	\$ 1,794,265	\$ 897,826	\$ 23,298,761
Stock compensation expense (Note 12d)	-	244,404	(244,404)	-	-	-
Write-off of mineral property costs (Note 12a)	-	-	(18,118,718)	-	-	(18,118,718)
Share issuance costs (Note 12e)	-	(1,099,845)	1,099,845	-	-	-
Future Income Tax recovery (Note 12c)	-	288,868	(288,868)	-	-	-
Shareholders' equity in accordance with US GAAP at 31 December 2007	62,543,307	\$ 48,804,346	\$ (46,316,394)	\$ 1,794,265	\$ 897,826	\$ 5,180,043
Shareholders' equity balance as reported at 31 December 2008	64,226,593	\$ 50,970,637	\$ (33,937,088)	\$ 3,091,812	\$ 1,086,116	\$ 21,211,477
Stock compensation expense (Note 12d)	-	244,404	(244,404)	-	-	-
Write-off of mineral property costs (Note 12a)	-	-	(27,423,703)	-	-	(27,423,703)
Share issuance costs (Note 12e)	-	(1,106,823)	1,106,823	-	-	-
Future Income Tax recovery (Note 12c)	-	288,868	(288,868)	-	-	-
Shareholders' equity in accordance with US GAAP at 31 December 2008	64,226,593	\$ 50,397,086	\$ (60,787,240)	\$ 3,091,812	\$ 1,086,116	\$ (6,212,226)

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

12. Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – Continued

i) Cash Flows

Statements of Cash Flows	Year Ended 31 December		
	2008	2007	2006
Cash used in operating activities under Canadian GAAP	\$ (3,033,465)	\$ (1,807,719)	\$ (1,228,781)
Mineral property exploration and development expenditures	(5,912,943)	(7,775,690)	(2,898,534)
Cash used in operating activities under US GAAP	(8,946,408)	(9,583,409)	(4,127,315)
Cash generated by financing activities, under Canadian and US GAAP	7,416,069	14,415,911	3,851,308
Cash used in investing activities under Canadian GAAP	(8,679,055)	(8,631,372)	(2,839,836)
Mineral property exploration and development expenditures	5,912,943	7,775,690	2,898,534
Cash used in (from) investing activities under US GAAP	(2,766,112)	(855,682)	58,698
Cash and cash equivalents end of year under Canadian and US GAAP	\$ 7,335	\$ 4,303,786	\$ 326,966

j) Recent Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60". SFAS No. 163 provides enhanced guidance on the recognition and measurement to be used to account for premium revenue and claim liabilities and related disclosures and is limited to financial guarantee insurance (and reinsurance) contracts, issued by enterprises included within the scope of FASB Statement No. 60, "Accounting and Reporting by Insurance Enterprises". SFAS No. 163 also requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS No. 163 is effective for financial statements issued for fiscal years and interim periods beginning after 15 December 2008, with early application not permitted. The Company does not expect SFAS No. 163 to have an impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") for nongovernmental entities. Prior to the issuance of SFAS No. 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants ("AICPA") Statement on Auditing Standards No. 69, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles". SAS No. 69 has been criticized because it is directed to the auditor rather than the entity. SFAS No. 162 addresses these issues by establishing that the GAAP hierarchy should be directed to entities because it is the entity, not its auditor, that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company does not expect SFAS 162 to have a material effect on its consolidated financial statements.

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

12. Differences Between United States and Canadian Generally Accepted Accounting Principles ("GAAP") – Continued

j) Recent Accounting Pronouncements – Continued

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*". SFAS No. 161 is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS No. 161 applies to all derivative instruments within the scope of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*". It also applies to non-derivative hedging instruments and all hedged items designated and qualifying as hedges under SFAS No. 133. SFAS No. 161 is effective prospectively for financial statements issued for fiscal years beginning after 15 November 2008, with early application encouraged. The Company is currently evaluating the new disclosure requirements of SFAS 161 and the potential impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations*". SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after 15 December 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141(R) on its consolidated results of operation and financial condition.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51*". SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after 15 December 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 160 on its consolidated results of operation and financial condition.

13. Subsequent Events

The following events occurred subsequent to 31 December 2008:

- i) On 14 January 2009, the Short Term Loan Lenders agreed to extend the maturity of the short term loans to 10 February 2009. As consideration of this extension, the exercise price of the 350,000 warrants granted as the payment of placement closing fees at the time the short term loans were advanced was reduced from \$0.66 and \$0.55 to \$0.30, and the Company issued an additional 500,000 common shares of the Company valued at \$115,000 (Note 8c).

Notes to Consolidated Financial Statements

31 December 2008 and 2007

Canadian Funds

13. Subsequent Events – *Continued*

- ii) On 23 February 2009, the Short Term Loan Lenders agreed to further extend the maturity date of the short term loans to 15 July 2009. As consideration of these extensions, the interest rate on the two loans was increased from 12.5% to 15.0% effective 1 April 2009, and the lenders received extension fees to be paid by way of the issuance of 720,000 common shares of the Company valued at \$122,400 and 1,000,000 share purchase warrants to purchase common stock of the Company for a two year period. A total of 500,000 of these warrants are exercisable at a price of \$0.17 per common share and the remaining 500,000 of these warrants are exercisable at a price of \$0.25 per common share. The Company must also pay a loan renegotiation fee of US \$200,000 to be paid by way of an increase in the principle balance of the loan payable by such an amount. A cash fee equal to 3% of loan principal is also payable upon the earlier of the receipt of new financing or 31 March 2009.
 - iii) The Company breached certain covenants of its convertible loans and the loans are in a default. The Company is attempting to negotiate certain waivers and interest payment extensions to allow the Company to maintain the original 30 May 2010 maturity date (*Note 7*).
 - iv) A total of 50,000 performance shares that were reserved for issuance on 11 October 2008 and 50,000 performance shares that were reserved for issuance on 11 January 2009 were cancelled. As a result, the stock-based compensation previously recorded has been reversed (*Note 8e*).
 - v) A total of 675,000 stock options were cancelled.
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14. Contingency

The Company is in breach of certain of its loan payable and mineral property option obligations (*Notes 4 and 7*).

15. Comparative Figures

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

16. Capital Disclosure

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, accumulated other comprehensive income and deficit. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic condition and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank sponsored instruments.