

**MERREX GOLD INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
AUGUST 31, 2008 AND 2007**



## AUDITORS' REPORT

To the Shareholders of  
Merrex Gold Inc.

We have audited the consolidated balance sheets of Merrex Gold Inc. as at August 31, 2008 and 2007, and the consolidated statements of loss, comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Vancouver, Canada

December 12, 2008

"Morgan & Company"

Chartered Accountants

**MERREX GOLD INC.**  
**CONSOLIDATED BALANCE SHEETS**

	<b>AUGUST 31</b>	
	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 61,459	\$ 3,911,520
Prepaid expenses	19,575	311,274
Taxes and other receivables	357,562	631,300
Exploration advances	53,200	105,621
	491,796	4,959,715
<b>Exploration Advances Receivable</b>	17,828	304,741
<b>Capital Assets (Note 3)</b>	66,622	87,492
<b>Deferred Exploration Expenditures And Property Costs (Note 4)</b>	17,139,940	12,687,285
	\$ 17,716,186	\$ 18,039,233
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,995,691	\$ 746,043
Loan payable to related party (Notes 5 and 7)	145,000	-
	3,140,691	746,043
<b>Future Income Tax Liability (Note 8)</b>	-	327,000
	3,140,691	1,073,043
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital (Note 6)</b>	28,934,112	27,134,560
<b>Contributed Surplus (Note 6)</b>	2,964,942	2,464,517
<b>Deficit</b>	(17,323,559)	(12,632,887)
	14,575,495	16,966,190
	\$ 17,716,186	\$ 18,039,233

Approved on Behalf of the Board of Directors:

\_\_\_\_\_  
 "Gregory Isenor"  
 Director

\_\_\_\_\_  
 "Walter Henry"  
 Director

The accompanying notes are an integral part of these financial statements.

**MERREX GOLD INC.**

**CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**

	YEARS ENDED AUGUST 31	
	2008	2007
<b>Administrative Expenses</b>		
Amortization	\$ 23,059	\$ 20,196
Consulting fees	265,641	113,038
Director fees (Note 7)	58,183	38,150
Filing and transfer fees	40,457	37,663
Management fees (Note 7)	224,000	214,500
Marketing and public relations	219,397	218,633
Office and rent (Note 7)	345,831	259,560
Professional fees (Note 7)	337,861	210,330
Property investigation costs	-	60,000
Stock based compensation	469,679	1,782,107
Travel and business development	331,415	178,476
	<b>2,315,523</b>	<b>3,132,653</b>
<b>Other Recoveries (Expenses)</b>		
Foreign exchange gain (loss)	(75,986)	10,136
Write-off of advance receivable (Note 7)	(55,703)	-
Write-down of resource properties	(3,538,844)	-
Interest income	64,623	84,983
Interest and bank charges	(111,239)	(100,589)
	<b>(3,717,149)</b>	<b>(5,470)</b>
<b>Loss Before Income Taxes</b>	<b>(6,032,672)</b>	<b>(3,138,123)</b>
Future income tax recovery	1,342,000	1,846,672
	<b>(4,690,672)</b>	<b>(1,291,451)</b>
<b>Net Loss And Comprehensive Loss For The Year</b>	<b>(4,690,672)</b>	<b>(1,291,451)</b>
<b>Deficit, Beginning Of Year</b>	<b>(12,632,887)</b>	<b>(11,341,436)</b>
<b>Deficit, End Of Year</b>	<b>\$ (17,323,559)</b>	<b>\$ (12,632,887)</b>
<b>Loss Per Share, Basic and diluted</b>	<b>\$ (0.08)</b>	<b>\$ (0.03)</b>
<b>Weighted Average Number Of Shares</b>	<b>58,090,380</b>	<b>45,418,025</b>

The accompanying notes are an integral part of these financial statements.

**MERREX GOLD INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEARS ENDED AUGUST 31	
	2008	2007
<b>Cash Flows From Operating Activities</b>		
Net loss for the year	\$ (4,690,672)	\$ (1,291,451)
Items not involving cash:		
Amortization	23,059	20,196
Stock based compensation	469,679	1,782,107
Future income tax recovery	(1,342,000)	(1,846,672)
Write-down of resource properties	3,538,844	-
	<u>(2,001,090)</u>	<u>(1,335,820)</u>
Changes in non-cash working capital items:		
Prepaid expenses	291,699	(292,524)
Taxes and other receivables	273,738	(503,830)
Exploration advances	52,421	(105,621)
Accounts payable and accrued liabilities	131,101	(222,432)
	<u>(1,252,131)</u>	<u>(2,460,227)</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of capital assets	(2,189)	(36,330)
Exploration advances	286,913	(304,741)
Deferred exploration and property costs	(5,855,452)	(7,244,624)
	<u>(5,570,728)</u>	<u>(7,585,695)</u>
<b>Cash Flows From Financing Activities</b>		
Loan advances	145,000	400,000
Loan repayments	-	(400,000)
Issuance of share capital	3,164,870	13,757,312
Share issue costs	(337,072)	(928,442)
	<u>2,972,798</u>	<u>12,828,870</u>
<b>Net Increase (Decrease) In Cash</b>	<b>(3,850,061)</b>	<b>2,782,948</b>
<b>Cash And Cash Equivalents, Beginning Of Year</b>	<b>3,911,520</b>	<b>1,128,572</b>
<b>Cash And Cash Equivalents, End Of Year</b>	<b>\$ 61,459</b>	<b>\$ 3,911,520</b>
<b>Cash And Cash Equivalents Is Comprised Of:</b>		
Cash	\$ 61,459	\$ 380,804
Short-term deposits	\$ -	\$ 3,530,716
<b>Supplemental Disclosure Of Non-Cash Financing And Investing Activities</b>		
Shares issued for mineral properties	\$ 17,500	\$ 17,500

The accompanying notes are an integral part of these financial statements.

## MERREX GOLD INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

#### 1. NATURE OF BUSINESS AND CONTINUANCE OF OPERATIONS

Merrex Gold Inc. (the "Company") is incorporated under the *Business Corporations Act* of British Columbia. The Company's principal business activity is the acquisition and exploration of resource properties.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain economically recoverable ore reserves. The recoverability of the amounts shown for mineral properties and related deferred exploration expenditures is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds of disposition thereof.

These consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. As at August 31, 2008, the Company had a working capital deficiency of \$2,648,895. The ability of the Company to fulfill its commitments, meet its planned business objectives and continue as a going concern is dependent upon the ability of the Company to raise additional financing and upon successful results from its mineral property acquisitions and exploration activities. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the following significant accounting policies:

a) Recently adopted accounting pronouncements

On September 1, 2007, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530 "Comprehensive Income", 3251 "Equity", 3865 "Hedges", 3855 "Financial instruments – Recognition and Measurement" and 3861 "Financial Instruments – Disclosure and Presentation". These standards were adopted on a prospective basis; accordingly comparative amounts for prior periods have not been restated.

CICA Section 1530 established standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. The Company has no changes in its net assets that are not included in the statement of operations.

CICA Section 3251 established standards for the presentation of equity and changes in equity during the period. Accumulated other comprehensive income is included on the consolidated balance sheet as a separate component of shareholders' equity, and includes the foreign currency cumulative translation adjustment.

CICA Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company does not have any hedges.

CICA Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost based measures under different circumstances. Transaction costs related to held-to-maturity financial liabilities are charged to interest expense as incurred. The fair value of all short-term financial assets, liabilities, cash and short term investments approximates their carrying value, particularly given their short maturities. Unless otherwise noted, it is management's opinion that there are no significant currency and credit risks arising from these financial instruments.

CICA Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore the comparative figures have not been restated.

The changes in accounting policy did not have a material impact on the financial statements.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008 AND 2007**

**2. SIGNIFICANT ACCOUNTING POLICIES - Continued**

b) Recently issued accounting pronouncements

Financial Instruments – Disclosure and Presentation.

In March 2007, the CICA issued Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. The new guidance replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories. These Sections are effective for interim and annual fiscal years beginning on or after October 1, 2007. The implementation of these standards is not expected to have a material effect on the Company's financial statements.

Accounting Changes

In July 2006, the CICA revised Section 1506, Accounting Changes, which requires that voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information, that changes in accounting policy are generally applied retrospectively and that prior period errors be corrected retrospectively. Section 1506 is effective for fiscal years beginning on or after January 1, 2007. The implementation of this standard is not expected to have a material effect on the Company's financial statements.

Capital Disclosures

In December 2006, the CICA issued section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and procedures for managing capital. This section is effective for interim and annual fiscal years beginning on or after October 1, 2007. The new requirements are for disclosures only and will not impact the financial results of the Company.

Inventories

CICA Section 3031 – Inventories is effective for fiscal years beginning on or after January 1, 2008 and aligns accounting for inventories under Canadian GAAP with International Financial Reporting Standards (IFRS). This standard will not impact the Company's financial statements.

IFRS

In February 2008 the Accounting Standards Board announced that accounting standards in Canada are to converge with IFRS and companies will begin reporting, with comparative data, under IFRS for fiscal years beginning on or after January 1, 2011. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosure which the Company is beginning to assess.

c) Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Jubilee Minerals Limited, incorporated under the laws of Nova Scotia. All significant inter-company transactions and balances have been eliminated.

d) Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

e) Mineral Property Costs

The Company records its interest in mineral properties at cost, less option income realized. The cost of mineral properties and related exploration costs are deferred until the properties are brought into production, sold or abandoned. These deferred costs will be amortized on the unit-of-production basis over the estimated useful life of the properties following the commencement of production or will be written off if the properties are sold, allowed to lapse or abandoned.

Option payments received are treated as a reduction of the carrying value of the related deferred costs until the Company's costs are recovered. Option payments received in excess of costs incurred are credited to revenue.

MERREX GOLD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES - Continued

e) Mineral Property Costs - continued

The amount shown for mineral property interests represents costs incurred to date, represented by amounts paid in cash and the fair market value of common shares issued, net of option payments received, and does not necessarily reflect present or future value. Administrative expenditures are expensed in the year incurred. Property investigation costs, where a property interest is not acquired, are expensed as incurred.

Although the Company has taken steps to verify title to mineral properties, these procedures do not guarantee the Company's title. Property title may be subject to un-registered prior agreements or other impediments.

On an annual basis or when impairment indicators arise, the Company evaluates the future recoverability of its mineral property costs. Impairment losses or write downs are recorded in the event the net book value of such assets exceeds the estimated indicated future cash flows attributable to such assets.

f) Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

The Company has determined that it has no legal obligation for reclamation and remediation costs.

g) Capital Assets and Amortization

Capital assets are recorded at cost and amortized over their economic life using the declining balance method at the following rates:

Computer hardware	30%
Office furniture and equipment	20%
Leasehold improvements	Over the remaining term of the lease

h) Financial Instruments

The Company's financial instruments include cash, taxes recoverable, exploration advances receivable and accounts payable and accrued liabilities.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

i) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the earnings (loss) for the period by the weighted average number of common shares issued and outstanding during the period. Diluted earnings (loss) per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings (loss) per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Basic and diluted loss per share are equal for the twelve month periods ended August 31, 2008 and August 31, 2007 as outstanding stock options and warrants were anti-dilutive.

j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates and would impact future results of operations and cash flows. Significant estimates and assumptions include those related to the recoverability of mineral properties and deferred exploration expenditures, estimated useful lives of capital assets, determination as to whether costs are expensed or deferred, asset retirement obligations and stock based compensation valuations.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008 AND 2007**

**2. SIGNIFICANT ACCOUNTING POLICIES - Continued**

k) Stock Based Compensation

The Company measures all stock based payments using the fair value method of accounting and recognizes the compensation expense in their financial statements.

The Company accounts for compensation expense based on the fair value of options granted, determined using the Black-Scholes option-pricing model. Compensation costs are expensed over the vesting period(s) with a corresponding increase to contributed surplus. Upon exercise of the stock options consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

l) Flow-Through Shares

The Company has financed certain of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. The Company recognizes the foregone tax benefit at the time of the renouncement, provided there is reasonable assurance that the expenditures will be incurred.

m) Fair Value of Warrants

Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method to determine the fair value of warrants issued. Warrants issued to brokers are evaluated using the Black-Scholes model.

n) Income Taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. Future income tax liabilities or assets are calculated using the tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

o) Foreign Currency Translation

Transactions recorded in CFA Francs and United States dollars have been translated into Canadian dollars using the Temporal Method as follows:

- i) monetary items at the rate prevailing at the balance sheet date;
- ii) non-monetary items at the historical exchange rate;
- iii) revenue and expense at the average rate in effect during the applicable accounting period.

Gains or losses arising on translation are included in the results of operations.

**3. CAPITAL ASSETS**

	<b>2008</b>			<b>2007</b>
	Cost	Accumulated Amortization	<b>Net Book Value</b>	Net Book Value
Furniture and fixtures	\$ 28,248	\$ 8,744	<b>\$ 19,504</b>	\$ 24,380
Computer hardware	15,629	6,855	<b>8,773</b>	9,876
Leasehold improvements	73,136	34,792	<b>38,345</b>	53,236
	<b>\$ 117,013</b>	<b>\$ 50,391</b>	<b>\$ 66,622</b>	<b>\$ 87,492</b>

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008 AND 2007**

**4. DEFERRED EXPLORATION EXPENSE AND MINERAL PROPERTY COSTS**

	Acquisition Cost	Exploration Expenditures	Write- Downs	2008 Total	2007 Total
High River Properties	<b>\$1,317,282</b>	\$ -	<b>\$(1,317,282)</b>	\$ -	\$ 1,317,282
West Voisey's Bay	-	1,979,990	(1,979,990)	-	2,000,618
Red Lake	-	479,201	-	479,201	243,284
Hungry Hill	-	132,422	-	132,422	52,109
Sutherlands Pond	-	54,338	-	54,338	52,234
West Voisey's Bay-2	72,500	142,488	(214,988)	-	171,239
Jubilee Property	963,130	4,889,585	-	5,852,715	3,635,416
Mali Properties	-	-	-	-	-
Siribaya	265,000	9,054,124	-	9,319,124	4,732,563
Kakadian	80,000	64,951	-	144,951	95,795
Turkey Properties	-	505,063	-	505,063	-
Other Properties	3,987	674,723	(26,584)	652,126	386,745
	<b>\$2,701,899</b>	<b>\$17,976,885</b>	<b>\$(3,538,844)</b>	<b>\$17,139,940</b>	<b>\$12,687,285</b>

	Acquisition costs	Exploration Expenditures	Write- Downs	2007 Total	2006 Total
High River Properties	\$ 1,317,282	\$ -	\$ -	\$ 1,317,282	\$1,317,282
West Voisey's Bay	-	2,000,618	-	2,000,618	1,163,736
Red Lake	-	243,284	-	243,284	97,531
Hungry Hill	-	52,109	-	52,109	-
Sutherlands Pond	-	52,234	-	52,234	-
West Voisey's Bay 2	30,000	141,239	-	171,239	-
Jubilee Property	893,750	2,741,666	-	3,635,416	1,062,587
Mali Properties	-	-	-	-	-
Siribaya	138,000	4,594,563	-	4,732,563	1,149,370
Kakadian	35,000	60,795	-	95,795	77,838
Other Properties	1,920	384,825	-	386,745	45,329
	<b>\$ 2,415,952</b>	<b>\$ 10,271,333</b>	<b>\$ -</b>	<b>\$ 12,687,285</b>	<b>\$4,913,673</b>

a) High River Properties

In 2006 the Company acquired varying interests in certain exploration properties from High River Gold Mines Ltd. for \$361,415 cash, the issuance of 2,245,000 common shares at a value of \$898,000, and the issuance of 144,667 common shares at a value of \$57,867 to four guarantors (including three directors).

- (i) West Voisey's Bay - The properties include a 50% interest in 451 claims in West Voisey's Bay. The Company does not plan further investment in the West Voisey's Bay property in the foreseeable future and, accordingly, the Company's investment of \$3,297,272 in the property to date (comprised of the purchase price of \$1,317,282 and exploration expenditures of \$1,979,990) was written off.
- (ii) Other – The properties also include a 100% interest in 229 claims in the Red Lake and Birch Lake areas of Ontario and a 50% interest in the Hungry Hill and Sutherland's Pond properties in Labrador.

b) West Voisey's Bay-2 (VB-2)

Effective October 6, 2006, the Company and its joint venture partner Celtic Minerals Ltd. entered into an option agreement to acquire a 100% interest in the VB-2 property in West Voisey's Bay. Subsequent to August 31, 2008, management of the Company and Celtic Minerals Ltd. jointly made the decision not to proceed with the option on this property. Accordingly, the investment of \$214,988 in the property to date, comprised of 50,000 shares at a fair value of \$35,000, cash payments of \$37,500 and \$142,488 in exploration expenditures, was written down to \$Nil.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008 AND 2007**

**4. DEFERRED EXPLORATION EXPENSE AND MINERAL PROPERTY COSTS - Continued**

c) Jubilee Property

The Jubilee Property is a 189-claim land position in Inverness and Victoria counties of Central Cape Breton, Nova Scotia. Of these claims, 23 claims are subject to a 2% Net Smelter Return and 1% of such Net Smelter Return may be purchased by the Company for \$1,000,000.

d) Mali Properties

The Company has optioned from Touba Mining SARL ("Touba") of Bamako, Mali certain mining permits within a 4,100 square kilometer defined area of interest in the southern portion of what is referred to as the West Mali Gold Belt. These permits are called the Siribaya Gold Project.

Pursuant to the terms of the option agreement, the Company has earned a 95% interest in the Siribaya (132 sq km) and Taya-Malea (177 sq km) mining permits by making cash payments aggregating \$85,000 and incurring exploration expenditures exceeding the minimum requirement of \$750,000.

The Company has also secured through Touba option rights from other parties for the Kambaya (143 sq km), Kofia (147 sq km) and Babara (142 sq km) permits within this area of interest. All required legalities have been completed for all permits except for the Kambaya permit which is nearing completion. These permits require additional cash payments totalling \$291,000, of which \$180,000 has been paid to date. There are no expenditure requirements for these permits. To date the Company has earned interests in these permits as follows: Babara permit – 75%; Kofia permit – 100% and Kambaya permit – 60%. Additional cash payments required under each permit are as follows: \$45,000 by December 2008 for the remaining 25% of the Babara permit and \$66,000 by May 2009 for the remaining 40% of the Kambaya permit.

All permits are subject to a 5% net profit interest royalty in favour of the Optionor and, if the properties are to be developed as a mine, a 20% dilution in favour of the Government of Mali, of which 10% is participating and 10% is carried. If the government of Mali elects not to participate, the 10% participating interest reverts to the Company. Subsequent to year-end, the Company entered into an agreement with Touba to acquire Touba's 5% carried interest in its Siribaya Gold Project for the issuance of 2,000,000 common shares. The acquisition is subject to certain conditions, including the closing of an option agreement on the Siribaya Gold Project (Note 10).

The Company has earned a 100% interest in the Kakadian Permit of approximately 109 square kilometres located in Mali for cash payments of approximately \$80,000. There are no exploration expenditure obligations for the Kakadian property. The Kakadian permit is subject to a 3% net profit interest royalty in favour of the Optionor and, if the property is to be developed as a mine, a 20% dilution in favour of the Government of Mali, of which 10% is participating and 10% is carried. If the government of Mali elects not to participate, the 10% participating interest reverts to the Company.

e) Turkey Properties

In January 2008, the Company entered into a strategic alliance with AgeanGold Madencilik Ltd. Sti. ("Agean"), a Turkish corporation, for the exploration for gold in western Turkey. The Company and AgeanGold have acquired eleven exploration permits in four regions: Efemçukuru (two permits of 2180 hectares), Odemis (four contiguous permits totalling 7450 hectares), Ordu-Ulubey-Sayaca (one permit of 887 hectares) and Kure (five contiguous permits totalling 8588 hectares). As at August 31, 2008, the total cost of operations and permits was \$505,063. On August 1, 2008 the Company and AgeanGold optioned to Roscan Minerals (BVI) Corp. a 50% interest in its Turkey properties for \$1,000,000 in exploration expenditures over four years, with the first year's expenditures of \$300,000 being a firm commitment. The Company will be the Operator during the earn-in period.

f) Other Properties

*Sand Brook Property*

The Company has the option to earn up to a 50% interest in 43 claims near Sand Brook Mountain, New Brunswick. The Company has earned a 15% vested interest as at December 31, 2007 and can earn an additional 35% by spending \$350,000 by June 30, 2009. A 5% vested interest is earned for each \$50,000 in exploration expenditures.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008 AND 2007**

**4. DEFERRED EXPLORATION EXPENSE AND MINERAL PROPERTY COSTS - Continued**

f) Other Properties - Continued

*Pictou County Property*

On May 2, 2008 the Company entered into an option agreement to earn up to a 65% vested interest in 555 mineral claims in Pictou County, Nova Scotia by making option payments and exploration expenditures as follows:

Due Date	Cash Payments	Exploration Expenditures	Interest
On execution	\$20,000 (paid)		
By December 31, 2008	\$50,000	\$125,000	10% not vested
By December 31, 2009	\$100,000	\$125,000	20% not vested
By December 31, 2010	\$150,000	\$300,000	40% vested
By December 31, 2011		\$400,000	65% vested
TOTAL	\$320,000	\$950,000	65% vested

*Other*

The Company's other properties also include 799 claims in Nova Scotia over a number of prospective zinc occurrences, and 32 claims near Winterland, Newfoundland over a prospective zinc/molybdenum occurrence.

**5. LOAN PAYABLE TO RELATED PARTY**

Unsecured loan payable to a director, without interest or fixed terms of repayment.

**6. SHARE CAPITAL**

a) Authorized

Unlimited common shares without par value.

b) Issued and Outstanding

	<b>SHARES</b>	<b>AMOUNT</b>	<b>CONTRIBUTED SURPLUS</b>
Balance, August 31, 2006	35,992,275	\$ 16,781,673	\$ 362,600
Issued during 2007:			
For cash:			
Private placements	14,740,031	12,766,022	-
Share issue costs	-	(928,443)	-
Warrants exercised	3,368,083	821,063	-
Agents' options exercised	243,181	170,227	-
For resource properties	25,000	17,500	-
Agents' units issued	208,000	197,600	-
Agents' units and options issued	-	(607,575)	409,975
Agents' options exercised	-	90,165	(90,165)
Future income tax recovery	-	(2,173,672)	-
Stock-based compensation			1,782,107
Balance, August 31, 2007 – Carried Forward	<u>54,576,570</u>	<u>\$ 27,134,560</u>	<u>\$ 2,464,517</u>

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008 AND 2007**

**6. SHARE CAPITAL - Continued**

b) Issued and Outstanding - Continued

Balance, August 31, 2007 – Brought Forward	54,576,570	\$ 27,134,560	\$ 2,464,517
Issued during 2008:			
For cash:			
Private placements	4,769,185	3,099,970	-
Share issue costs	-	(337,072)	-
Exercise of options	590,000	64,900	-
Exercise of options	-	53,254	(53,254)
Agents' warrants issued	-	(84,000)	84,000
For resource properties	25,000	17,500	-
Future income tax recovery	-	(1,015,000)	-
Stock-based compensation	-	-	469,679
<b>Balance, August 31, 2008</b>	<b>59,960,755</b>	<b>\$ 28,934,112</b>	<b>\$ 2,964,942</b>

- (i) In April 2008, the Company issued 590,000 common shares for \$64,900 on the exercise of options at \$0.11 per share;
- (ii) On December 21, 2007, the Company issued 4,769,185 flow-through common shares at a price of \$0.65 per share for cash of \$3,099,970. Agents were paid cash commissions of \$216,998 and received 333,843 common share purchase warrants exercisable until December 21, 2009 at an exercise price of \$0.65 per share. Using the Black Scholes model a fair value of \$84,000 was assigned to the warrants and charged to share issue costs. The assumptions used to fair value the warrants were a risk-free rate of 4.0%, expected volatility of 91%, expected life of 2 years and a dividend yield of 0%;
- (iii) In March 2008, the Company renounced \$3,099,970 in expenditures related to the issuance of flow-through shares and reduced share capital for the tax effects of the tax benefits renounced to subscribers;
- (iv) On October 10, 2007 the Company issued 25,000 common shares at a fair value of \$17,500 pursuant to an option agreement for the West Voisey's Bay-2 property;
- (v) On June 7, 2007 the Company issued 7,792,000 Units at a price of \$0.95 per share for cash of \$7,402,400. Each unit consists of one common share and one-half of one common share purchase warrant. Each full purchase warrant is exercisable at a price of \$1.25 until June 7, 2008 and thereafter at a price of \$1.75 until expiry on December 7, 2008. Agents were paid cash commissions of \$320,568, received 208,000 units at a fair value of \$197,600, and received 623,360 agents' compensation options exercisable into one common share of the Company at an exercise price of \$1.00 expiring December 7, 2008. Using the Black Scholes model a fair value of \$229,645 was assigned to the options and charged to share issue costs;
- (vi) On March 31, 2007, the Company renounced \$6,348,340 in expenditures related to the issuance of flow-through shares and warrants and reduced share capital for the tax effect of the tax benefits renounced to subscribers;
- (vii) On December 6, 2006 the Company issued 5,000,000 flow-through common shares at a price of \$0.80 per share for cash of \$4,000,000. The Company also issued 1,948,031 common shares pursuant to a unit offering at a price of \$0.70 per unit for cash of \$1,363,622. Each unit consists of one common share and one-half of a common share purchase warrant. Each full purchase warrant entitles the holder to purchase one additional common share at \$0.90 per share for a period of one year, subject to certain accelerated expiry terms. Agents were paid cash commissions of \$375,453 and were granted agents' compensation options of 486,363 units, exercisable at \$0.70 per unit expiring December 7, 2007. Using the Black Scholes model a fair value of \$180,330 was assigned to the options and charged to share issue costs. The assumptions used to fair value the warrants were a risk-free rate of 4.0%, expected volatility of 93.6%, expected life of 1 year and a dividend yield of 0%;

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008 AND 2007**

**6. SHARE CAPITAL - Continued**

b) Issued and Outstanding - Continued

- (viii) During the year ended August 31, 2007, the Company issued 2,841,666 common shares for \$426,250 on the exercise of warrants at \$0.15 per share, issued 526,417 common shares for \$394,813 on the exercise of warrants at \$0.75 per share, and issued 243,181 common shares on the exercise of agents' compensation options at \$0.70 per share;
- (ix) On October 6, 2006 the Company issued 25,000 common shares at a fair value of \$17,500 pursuant to an option agreement for the West Voisey's Bay-2 property.

c) Escrow Shares

As at August 31, 2008 there were 4,335,500 shares subject to a Value Securities Escrow Agreement. These shares will be released on the following basis:

Release Dates	Number of Escrowed Securities to be Released
November 24, 2008	2,167,750
May 24, 2009	2,167,750
<b>Total</b>	<b>4,335,500</b>

d) Stock Options

The Company has a rolling stock option plan under which options to acquire common shares of the Company are granted to directors, officers, employees and consultants of the Company. The maximum number of options permitted is limited to ten percent (10%) of the issued capital of the corporation from time to time. As at August 31, 2008, the following options have been issued and remain outstanding:

Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Expiry Date
\$0.45	100,000	100,000	December 5, 2010
\$0.75	1,950,000	1,950,000	June 1, 2011
\$0.75	275,000	275,000	November 7, 2011
\$0.90	935,000	935,000	December 19, 2011
\$0.75	1,120,000	1,120,000	December 4, 2012
	<u>4,380,000</u>	<u>4,380,000</u>	

The change in stock options during the 12 months ended August 31, 2008 and August 31, 2007 is as follows:

	2008		2007	
	Options Outstanding	Weighted Average Exercise Price Per Share	Options Outstanding	Weighted Average Exercise Price Per Share
Beginning of period	4,260,000	\$ 0.69	2,790,000	\$ 0.60
Issued	1,200,000	0.75	1,520,000	0.87
Exercised	(590,000)	(0.11)	-	-
Cancelled/Expired	(490,000)	(0.81)	(50,000)	(0.83)
End of period	<u>4,380,000</u>	<u>\$ 0.78</u>	<u>4,260,000</u>	<u>\$ 0.69</u>

The fair values of options granted have been estimated using an option-pricing model. Assumptions used in the pricing model are as follows for 2008 (2007): Average risk-free interest rate – 4% (4%), expected life – 5 years (5 years), expected volatility - 103% (115%) and expected dividend - \$Nil (Nil).

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**6. SHARE CAPITAL - Continued**

e) Agents' Compensation Options

Pursuant to the June 6, 2007 private placement, the Company issued 623,360 agents' compensation options exercisable into common shares of the Company at an exercise price of \$1.00 expiring December 7, 2008.

As at August 31, 2008, the following warrants were outstanding:

	2008		2007	
	Warrants Outstanding	Weighted Average Exercise Price Per Share	Warrants Outstanding	Weighted Average Exercise Price Per Share
Beginning of year	5,095,607	\$ 1.37	3,453,083	\$ 0.26
Issued	333,843	0.65	5,095,607	1.37
Exercised	-	-	(3,368,083)	0.24
Expired	(1,095,607)	( 0.90)	(85,000)	0.75
End of year	4,333,843	\$ 1.67	5,095,607	\$ 1.37

On June 7, 2008, the exercise price of 4,000,000 warrants increased from \$1.25 to \$1.75.

f) Warrants

Share purchase warrants outstanding at August 31, 2008:

Warrants Outstanding		
Exercise Price	Number Of Shares	Expiry Date
\$1.75	4,000,000	December 7, 2008
\$0.65	333,843	December 21, 2009
	4,333,843	

**7. RELATED PARTY TRANSACTIONS**

During the year ended August 31, 2008, the Company entered into the following transactions with related parties:

The Company paid or accrued the following amounts to related parties:

- For management and exploration management fees \$288,750 (2007 - \$262,644) to a director of the Company, to a corporation of which a director and officer is a shareholder, and to a member of the immediate family of a director and officer of the Company. Of this amount, \$224,000 (2007 - \$209,494) was charged to loss for the period and \$64,750 (2007 - \$53,150) was included in deferred exploration expense;
- For directors' fees \$58,183 (2007 - \$38,150) to non-executive directors of the Company which was charged to loss for the period;
- For office rent, related overhead expenses, and vehicle rental \$79,990 (2007 - \$70,370) to corporations of which directors are shareholders. Of this amount, \$15,990 (2007 - \$13,870) was charged to loss for the period and \$64,000 (2007 - \$56,500) was charged to deferred exploration expense; and
- For professional services \$283,933 (2007 - \$230,843) to a director, to a corporation of which an officer is a shareholder, and to a firm of which a director is a partner. Of this amount, \$231,035 (2007 - \$94,875) was charged to loss for the period and \$52,898 (2007 - \$135,968) was charged to share capital.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**7. RELATED PARTY TRANSACTIONS - Continued**

Included in accounts payable and accrued liabilities are amounts owing to directors and officers and corporations in which directors and officers are shareholders totalling \$274,595 (2007 - \$67,367). Included in prepaid expenses is a deposit on a consulting contract with an officer of \$Nil (2007 - \$4,800). During the year the Company borrowed \$145,000 from a director which is outstanding at year end. During the year, the Company loaned \$45,061 (2007 - \$10,642) to a company in which an officer and director is a director. At August 31, 2008 the Company deemed the loan uncollectable and wrote-off the total loan balance of \$55,703. Amounts payable to and receivable from related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

Related party transactions are in the ordinary course of business, occurring on terms that are similar to those of transactions with unrelated parties, and therefore are measured at the exchange amount, except for the loan from the director and the loan to the related party which were not in the ordinary course of business and were measured at the carrying amount.

**8. INCOME TAXES**

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

	<b>2008</b>	2007
Combined statutory tax rate	<b>37%</b>	38%
Computed tax recovery	<b>\$ (2,250,000)</b>	\$ (1,058,000)
Changes in temporary differences	<b>(106,300)</b>	(83,900)
Unrecognized items for tax purposes	<b>1,520,000</b>	530,900
Benefit resulting from reductions in tax rates	<b>(31,000)</b>	(113,800)
Current year valuation allowance	<b>867,300</b>	724,800
Total income taxes	<b>\$ -</b>	\$ -

Significant components of the Company's future income tax assets are as follows:

	<b>2008</b>	2007
Future Income Tax Assets		
Capital assets	<b>\$ 18,000</b>	\$ 21,000
Non-capital losses carried forward	<b>1,585,000</b>	1,201,000
Capital losses carried forward	<b>47,000</b>	58,000
Share issue costs	<b>281,000</b>	323,000
Total future income tax assets	<b>1,931,000</b>	1,603,000
Future Income Tax Liabilities		
Exploration and development deductions	<b>(1,252,000)</b>	(1,930,000)
Future income tax assets (liabilities)	<b>679,000</b>	(327,000)
Valuation allowance	<b>(679,000)</b>	-
Net future income tax assets (liabilities)	<b>\$ -</b>	\$ (327,000)

The realization of benefits related to these future potential tax deductions is uncertain and cannot be viewed as more likely than not. Accordingly, no net future income tax asset has been recognized for accounting purposes.

As at August 31, 2008, the Company has available non-capital losses for income tax purposes of approximately \$5,032,000 which may be carried forward and applied against future taxable income when earned. If not utilized, the non-capital losses expire approximately as follows: 2009 - \$214,000; 2010 - \$79,000; 2014 - \$84,000; 2015 - \$104,000; 2026 - \$742,000; 2027 - \$1,577,000; and 2028 - \$2,232,000.

The Company has capital losses carry forward of approximately \$150,000 which is available indefinitely to reduce future capital gains for income tax purposes and Canadian and foreign exploration resource deductions in the approximate amount of \$12,300,000. With certain restrictions, these resource deductions may be used against taxable income without expiry.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**9. COMMITMENTS**

As at August 31, 2008, the Company has a lease commitment for office space expiring on March 31, 2011. Minimum lease payments, including estimated taxes and operating expenses for each of the next four years are as follows:

August 31, 2009	\$ 28,775
August 31, 2010	\$ 28,775
August 31, 2011	\$ 16,785

In December 2007, the Company raised \$3,099,970 in flow-through funds that must be used for expenditures qualifying as Canadian Exploration Expenditures (CEE), as defined in the *Income Tax Act* (Canada), by December 31, 2008. As at August 31, 2008, \$1,778,702 in expenditures qualifying as CEE had been incurred. The Company has indemnified the flow-through share subscribers for any income taxes payable by the subscribers if the Company fails to incur all the qualifying expenditures by December 31, 2008.

**10. SUBSEQUENT EVENTS**

Subsequent to year end,

- a) the Company abandoned its option to acquire a 50% interest in the VB2 property in Voisey's Bay;
- b) the Company acquired an additional 5% carried interest in its Siribaya Gold Project for the issuance of 2,000,000 common shares. The acquisition is subject to certain conditions, including conclusion of the IAMGOLD option agreement;
- c) the Company granted 870,000 stock options to employees and consultants at an exercise price of \$0.40 expiring on September 29, 2013;
- d) the Company entered into an agreement with IAM Gold Corporation ("IAM") whereby IAM acquires an option for 50% on the Company's Siribaya Gold Project in West Mali, Africa (the "Project") and IAM agrees to invest \$1.5 million by way of private placement in the capital of the Company. Under the terms of the Agreement, IAM may incur \$10.5 million in exploration expenditures over a four year period to earn the 50% interest in the Project. IAMGOLD will invest \$1.5 million in cash by subscribing for 4,285,714 units at \$0.35 per unit. Each unit will be comprised of one common share and one common share purchase warrant exercisable at \$0.45 per share, expiring twelve months after closing. The option agreement and private placement have received regulatory approval and closing is pending.