

**MERREX GOLD INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
AUGUST 31, 2009 AND 2008**



## AUDITORS' REPORT

To the Shareholders of  
Merrex Gold Inc.

We have audited the consolidated balance sheets of Merrex Gold Inc. as at August 31, 2009 and 2008, 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, 2009 and 2008, 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 16, 2009

"Morgan & Company"

Chartered Accountants

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

	August 31, 2009	August 31, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 301,920	\$ 61,459
Prepaid expenses	25,675	19,575
Taxes and other receivables	9,220	357,562
Exploration advances	55,195	53,200
	<u>392,010</u>	<u>491,796</u>
<b>Exploration advances receivable</b>	<b>15,418</b>	<b>17,828</b>
<b>Capital assets (Note 5)</b>	<b>45,198</b>	<b>66,622</b>
<b>Deferred exploration expenditures and property costs (Note 6)</b>	<b>17,990,563</b>	<b>17,139,940</b>
	<u>\$ 18,443,189</u>	<u>\$ 17,716,186</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 10)	\$ 1,906,610	\$ 2,995,691
Exploration advances payable	87,468	-
Loan payable to related party (Notes 7 and 10)	-	145,000
	<u>1,994,078</u>	<u>3,140,691</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 8)</b>	<b>32,642,123</b>	<b>28,934,112</b>
<b>Contributed surplus (Note 8)</b>	<b>3,319,200</b>	<b>2,964,942</b>
<b>Deficit</b>	<b>(19,512,212)</b>	<b>(17,323,559)</b>
	<u>16,449,111</u>	<u>14,575,495</u>
	<u>\$ 18,443,189</u>	<u>\$ 17,716,186</u>

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	
	2009	2008
<b>Administrative Expenses</b>		
Amortization	\$ 21,424	\$ 23,059
Consulting fees	106,316	265,641
Director fees (Note 10)	32,841	58,183
Filing and transfer fees	33,974	40,457
Management fees (Note 10)	489,875	224,000
Marketing and investor relations	53,849	219,397
Office and rent (Note 10)	241,600	345,831
Professional fees (Note 10)	292,294	337,861
Stock based compensation	354,258	469,679
Travel and business development	135,755	331,415
	<u>(1,762,186)</u>	<u>(2,315,523)</u>
<b>Other recoveries (expenses)</b>		
Operator fees (Note 6)	181,566	-
Foreign exchange loss	(47,650)	(75,986)
Write-off of advance receivable (Note 10)	-	(55,703)
Write-down of resource properties	(1,657,420)	(3,538,844)
Gain on sale of resource property	1,200,000	-
Provincial capital tax	(68,304)	-
Interest income	3,918	64,623
Interest and bank charges	(38,577)	(111,239)
	<u>(426,467)</u>	<u>(3,717,149)</u>
<b>Loss Before Income Taxes</b>	<b>(2,188,653)</b>	<b>(6,032,672)</b>
Future income tax recovery	-	1,342,000
<b>Net loss and comprehensive loss for the year</b>	<b>(2,188,653)</b>	<b>(4,690,672)</b>
<b>Deficit, Beginning Of Year</b>	<b>(17,323,559)</b>	<b>(12,632,887)</b>
<b>Deficit, End Of Year</b>	<b>\$ (19,512,212)</b>	<b>\$ (17,323,559)</b>
<b>Loss Per Share, Basic and diluted (Note 9)</b>	<b>\$ (0.03)</b>	<b>\$ (0.08)</b>

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

**MERREX GOLD INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEARS ENDED AUGUST 31	
	2009	2008
<b>Cash Flows From Operating Activities</b>		
Net loss for the year	\$ (2,188,653)	\$ (4,690,672)
Items not involving cash:		
Amortization	21,424	23,059
Stock based compensation	354,258	469,679
Future income tax recovery	-	(1,342,000)
Write-down of resource properties	1,657,420	3,538,844
	<u>(155,551)</u>	<u>(2,001,090)</u>
Changes in non-cash working capital items:		
Prepaid expenses	(6,100)	291,699
Taxes and other receivables	348,342	273,738
Exploration advances receivable	(1,995)	52,421
Exploration advances payable	87,468	-
Accounts payable and accrued liabilities	264,661	131,101
	<u>536,825</u>	<u>(1,252,131)</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of capital assets	-	(2,189)
Exploration advances receivable	2,410	286,913
Deferred exploration and property costs	(3,253,785)	(5,855,452)
	<u>(3,251,375)</u>	<u>(5,570,728)</u>
<b>Cash Flows From Financing Activities</b>		
Loan advances (repayments)	(145,000)	145,000
Issuance of share capital	3,194,860	3,164,870
Share issue costs	(94,849)	(337,072)
	<u>2,955,011</u>	<u>2,972,798</u>
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<b>240,461</b>	<b>(3,850,061)</b>
<b>Cash And Cash Equivalents, Beginning Of Year</b>	<u><b>61,459</b></u>	<u><b>3,911,520</b></u>
<b>Cash And Cash Equivalents, End Of Year</b>	<u><b>\$ 301,920</b></u>	<u><b>\$ 61,459</b></u>
<b>Supplemental Disclosure Of Non-Cash Financing And Investing Activities</b>		
Shares issued for mineral properties	\$ 608,000	\$ 17,500
Changes in incurred expenditures for resource properties in accounts payable	\$ (1,353,742)	\$ 2,118,546

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, 2009 AND 2008

#### 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, 2009, the Company had a working capital deficiency of \$1,602,068. 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.

#### 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

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 did not 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 did not 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 did 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). Adoption of this standard did not impact the Company's financial statements.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

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

a) Recently adopted accounting pronouncements (Continued)

Credit risk and fair value of financial assets and financial liabilities

In January 2009, the CICA issued the Emerging Issues Committee (EIC) Abstract EIC – 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", effective for interim and annual financial statements ending on or after January 20, 2009. Earlier adoption of this abstract is permitted. EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, "Financial Instruments – Recognition and Measurement." It states that an entity's own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 should be applied retroactively, without restatement of prior periods, to all financial assets and liabilities measured at fair value. The Company adopted this abstract during the second quarter of the 2009 fiscal year, and this standard did not have a material impact on the Company's financial statements.

b) Recently issued accounting pronouncements:

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.

Goodwill and intangible assets

In February 2008 the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning September 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This standard is not expected to have a material impact on the Company's financial statements.

Business combinations

In January 2009, the CICA issued the new handbook Section 1582, "Business Combinations" effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the consolidated financial statements, it will be limited to any future acquisitions beginning in fiscal 2011.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

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

b) Recently issued accounting pronouncements: (Continued)

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued the new handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 160-1 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in fiscal 2011 in connection with the conversion to IFRS.

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.

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.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

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

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, 2009 and August 31, 2008 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.

k) Measurement Uncertainty

Management's capitalization of exploration costs and assumptions regarding the future recoverability of such costs are subject to significant measurement uncertainty. Management's assessment of recoverability is based on, among other things, the Company's estimate of current mineral reserves and resources which are supported by geological estimates, estimated metal prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties and exploration costs.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

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

l) 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.

m) 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.

n) 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.

o) 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.

p) Foreign Currency Translation

Transactions recorded in CFA Francs 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.

r) Comprehensive Income (Loss)

Handbook Section 1530 establishes standards for the reporting and display of comprehensive income and its components in the financial statements. Comprehensive income (loss) includes net income (loss) and other comprehensive income. Other comprehensive income (loss) includes holding gains on available for sale investments, gains and losses on certain derivative instruments and currency gains and losses relating to the translating financial statements of self-sustaining foreign operations. The Company has no other comprehensive income (loss) and as a result other comprehensive loss is equal to the net loss for the year.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

**3. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of mineral properties and maintain the necessary corporate and administrative functions to facilitate these activities.

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing, primarily equity financing, to fund its activities. There can be no assurance that the Company will be able to continue to raise capital in this manner. To carry out the planned exploration and fund administrative costs, the Company will utilize existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient geologic and economic potential and if it has adequate financial resources to do so.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid financial instruments, such as short-term guaranteed investment certificates, held with a major Canadian financial institution.

There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

**4. FINANCIAL RISK FACTORS**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

**Credit risk**

The Company has no significant credit risk arising from operations. The Company is not exposed to major credit risks attributable to customers and does not engage in any sales activities. The Company's credit risk is primarily attributable to short-term investments and taxes receivable. Cash equivalents consist of guaranteed investment certificates invested with a reputable financial institution, from which management believes the risk of loss to be remote. Taxes receivable consist of harmonized sales tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to taxes receivable is remote.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. As at August 31, 2009, the Company is in a negative working capital position, with current assets of \$392,010 (August 31, 2008 - \$491,796) to settle current liabilities of \$1,994,078 (August 31, 2008 - \$3,140,691), as the result of the availability of capital from the equity markets having been sharply reduced as a result of world credit market issues. Management continues to work to rectify the working capital deficiency through ongoing efforts to secure appropriate funding. Subsequent to year-end, the exercise of warrants and stock options generated \$2,398,861 in proceeds to the Company.

**Market risk**

**(a) Interest rate risk**

Interest rate risk is the risk that the value of the Company's assets and liabilities can change due to a change in interest rates. The Company considers interest rate risk related to cash and cash equivalents to be low because of their short-term nature.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

**4. FINANCIAL RISK FACTORS** (Continued)

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. When the Company is conducting exploration in Mali, certain major purchases are transacted in US dollars and CFA francs, and the Company is then exposed to risk of major changes in these currencies relative to the Canadian dollar.

(c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

The Company's excess funds are held primarily in guaranteed investment certificates, the rates of which are fixed for a period not exceeding three months. A one-percent change in the interest rate for these instruments would affect the Company by an annualized amount of interest equal to approximately \$Nil since there are no instruments in place as of the date of this report.

Certain of the Company's exploration expenditures in Mali are paid in US dollars and CFA francs. The effect of a one-percent change in the US dollar and CFA franc depends on the significance of the exploration program in Mali. In 2009, a one-percent change in the US dollar would affect the Company by an annualized amount of \$Nil. In 2008, a one-percent change in the CFA franc dollar would affect the Company by an annualized amount of \$3,800.

**5. CAPITAL ASSETS**

	<b>2009</b>			2008
	Cost	Accumulated Amortization	<b>Net Book Value</b>	Net Book Value
Furniture and fixtures	\$ 28,248	\$ 12,645	<b>\$ 15,603</b>	\$ 19,504
Computer hardware	15,629	9,487	<b>6,142</b>	8,773
Leasehold improvements	73,136	49,683	<b>23,453</b>	38,345
	<b>\$ 117,013</b>	<b>\$ 71,815</b>	<b>\$ 45,198</b>	<b>\$ 66,622</b>

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

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

	Acquisition Cost	Exploration Expenditures	Write- Downs	2009 Total	2008 Total
High River Properties					
West Voisey's Bay	\$ -	9,647	(9,647)	\$ -	\$ -
Red Lake	-	483,736	(483,736)	-	479,201
Hungry Hill	-	132,005	(132,005)	-	132,422
Sutherlands Pond	-	55,743	(55,743)	-	54,338
Jubilee Property	963,130	4,968,490	-	5,931,620	5,852,715
Crackingstone Property	168,000	1,200,000	-	1,368,000	-
Mali Properties					
Siribaya	705,000	9,623,094	-	10,328,094	9,319,124
Kakadian	80,000	64,951	-	144,951	144,951
Turkey Properties	-	574,710	(574,710)	-	505,063
Other Properties	3,987	615,490	(401,579)	217,898	652,126
	<b>\$ 1,920,117</b>	<b>17,727,866</b>	<b>(1,657,420)</b>	<b>\$ 17,990,563</b>	<b>\$17,139,940</b>
	Acquisition costs	Exploration Expenditures	Write- Downs	2008 Total	2007 Total
High River Properties	\$ 1,317,282		(1,317,282)	\$ -	\$ 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	-	54,388	-	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>

On September 30, 2009, the Company entered into an Agreement with Chrysos Capital Corporation ("Chrysos") to sell 50% of its Jubilee Property and related Nova Scotia zinc properties, its Turkey gold properties (including its 90% interest in Merrex Turkey, its strategic association with AgeanGold and the Roscan Option agreement) and 100% of its properties in the Red Lake-Birch Lake region for 18,675,000 shares of Chrysos. The Agreement is subject to various closing conditions on behalf of both parties, including regulatory and shareholder approval on behalf of Chrysos and completion of adequate financing. Based on the Chrysos sale transaction and the property valuations assigned by the Company, the exploration expenditures on the Red Lake property and the Turkey properties were written down as at August 31, 2009.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

**6. DEFERRED EXPLORATION EXPENSE AND MINERAL PROPERTY COSTS (Continued)**

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. Because the Company did not plan further investment in the West Voisey's Bay property in the foreseeable future, the Company's investment of \$3,297,272 in the property (comprised of the purchase price of \$1,317,282 and exploration expenditures of \$1,979,990) was written off at August 31, 2008. On December 23, 2008, the Company sold one-half of its 50% interest (net 25%) interest in the West Voisey's property to Montoro Resources Inc. ("Montoro") and Belmont Resources Inc. ("Belmont") for \$1,200,000. The Company retains a net 25% participating interest in the West Voisey's Bay Property.
- (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.

During the year ended August 31, 2009, the Company incurred exploration expenditures of \$4,535 on the Red Lake-Birch Lake property. As at August 31, 2009 the Company had incurred total exploration expenditures of \$483,736 on the property. Based on the Chrysos sale transaction and the property valuations assigned by the Company, the exploration expenditures to date on the Red Lake property were written down as at August 31, 2009.

During the year ended August 31, 2009, the Company incurred exploration expenditures of \$(417) on the Hungry Hill property. As at August 31, 2009, the Company had incurred total exploration expenditures of \$132,005. The Company has no immediate plans to explore this property. Accordingly, the exploration expenditures to date of \$132,005 were written down as at August 31, 2009.

During the year ended August 31, 2009, the Company incurred exploration expenditures of \$1,355 on the Sutherlands Pond property. As at August 31, 2009, the Company had incurred total exploration expenditures of \$55,743. The Company has no immediate plans to explore this property. Accordingly, the exploration expenditures to date of \$55,743 were written down as at August 31, 2009.

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. In August 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, 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 at August 31, 2008.

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) On December 30, 2008, the Company optioned from International Montoro Resources Inc. ("Montoro") and Belmont Resources Inc. ("Belmont") a 50% interest in their jointly owned Crackingstone River uranium property. Pursuant to the terms of the option agreement the Company issued to Montoro and Belmont 1,200,000 common shares at a fair value of \$168,000 and will incur \$1,200,000 of exploration expenditures in the first year (completed) and may incur a further \$2,400,000 of exploration expenditures by December 20, 2010 year to earn up to a 50% interest in the property. The Company will be the Operator during the expenditure period.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

**6. DEFERRED EXPLORATION EXPENSE AND MINERAL PROPERTY COSTS (Continued)**

e) 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. During the quarter, in compliance with the Malian mining code, the Company surrendered one-half of the Siribaya permit and reapplied for the same lands under a new permit named Siribaya Ouest. This permit application is pending.

The Company acquired from Touba 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. On December 23, 2008, the Company acquired Touba's 5% free carried interest royalty for the issuance of 2,000,000 common shares at a fair value of \$440,000, which increased the Company's interest to 100%.

The Company has also earned a 100% interest in each of the Kambaya (143 sq km), Kofia (147 sq km) and Babara (142 sq km) permits within this area of interest. These permits required cash payments totalling \$291,000, all of which has been paid. There are no expenditure requirements for these permits.

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.

In December 2008, the Company entered into an Option Agreement with IAMGOLD Corporation ("IAMGOLD") for 50% of the Company's Siribaya Gold Project. The Option Agreement provides that IAMGOLD may incur up to \$10.5 million in exploration expenditures over 4 years to earn up to a 50% interest in Siribaya. The Option Agreement provides that IAMGOLD will incur exploration expenditures of \$3.0 million in the first year and aggregate expenditures totalling not less than \$2.5 million in each of the three succeeding years to earn its 50% interest. The interest to be earned will vest 30% after expenditures of \$8.0 million and a further 20% after the final expenditure of \$2.5 million. The Company will be the initial Project Operator and receives a fee as Operator. After two years or exploration expenditures of \$5.5 million, IAMGOLD can elect to be the Project Operator.

In the twelve months ended August 31, 2009 the Company incurred \$568,970 in exploration expenditures on the Siribaya Gold Project. In the twelve months ended August 31, 2009 the Company incurred an additional \$2,393,847 in exploration expenditures and operator fees and \$129,510 in cash payments on the Siribaya Gold Project as Operator on behalf of IAMGOLD pursuant to the Option Agreement. Included in cash is \$87,468 received from IAMGOLD which is restricted for use in the Siribaya Gold project in Mali. A payable in the same amount is included in Exploration Advances Payable.

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.

f) 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 (one permit of 1830 hectares), Odemis (four contiguous permits totalling 7450 hectares), Ordu-Ulubey-Sayaca (one permit of 887 hectares) and Kure (five contiguous permits totalling 8588 hectares). On August 1, 2008 the Company and AgeanGold optioned to Roscan Minerals (BVI) Corp. ("Roscan") 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 is the Operator during the earn-in period and receives a fee as Operator.

In the twelve months ended August 31, 2009, the Company incurred \$69,647 in exploration expenditures on the Turkey Properties. In the twelve months ended August 31, 2009, the Company incurred an additional \$301,913 in exploration expenditures and operator fees on the Turkey Properties as Operator on behalf of Roscan pursuant to the Option Agreement.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**6. DEFERRED EXPLORATION EXPENSE AND MINERAL PROPERTY COSTS (Continued)**

f) Turkey Properties (Continued)

Based on the Chrysos sale transaction and the property valuations assigned by the Company, the exploration expenditures to date on the Turkey properties were written down as at August 31, 2009.

g) Other Properties

*Sandbrook 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 had the right to earn an additional 35% by spending \$350,000 by June 30, 2009. In May 2009 the Company terminated its option on the Sand Brook Property and converted its vested 15% participating interest into a 1% Net Smelter Return royalty subject to a 50% buy-back for \$500,000. The claimholder has no immediate plans to explore this property. Accordingly, total costs to date of \$134,280 were written down as at August 31, 2009.

*Pictou County Property*

In May 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 cash payments of \$320,000 and exploration expenditures of \$950,000, all over a four year period. In May 2009 the Company terminated the option agreement; accordingly, expenditures incurred to date of \$164,012 were written off.

*Other*

The Company's other properties also include 257 claims in Nova Scotia over a number of prospective zinc occurrences (which are included in the Chrysos sale), and 32 claims near Winterland, Newfoundland over a prospective zinc/molybdenum occurrence. The Company has no immediate plans to explore the Winterland property. Accordingly, the deferred expenditures to date of \$94,789 were written down as at August 31, 2009.

**7. LOAN PAYABLE TO RELATED PARTY**

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

**8. SHARE CAPITAL**

a) Authorized

Unlimited common shares without par value.

b) Issued and Outstanding

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

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2009 AND 2008**

**8. SHARE CAPITAL (Continued)**

b) Issued and Outstanding (Continued)

Balance, August 31, 2008 - Brought forward	59,960,755	\$ 28,934,112	\$ 2,964,942
Issued during 2009:			
For cash:			
Private placements (i) (ii) (iii)	12,760,014	3,194,860	-
Share issue costs (i) (ii) (iii)	-	(94,849)	-
Stock-based compensation	-	-	354,258
For resource properties (iv) (v)	3,200,000	608,000	-
<b>Balance, August 31, 2009</b>	<b>75,920,769</b>	<b>\$ 32,642,123</b>	<b>\$ 3,319,200</b>

- (i) On May 28, 2009, the Company issued 5,704,300 Units at \$0.20 per Unit for cash of \$1,140,860. Each Unit is comprised of one common share and one common share purchase warrant exercisable until May 28, 2010 at an exercise price of \$0.30 per share. Finders' and filing fees of \$40,900 in cash were paid in conjunction with the financing.
- (ii) On April 29, 2009, the Company issued 2,770,000 Units at \$0.20 per Unit for cash of \$554,000. Each Unit is comprised of one common share and one common share purchase warrant exercisable until April 29, 2010 at an exercise price of \$0.30 per share. Finders' and filing fees of \$35,699 in cash were paid in conjunction with the financing.
- (iii) In December 2008, the Company issued 4,285,714 Units at \$0.35 per Unit for cash of \$1,500,000 under a private placement with IAMGold Corporation. Each Unit is comprised of one common share and one common share purchase warrant exercisable until December 17, 2009 at an exercise price of \$0.45 per share. Legal fees of \$18,250 in cash were paid in conjunction with the financing.
- (iv) In December 2008, the Company issued 2,000,000 common shares at a fair value of \$440,000 pursuant to acquiring an outstanding 5% Free Carried Interest Royalty in the Siribaya Gold Project from Touba Mining SARL.
- (v) In December 2008, the Company issued 1,200,000 common shares at a fair value of \$168,000 pursuant to an option agreement for the Crackingstone River Uranium property.
- (vi) In April 2008, the Company issued 590,000 common shares for \$64,900 on the exercise of options at \$0.11 per share;
- (vii) In March 2008, the Company renounced \$3,099,970 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;
- (viii) 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%;

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**8. SHARE CAPITAL (Continued)**

b) Issued and Outstanding (Continued)

(ix) 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.

c) 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, 2009, 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	1,275,000	1,275,000	June 1, 2011
\$0.75	275,000	275,000	November 7, 2011
\$0.90	630,000	630,000	December 19, 2011
\$0.75	940,000	940,000	December 4, 2012
\$0.40	870,000	870,000	September 29, 2013
\$0.25	3,400,000	1,133,333	June 6, 2014
	<u>7,490,000</u>	<u>5,223,333</u>	

The change in stock options during the 12 months ended August 31, 2009 and August 31, 2008 is as follows:

	2009		2008	
	Options Outstanding	Weighted average exercise price per share	Options Outstanding	Weighted average exercise price per share
Beginning of period	4,380,000	\$ 0.78	4,260,000	\$ 0.69
Issued	4,270,000	\$0.28	1,200,000	0.75
Exercised	-	-	(590,000)	(0.11)
Cancelled/Expired	(1,160,000)	(\$0.79)	(490,000)	(0.81)
End of period	<u>7,490,000</u>	<u>\$0.49</u>	4,380,000	\$ 0.78

The fair values of options granted have been estimated using an option-pricing model. Assumptions used in the pricing model are as follows for 2009 (2008): Average risk-free interest rate – 2.4% (4%), expected life – 5 years (5 years), expected volatility - 102% (103%) and expected dividend - \$Nil (Nil).

d) 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 which expired December 7, 2008.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**8. SHARE CAPITAL (Continued)**

e) Warrants

As at August 31, 2009, the following warrants were outstanding:

	<b>2009</b>		<b>2008</b>	
	<b>Warrants Outstanding</b>	<b>Weighted average exercise price per share</b>	<b>Warrants Outstanding</b>	<b>Weighted average exercise price per share</b>
Beginning of year	4,333,843	\$1.67	5,095,607	\$ 1.37
Issued	12,760,014	\$0.35	333,843	\$ 0.65
Exercised	-	-	-	-
Expired	(4,000,000)	(\$1.75)	(1,095,607)	(\$ 0.90)
End of year	<b>13,093,857</b>	<b>\$0.36</b>	4,333,843	\$1.67

Share purchase warrants outstanding at August 31, 2009:

<b>Warrants Outstanding</b>		
<b>Exercise Price</b>	<b>Number of Shares</b>	<b>Expiry Date</b>
\$0.45	4,285,714	December 17, 2009
\$0.65	333,843	December 21, 2009
\$0.30	2,770,000	April 29, 2010
\$0.30	5,704,300	May 28, 2010
	<u>13,093,857</u>	

**9. LOSS PER SHARE**

Basic earnings per share is calculated based on the weighted average number of shares outstanding during the twelve months ended August 31, 2009 of 67,654,939 (August 31, 2008 – 58,090,380). Diluted earnings per share is based on the assumption that options under the stock option plan have been exercised on the later of the beginning of the period and the date granted. Basic and diluted loss per share are equal for the periods presented as outstanding stock options and warrants were anti-dilutive.

**10. RELATED PARTY TRANSACTIONS**

During the year ended August 31, 2009, 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 \$516,627 (2008 - \$288,750) 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, \$489,877 (2008 - \$224,000) was charged to loss for the period and \$26,750 (2008 - \$64,750) was included in deferred exploration expense;
- For directors' fees \$32,841 (2008 - \$58,183) to non-executive directors of the Company which was charged to loss for the period;

**MERREX GOLD INC.**

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**10. RELATED PARTY TRANSACTIONS (Continued)**

- For office rent, related overhead expenses, and vehicle rental \$7,325 (2008 - \$79,990) to corporations of which directors are shareholders. Of this amount, \$5,160 (2008 - \$15,990) was charged to loss for the period and \$2,165 (2008 - \$64,000) was charged to deferred exploration expense; and
- For professional services \$56,375 (2008 - \$283,933) to a director and officer. Of this amount, \$56,375 (2008 - \$231,035) was charged to loss for the period and \$Nil (2008 - \$52,898) was charged to share capital.

Included in accounts payable and accrued liabilities are amounts owing to directors and officers and corporations in which directors and officers are shareholders totalling \$409,886 (2008 - \$274,595). During the year the Company repaid \$145,000 in loans from a director (2008 – borrowed \$145,000). During the year, the Company loaned \$Nil to a company in which an officer and director is a director (2008 – loaned \$45,061 and wrote off 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.

**11. INCOME TAXES**

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

	<b>2009</b>	<b>2008</b>
Combined statutory tax rate	<b>35%</b>	37%
Computed tax recovery	<b>\$ (745,000)</b>	\$ (2,250,000)
Unrecognized items for tax purposes	<b>290,000</b>	1,520,000
Benefit resulting from reductions in tax rates	<b>20,000</b>	(31,000)
Current year valuation allowance	<b>435,000</b>	761,000
Total income taxes	<b>\$ -</b>	\$ -

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

	<b>2009</b>	<b>2008</b>
Future Income Tax Assets		
Capital assets	<b>\$ 32,000</b>	\$ 18,000
Non-capital losses carried forward	<b>2,050,000</b>	1,585,000
Capital losses carried forward	<b>47,000</b>	47,000
Share issue costs	<b>212,000</b>	281,000
Total future income tax assets	<b>2,341,000</b>	1,931,000
Future Income Tax Liabilities		
Exploration and development deductions	<b>(1,353,000)</b>	(1,252,000)
Future income tax assets (liabilities)	<b>988,000</b>	679,000
Valuation allowance	<b>(988,000)</b>	(679,000)
Net future income tax assets (liabilities)	<b>\$ -</b>	\$ -

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.

**MERREX GOLD INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**11. INCOME TAXES (Continued)**

As at August 31, 2009, the Company has available non-capital losses for income tax purposes of approximately \$6,611,000 which may be carried forward and applied against future taxable income when earned. If not utilized, the non-capital losses expire approximately as follows: 2010 -\$79,000; 2014 - \$84,000; 2015 - \$104,000; 2026 - \$1,034,000; 2027 - \$1,484,000; 2028 - \$2,246,000; and 2029 - \$1,580,000.

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 \$13,627,000. With certain restrictions, these resource deductions may be used against taxable income without expiry.

**12. COMMITMENTS**

As at August 31, 2009, 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 two years are as follows:

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

**13. SUBSEQUENT EVENTS**

On September 30, 2009, the Company entered into an Agreement with Chrysos Capital Corporation ("Chrysos") to sell 50% of its Jubilee Property and related Nova Scotia zinc properties, its Turkey gold properties and 100% of its properties in the Red Lake-Birch Lake region for 18,675,000 shares of Chrysos. The Agreement is subject to various closing conditions on behalf of both parties, including regulatory and shareholder approval on behalf of Chrysos and completion of adequate financing (Note 6).

Subsequent to August 31, 2009:

- a) 5,645,014 share purchase warrants were exercised at prices from \$0.30 to \$0.45, for proceeds of \$2,336,361;
- b) 175,000 stock options were exercised at prices from \$0.25 to \$0.40, for proceeds of \$62,500.