

NFX Gold Inc.

(an exploration stage company)

Consolidated Financial Statements

December 31, 2007 and 2006

	Page
Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-16



Smith Nixon LLP
Chartered Accountants
Suite 1900, 390 Bay Street
Toronto, Ontario
M5H 2Y2

T: 416.361.1622
F: 416.367.1238
www.smith-nixon.com

AUDITORS' REPORT

**To the Shareholders of
NFX Gold Inc.
(an exploration stage company)**

We have audited the consolidated balance sheet of NFX Gold Inc. as at December 31, 2007 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

The consolidated financial statements of the company as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation in their report dated April 20, 2007.

Smith Nixon LLP

Licensed Public Accountants
Chartered Accountants
Toronto, Ontario
March 14, 2008

NFX Gold Inc.

(an exploration stage company)

Consolidated Balance Sheets

	As at December 31, 2007 \$	As at December 31, 2006 \$
Assets		
Current		
Cash (note 3)	1,975,427	3,189,597
Marketable securities (note 4)	800,068	172,354
Sundry receivables (note 12)	55,894	102,135
Due from Northfield Metals Inc. (note 5)	-	16,462
Prepaid expenses	24,432	15,080
	<u>2,855,821</u>	<u>3,495,628</u>
Plant and equipment (note 6)	57,274	71,593
Mineral resource properties (note 7)	9,035,652	8,261,529
	<u>11,948,747</u>	<u>11,828,750</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (note 12)	157,730	153,785
Due to Eoro Resources Ltd. (note 8)	-	23,789
	<u>157,730</u>	<u>177,574</u>
Non-controlling interest	11,770	11,770
	<u>11,770</u>	<u>11,770</u>
Shareholders' equity		
Share capital (note 9)	17,184,986	15,927,891
Warrants (note 9)	189,473	7,276
Contributed surplus (note 9)	2,079,194	1,319,303
Deficit	(7,674,406)	(5,615,064)
	<u>11,779,247</u>	<u>11,639,406</u>
	<u>11,948,747</u>	<u>11,828,750</u>

Commitments and contingencies (notes 7 and 11)

Approved by the Board:

Thomas G. Larsen
Director

Francis Sauve
Director

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

NFX Gold Inc.

(an exploration stage company)

Consolidated Statements of Operations and Deficit

	Years ended December 31,		Cumulative from inception on July 19, 1996 to December 31,
	2007	2006	2007
	\$	\$	\$
General and administrative expenses			
Professional fees	78,858	65,936	450,165
Consulting fees	430,998	330,000	2,059,809
Stock-based compensation	955,641	650,487	2,193,851
General and office	487,696	509,861	2,327,770
Investor relations	-	-	75,401
Amortization	472	588	194,154
	<u>1,953,665</u>	<u>1,556,872</u>	<u>7,301,150</u>
Loss before the undernoted items	(1,953,665)	(1,556,872)	(7,301,150)
Interest income	106,725	37,421	163,447
Other income	21,929	-	41,703
Gain on sale of investments	10,112	89,890	123,376
Decrease in fair value of marketable securities	(269,923)	-	(269,923)
Recovery (write-down) of due from Northfield Metals Inc. (note 5)	18,300	16,094	(287,395)
Write-down of due from Wavex International Inc. (note 12)	(4,000)	-	(4,000)
Write-down of mineral resource properties (note 7)	(183,632)	-	(299,636)
Gain on settlement of accounts payable	-	-	178,792
Loss for the period	<u>(2,254,154)</u>	<u>(1,413,467)</u>	<u>(7,654,786)</u>
Change in policy for stock-based compensation	-	-	(214,432)
Transitional adjustment for increase in fair value of marketable securities (note 2)	194,812	-	194,812
Deficit, beginning of period	(5,615,064)	(4,201,597)	-
Deficit, end of period	<u>(7,674,406)</u>	<u>(5,615,064)</u>	<u>(7,674,406)</u>
Loss per share-basic and diluted	<u>(0.04)</u>	<u>(0.03)</u>	
Weighted average number of common shares outstanding during the period-basic and diluted	<u>50,158,012</u>	<u>41,957,481</u>	

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

NFX Gold Inc.

(an exploration stage company)

Consolidated Statements of Cash Flows

	Years ended December 31,		Cumulative from inception on July 19, 1996 to December 31,
	2007	2006	2007
	\$	\$	\$
Cash provided by (used in)			
Operating activities			
Loss for the period	(2,254,154)	(1,413,467)	(7,654,786)
Items not affecting cash			
Stock-based compensation	955,641	650,487	2,193,851
Amortization	472	588	194,154
Gain on sale of marketable securities	(10,112)	(89,890)	(123,376)
Decrease in fair value of marketable securities	269,923	-	269,923
Gain on settlement of accounts payable	-	-	(178,792)
Recovery of amount due from Northfield Metals Inc.	(18,300)	(16,094)	287,395
Writedown of due from Wavex International Inc.	4,000	-	4,000
Writedown of mineral resource properties	183,632	-	299,636
Changes in non-cash operating working capital			
Sundry receivables	42,241	(24,277)	(59,893)
Prepaid expenses	(9,352)	(15,080)	(24,432)
Accounts payable and accrued liabilities	3,945	22,185	565,355
	(832,064)	(885,548)	(4,226,965)
Financing activities			
Issuance of common shares for cash	700,000	600,000	7,078,798
Exercise of options	165,000	1,096,253	2,940,139
Exercise of warrants	11,250	2,461,533	2,472,783
Share issue costs	(58,208)	(51,627)	(310,470)
Non-controlling minority interest	-	-	11,770
Due to Northfield Metals Inc.	-	-	1,863,416
Due to Eloro Resources Ltd.	(23,789)	-	-
	794,253	4,106,159	14,056,436
Investing activities			
Proceeds on sale of marketable securities	26,375	224,325	330,893
Proceeds on sale of plant and equipment	-	-	24,988
Purchase of marketable securities	(700,788)	(179,740)	(1,064,397)
Plant and equipment	-	-	(713,207)
Mineral resource properties expenditures	(518,408)	(76,554)	(5,821,834)
Due from Northfield Metals Inc.	16,462	(462)	(438,199)
Organization costs	-	-	(172,288)
	(1,176,359)	(32,431)	(7,854,044)
Net increase (decrease) in cash	(1,214,170)	3,188,181	1,975,427
Cash, beginning of period	3,189,597	1,416	-
Cash, end of period	1,975,427	3,189,597	1,975,427
Supplementary information			
Interest paid	-	-	-
Income taxes paid	-	-	-

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

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. Nature of operations and continuance of operations

NFX Gold Inc. (the "Company") was incorporated under the laws of Ontario. The Company and its subsidiary operate solely in the exploration and development of mineral properties and extraction of precious metals in Canada.

The Company is in the exploration stage and has not yet determined whether its mineral resource properties contain reserves that are economically recoverable. The continued operations of the Company and the recoverability of amounts shown for mineral resource properties is dependent upon the ability of the Company to obtain financing to complete the exploration and development of its mineral resource properties, the existence of economically recoverable reserves and future profitable production, or alternatively, upon the Company's ability to recover its costs through a disposition of its mineral resource properties.

The amount shown for mineral resource properties does not necessarily represent present or future value. Changes in future conditions could require a material change in the amount recorded for mineral resource properties.

2. Summary of significant accounting policies

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

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its 90.5% owned subsidiary, Towerlands Properties Inc.

Financial instruments

On January 1, 2007, the Company adopted CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3861, "Financial Instruments – Disclosure and Presentation" retrospectively with no restatement of prior periods. Financial instruments are measured at fair value on initial recognition and valued in subsequent periods based upon their classification as held-for-trading, available for sale, held-to-maturity, loans and receivables or other liabilities. Financial assets and liabilities classified as held-for-trading are valued at fair value with unrealized gains and losses recognized in income. Financial assets classified as available-for-sale are valued at fair value with unrealized gains and losses recognized in other comprehensive income. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities classified as other liabilities are valued at amortized cost using the effective interest rate method. The Company has classified its cash and marketable securities as held-for-trading; sundry receivable and amounts due from related parties as loans and receivables; and accounts payable and accrued liabilities and amounts due to related parties as other financial liabilities.

On January 1, 2007, marketable securities previously recorded at cost were designated as held-for-trading and the increase in the fair value of marketable securities of \$194,812, representing the difference between the fair value and the cost was recorded as a reduction of the Company's deficit on January 1, 2007.

Marketable securities

Marketable securities are valued at fair value using the last bid price.

Transaction costs

Transaction costs for financial instruments classified as held-for-trading are expensed as incurred.

Mineral resource properties

Costs relating to the acquisition, exploration and development of mineral resource properties are deferred until the properties are brought into commercial production, at which time, they are amortized over the estimated useful life of the related property on a unit-of-production basis. The cost of mineral resource properties includes the cash consideration and the fair value of shares issued on the date the property is acquired. The proceeds from options granted on properties are credited to the cost of the related property. When a property is determined to be non-commercial, non-productive or its value impaired, those costs in excess of estimated recoveries are charged to operations.

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Plant and equipment

Plant and equipment are recorded at cost. Amortization based on the estimated useful lives of the assets, is provided as follows:

Furniture, fixtures and computer equipment	20% declining balance
Plant and equipment relating to mineral resource properties	20% declining balance

Asset retirement obligations

The Company recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset.

Flow-through shares

The Company finances a portion of its exploration activities through the issue of flow-through shares issued pursuant to the *Income Tax Act* (Canada). Under the terms of these share issues, the deductions for income tax purposes of the related expenditures are renounced to the subscriber of the flow-through shares. Share capital is reduced and future income taxes are increased by the estimated income tax benefits renounced by the Company to the subscribers, except to the extent that the Company has unrecorded loss carryforwards and income tax pools in excess of book value available for deduction.

Stock-based compensation

The Company enters into transactions in which services are the consideration received for the issuance of stock or stock-based instruments. The value of these transactions are measured and accounted for, based on the fair value of the equity instruments issued or the value of the services, whichever is more reliably measurable. Stock-based compensation for instruments awarded to non-employees is expensed in the year during which the services are rendered. Stock-based compensation for instruments awarded to employees is expensed over the vesting period of the instrument.

Income taxes

Income taxes are recorded using the asset and liability method of income tax allocation. Future income tax relates to the expected consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment at the time that the differences are expected to reverse.

Loss per share

The basic loss per share is calculated by dividing the loss applicable to the common shares by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method and reflects the potential dilution by including stock options and warrants, in the weighted average number of common shares outstanding for the year, if dilutive. As the Company incurred net losses for the year ended December 31, 2007, the dilutive effect of outstanding options and warrants and their equivalents is not reflected in diluted earnings per share because their effect would be anti-dilutive.

Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the reporting period. Significant areas requiring the use of management estimates include the carrying value of mineral resource properties and stock-based compensation. Actual results could differ from those estimates.

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Future accounting pronouncements

On January 1, 2008, the Company will adopt CICA Handbook Section 1535, "Capital Disclosures" which requires the disclosure of objectives, policies and processes for managing capital; Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" which requires the disclosure of the nature and extent of risks arising from financial instruments and how those risks are managed; and amendments to Section 1400, "General Standards of Financial Statement Presentation" which requires an assessment of the ability to continue as a going concern. The Company is currently assessing the impact of these new accounting standards on its financial statements. Beyond additional disclosure, the adoption of these new accounting standards is not expected to have an effect on the Company's financial position or results of operations.

3. Cash

Cash includes \$592,000 (2006-\$nil) of the proceeds of private placements of flow-through common shares which must be expended on Canadian exploration expenditures by December 31, 2008.

4. Marketable securities

Marketable securities include the following investments in related parties:

	2007		2006	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Eloro Resources Ltd. ("Eloro")	851,879	776,768	167,354	362,166
Northfield Metals Inc. ("Northfield")	18,300	18,300	—	—

Three directors of the Company are also directors of both Eloro and Northfield.

5. Due from Northfield

The amount due from Northfield of \$16,462 as at December 31, 2006 was repaid during the year. The amount due was unsecured, non-interest bearing and due on demand. Prior to 1996, the Company wrote off \$305,695 for an amount due Northfield. In 2007, the Company continued its efforts to recover this amount and in the process, forgave \$144,695 and settled \$61,000 for 61,000 common shares of Northfield with a fair value of \$18,300, leaving \$100,000 owing to the Company. No recovery has been recorded for the remaining \$100,000 and it is not recorded as an asset in these financial statements. Two directors of the Company are directors of Northfield.

6. Plant and equipment

	2007 \$	2006 \$
Furniture, fixtures and computer equipment	23,385	23,385
Accumulated amortization	21,500	21,029
	<hr/> 1,885	<hr/> 2,356
Plant and equipment relating to mineral resource properties	646,823	646,823
Accumulated amortization	591,434	577,586
	<hr/> 55,389	<hr/> 69,237
	<hr/> 57,274	<hr/> 71,593

Amortization on plant and equipment relating to mineral resource properties amounted to \$13,848 (2006-\$17,300) and was capitalized to mineral resource properties.

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

7. Mineral resource properties

At December 31, 2007, the Company owns:

- (a) a 100% interest in the Cheminis property which consists of 57 patented claims, 1 claim for surface rights and 2 licenses of occupation in McGarry and McVittie Townships near Kirkland Lake, Ontario;
- (b) a 100% interest in the Barber Larder property which consists of 7 patented claims and 2 licenses of occupation in McGarry Township, Ontario;
- (c) a 75% interest in the Swansea Property which consists of 5 mining leases covering 28 claims in McVittie Township;
- (d) a 100% interest in the Lake Abitibi property which consists of 1 mining claim in Bonis Township, Ontario;
- (e) a 100% interest in the McVittie McGarry properties which consists of 10 mining claims in McVittie Township, Ontario, 2 mining claims in McGarry Township, Ontario and 1 mining claim in Gauthier Township near Kirkland Lake, Ontario;
- (f) a 100% interest in the Kirkland Wright properties which consists of 16 mining claims in McGarry, Hearst and McFadden Townships, Ontario;
- (g) a 100% interest in the McVittie Property which consists of 2 mining claims in McVittie Township, Ontario;
- (h) an option to acquire a 50% interest in Lemoyne North, Horseshoe, Taïga and Taïga West properties.

Property	December 31, 2006 \$	Acquisition costs \$	Exploration \$	Writeoff \$	December 31, 2007 \$
Cheminis	7,573,978	—	105,191	—	7,679,169
Barber Larder	253,001	650,000	—	—	903,001
Swansea	—	—	—	—	—
Abitibi	113,250	—	320	(113,570)	—
McVittie McGarry	267,500	—	18,972	—	286,472
Kirkland Wright	53,800	—	—	—	53,800
PG101	—	63,355	6,707	(70,062)	—
McVittie	—	25,500	1,295	—	26,795
Lemoyne	—	—	86,415	—	86,415
	8,261,529	738,855	218,900	(183,632)	9,035,652

Property	December 31, 2005 \$	Acquisition costs \$	Exploration \$	Writeoff \$	December 31, 2006 \$
Cheminis	7,038,124	—	535,854	—	7,573,978
Barber Larder	253,001	—	—	—	253,001
Abitibi	113,250	—	—	—	113,250
McVittie McGarry	—	267,500	—	—	267,500
Kirkland Wright	—	53,800	—	—	53,800
	7,404,375	321,300	535,854	—	8,261,529

Option and Joint Venture Agreement

On March 7, 2006, the Company and Maximus Ventures Ltd. ("Maximus") entered into an option and joint venture agreement (the "Agreement") which provides Maximus with a right to acquire a 60% interest of the Company's interest in the Cheminis property and a 45% interest in the Company's Barber Larder property by expending \$6,000,000 on exploration (the "Expenditures") in the following increments: i) \$220,000 by December 31, 2005, which was expended; ii) \$480,000 by July 31, 2006, which was expended; iii) \$500,000 by December 31, 2006, which was expended; iv) \$2,000,000 by December 31, 2007, which was expended; and v) \$2,800,000 by December 31, 2008.

Should Maximus default or fail to make any of the Expenditures, Maximus will be permitted 60 days to remedy such default, failing which Maximus will forfeit any rights it has to an interest in the Cheminis property and Barber Larder property and the Agreement shall be terminated.

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Under the terms of the Agreement and as compensation for the Expenditures, the Company issued to Maximus 8,000,000 common share purchase warrants as follows: i) 1,500,000 warrants entitling the holder to purchase 1,500,000 common shares at a price of \$0.20 per common share until December 31, 2006 (the "Year One Warrants"); ii) 2,500,000 warrants entitling the holder to purchase 2,500,000 common shares at an exercise price of \$0.20 per common share until December 31, 2007 (the "Year Two Warrants"); and iii) 4,000,000 warrants entitling the holder to purchase 4,000,000 common shares at an exercise price of \$0.30 per common share until December 31, 2008 (the "Year Three Warrants"). The Company provided Maximus with written notice pursuant to the terms of the Year One Warrants, Year Two Warrants and Year Three Warrants, that the average closing price of the common shares of the Company was over \$0.60 per share for 60 consecutive business days, and accordingly, on July 10, 2006, the Year One Warrants, Year Two Warrants and Year Three Warrants were exercised and 8,000,000 common shares of the Company were issued for proceeds of \$2,000,000.

Kirkland Wright Properties

On May 8, 2006, the Company acquired from an arm's length party, 16 mining claims in McGarry, Hearst and McFadden Townships (the "Kirkland Wright Properties"). The Company acquired a 100% interest in the Kirkland Wright Properties by: i) payment of \$25,000; ii) the issue of 20,000 common shares of Company at a price of \$1.44 per common share; iii) incurring sufficient exploration expenditures to maintain the Kirkland Wright Properties in good standing; and iv) the issuance of 10,000 common shares of the Company annually for three years beginning on the first anniversary of the agreement, of which, the first 10,000 common shares were issued subsequent to December 31, 2007. The vendor retains a 1% net smelter return royalty on the Kirkland Wright Properties, of which, the Company has the option to purchase 0.5% for \$500,000.

McVittie McGarry Properties

On July 26, 2006, the Company acquired from Eloro, a related party, 10 mining claims in McVittie Township, 2 mining claims in McGarry Township and 1 mining claim located in Gauthier Township, near Kirkland Lake, Ontario (the "McVittie McGarry Properties"). The Company acquired a 100% interest in the McVittie McGarry Properties in exchange for the issue of 250,000 common shares of the Company for consideration of \$1.07 per common share. The McVittie McGarry Properties are encumbered with a 1% net smelter return royalty, of which, Eloro has the option to purchase 0.5% for \$500,000. The obligations of the existing net smelter royalty agreement were assigned to the Company by Eloro. The Company also granted to Eloro a net smelter return royalty of 0.5%.

McVittie Property

On April 26, 2007, the Company acquired 2 mining claims in McVittie Township (the "McVittie Property"). The Company acquired a 100% interest in the McVittie Property for \$25,500 by the issuance of 100,000 common shares of the Company for consideration of \$0.255 per common share (note 14). The vendor retains a 0.5% net smelter return royalty on the McVittie Property, of which, the Company has the option to purchase 0.25% for \$250,000.

PG 101 Property

On May 15, 2007, the Company entered an option agreement with the right to earn up to a 70% interest in 101 mining claims in Holloway and Marriot Townships in northeastern Ontario (the "PG 101 Property") and exclusive negotiating rights and rights of first refusal to acquire interests in other properties. On June 22, 2007, the Company terminated the option agreement and wrote off \$70,062 of expenditures made pursuant to the option agreement.

Lemoyne North, Horseshoe, Taïga and Taïga West Properties

On July 16, 2007, Eloro, a related party, granted the Company an option to acquire a 50% interest in Lemoyne North, Horseshoe, Taïga and Taïga West properties (the "Lemoyne Properties") by expending \$3,000,000 in the following increments: \$500,000 by July 15, 2008; \$750,000 by July 15, 2009; \$750,000 by July 15, 2010; and \$1,000,000 by July 15, 2011. The properties are encumbered with a 1% net smelter return royalty.

Swansea Property

On September 18, 2007, the Company granted an option to Newstrike Resources Ltd. ("Newstrike") to earn a 25% interest in the Company's 75% owned Swansea property. In order to earn its interest Newstrike has agreed (a) to issue 100,000 common shares to the Company in the following increments: 50,000 common shares which were received subsequent to December 31, 2007 and 50,000 common shares by October 31, 2009 and (b) to expend \$1,000,000 in the following increments: \$400,000 by September 30, 2008 and \$600,000 by September 30, 2009.

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Acquisition of 25% Interest in the Barber Larder Property

On September 19, 2007, the Company acquired the 25% interest in the Barber Larder Property consisting of 9 patented claims from Gwen Resources Ltd. ("Gwen") for \$250,000 and the issue of 1,000,000 common shares for consideration of \$0.40 per common share. The Company now holds a 100% interest in the mineral rights of the property, while the Company and Gwen each retain a 50% interest in the surface rights of the property.

Abitibi Property

On December 31, 2007, the Company wrote off \$113,570 of expenditures related to mining claims for the Abitibi Property which expired in January 2008.

8. *Due to Eloro*

The amount due to Eloro of \$23,789 as at December 31, 2006 was repaid. The amount due was unsecured, non-interest bearing and due on demand.

9. *Share capital*

Authorized

An unlimited number of common shares.

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Issued

	Number of shares	Amount \$
Balance, December 31, 2005	32,603,406	10,066,037
Issued for cash:		
Private placement of units	2,000,000	600,000
Exercise of stock options	4,327,500	1,096,253
Exercise of Maximus warrants (note 7)	8,000,000	2,000,000
Exercise of warrants	1,203,833	461,533
Issued as payment for:		
Technical and business advisory services agreement	229,163	91,665
Mineral resource properties (note 7)	270,000	296,300
Fair value assigned to warrants issued	—	(207,000)
Fair value assigned to exercise of stock options	—	933,006
Fair value assigned to exercise of Maximus warrants	—	442,000
Fair value assigned to exercise of warrants	—	199,724
Share issue costs	—	(51,627)
Balance, December 31, 2006	48,633,902	15,927,891
Issued for cash:		
Private placements of flow-through units	2,800,000	700,000
Exercise of stock options	300,000	165,000
Exercise of warrants	37,500	11,250
Issued as payment for:		
Mineral resource properties (note 7)		
McVittie Property	100,000	25,500
Barber Larder Property	1,000,000	400,000
Fair value assigned to warrants on private placements	—	(151,192)
Fair value assigned to agents warrants	—	(43,019)
Fair value assigned to exercise of stock options	—	195,750
Fair value assigned to exercise of warrants	—	4,738
Fair value assigned to expiry of warrants	—	7,276
Share issue costs	—	(58,208)
Balance, December 31, 2007	52,871,402	17,184,986

Private placement of units

On February 13, 2006, the Company completed a private placement of 2,000,000 units at a price of \$0.30 per unit for total gross proceeds of \$600,000. Each unit consisted of one common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company at a price of \$0.40 per common share until August 13, 2007. In connection with the private placement, the Company paid a finder's fee of \$48,000 and 200,000 unit purchase warrants entitling the holder to purchase a unit at a price of \$0.30 per unit until August 13, 2007.

Technical and business advisory services agreement

On March 3, 2006, the Company issued 208,330 common shares of the Company for consideration of \$0.40 per common share to a related party, International Goldfields Limited ("IGL"), pursuant to a technical and business advisory services agreement ("Services Agreement") provided for the period May 2005 to February 2006. On June 2, 2006, the Company issued 20,833 common shares of the Company at a deemed price of \$0.40 per common share to IGL pursuant to the Services Agreement for the month of March 2006. IGL is a shareholder of the Company and a director of the Company was a director of IGL.

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Private placement of flow-through units

On July 12, 2007, the Company completed a private placement of 1,000,000 units at a price of \$0.25 per unit for proceeds of \$250,000. Each unit consisted of one common share issued on a "flow-through" basis under the *Income Tax Act (Canada)* and one-half common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase a common share at a price of \$0.40 per common share until January 12, 2009.

In connection with the private placement, the Company paid a finder's fee of \$12,500 representing 5% of the private placement, paid a due diligence fee of \$7,500 and issued 100,000 finder's fee unit purchase warrants entitling the holder to purchase a unit at a price of \$0.25 per unit until January 12, 2009. Each unit consists of one common share and one-half common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase a common share at a price of \$0.40 per common share until January 12, 2009.

The fair value of the warrants issued was \$75,199 using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	4.67%
Expected volatility	142%
Expected life of warrants	1.5 years
Expected dividend yield	Nil

On August 17, 2007, the Company completed a private placement of 1,800,000 units at a price of \$0.25 per unit for proceeds of \$450,000. Each unit consisted of one common share issued on a "flow-through" basis under the *Income Tax Act (Canada)* and one-half common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase a common share at a price of \$0.40 per common share until February 17, 2009. Of the private placement, directors and officers of the Company subscribed for 456,000 units for proceeds of \$114,000.

In connection with the private placement, the Company paid a finder's fee of \$27,120 representing 8% of the orders originated by an arm's length party and issued 135,600 finder's fee unit purchase warrants entitling the holder to purchase a unit at a price of \$0.25 per unit until February 17, 2009. Each unit consists of one common share and one-half common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase a common share at a price of \$0.40 per common share until February 17, 2009.

The fair value of the warrants issued was \$119,012 using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	4.70%
Expected volatility	142%
Expected life of warrants	1.5 years
Expected dividend yield	Nil

Stock options

Under a fixed stock option plan, the Company may grant options to its employees for up to 9,200,000 common shares (2006 - 7,500,000). The exercise price of each option shall not be less than the closing price of the Company's common shares on the TSX Venture Exchange on the last trading day immediately preceding the date of grant of the option, less the applicable discount permitted by the TSX Venture Exchange. The option period for each option shall not exceed 5 years. Options granted vest immediately (2006 - in 4 equal installments on the date of grant, at 6 months, 12 months and 18 months after the date of grant). At December 31, 2007, there are 772,500 options available to be granted under the stock option plan.

A summary of stock options granted and the assumptions for the calculation of the fair value of those stock options using the Black-Scholes option pricing model is presented below:

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Date of grant	January 30, 2006	August 17, 2007	September 19, 2007
Stock options granted	1,200,000	2,450,000	275,000
Exercise price	\$0.55	\$0.35	\$0.41
Expiry date	January 30, 2011	August 17, 2012	September 19, 2012
Fair value	\$783,000	\$600,416	\$91,400
Risk-free interest rate	3.92%	4.31%	4.30%
Expected volatility	287%	118%	119%
Expected life of options	3 years	5 years	5 years
Expected dividend yield	0%	0%	0%

The grant of 1,400,000 stock options on November 9, 2007 requires shareholder approval of an increase to the number of stock options available to be granted under the stock plan. Therefore, those stock options are deemed not to be granted until that approval is obtained and accordingly, no stock-based compensation has been recorded.

A summary of the Company's fixed stock option plan is presented below:

	2007		2006	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding, beginning of year	1,225,000	0.50	4,465,000	0.24
Granted	2,725,000	0.36	1,200,000	0.55
Exercised	(300,000)	0.55	(4,327,500)	0.25
Forfeited	—	—	(112,500)	0.30
Outstanding, end of year	3,650,000	0.39	1,225,000	0.50
Options exercisable	3,650,000		531,250	

A summary of the Company's fixed stock options outstanding as at December 31, 2007 is presented below:

Exercise price	Options outstanding	Options exercisable	Expiry date
\$0.30	225,000	225,000	December 16, 2010
\$0.55	700,000	1,000,000	January 30, 2011
\$0.35	2,450,000	2,450,000	August 12, 2012
\$0.41	275,000	275,000	September 19, 2012
	3,650,000	3,650,000	

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Warrants

A summary of the Company's warrants is presented below:

	Unit purchase warrants		Share purchase warrants	
	Number of warrants	Amount \$	Number of warrants	Amount \$
Fair value of warrants issued for private placement of units	—	—	1,300,000	207,000
Fair value of warrants issued to Maximus	—	—	8,000,000	442,000
Warrants exercised	—	—	(9,203,833)	(641,724)
Balance, December 31, 2006	—	—	96,167	7,276
Fair value of warrants issued for private placement of units	—	—	1,412,500	151,192
Fair value of warrants issued to agents	235,600	43,019	—	—
Warrants exercised	(25,000)	(3,159)	(12,500)	(1,579)
Warrants expired	—	—	(96,167)	(7,276)
Balance, December 31, 2007	210,600	39,860	1,400,000	149,613

	2007			2006		
	Number of unit purchase warrants	Weighted-average exercise price	Number of share purchase warrants	Weighted-average exercise price	Number of share purchase warrants	Weighted-average exercise price
Outstanding, beginning of year	—	—	96,167	0.40	—	—
Issued	235,600	0.25	1,412,500	0.40	9,300,000	0.27
Exercised	(25,000)	0.25	(12,500)	0.40	(9,203,833)	0.27
Expired	—	—	(96,167)	0.40	—	—
Outstanding, end of year	210,600	0.25	1,400,000	0.40	96,167	0.40

A summary of the Company's warrants outstanding at December 31, 2007 is presented below:

Exercise price	Unit purchase warrants outstanding	Share purchase warrants outstanding	Expiry date
\$0.40	—	500,000	January 12, 2009
\$0.25	75,000	—	January 12, 2009
\$0.40	—	900,000	February 17, 2009
\$0.25	135,600	—	February 17, 2009
	210,600	1,400,000	

Contributed surplus

	2007 \$	2006 \$
Balance, beginning of year	1,319,303	1,568,488
Premium on shares issued to IGL	—	33,334
Transferred to share capital on exercise of stock options	(195,750)	(933,006)
Stock-based compensation	955,641	650,487
Balance, end of year	2,079,194	1,319,303

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

10. Income taxes

Provision for income taxes

The Company's effective income tax rate differs from the amount that would be computed by applying the federal and provincial statutory rate of 36% (2006 – 36%) to the net loss for the year. The reasons for the difference are as follows:

	2007	2006
	\$	\$
Income tax recovery based on statutory rate	(811,000)	(509,000)
Stock-based compensation	154,000	234,000
Other	174,000	38,000
Unrecorded tax benefit of losses	483,000	237,000
	—	—

Future income tax assets

The Company's future income tax assets were as follows:

	2007	2006
	\$	\$
Non-capital loss carryforward	1,085,000	783,000
Mineral resource properties	960,000	1,123,000
Plant and equipment	65,000	76,000
Other	35,000	—
	2,145,000	1,982,000
Valuation allowance	(2,145,000)	(1,982,000)
	—	—

Due to losses incurred in the current year and expected future operating results, management determined that it is more likely than not that the future income tax assets will not be realized, and accordingly, a valuation allowance has been recorded for the future income tax assets.

Losses carried forward

At December 31, 2007, the Company had non-capital loss carryforwards which expire as follows:

	\$
2008	136,000
2009	129,000
2010	89,000
2014	804,000
2015	462,000
2026	779,000
2027	1,342,000
	3,741,000

Resource deductions

At December 31, 2007, the Company had resource deductions of \$11,900,000 which may be carried forward indefinitely to reduce taxable income in future years.

NFX GOLD INC.

(an exploration stage company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

11. Commitments and contingencies

A reclamation deposit of \$46,000 has been posted on behalf of the Company with the Ontario Ministry of Northern Development (the "Ministry") to guarantee the payment of costs for the reclamation of the Cheminis property following a permanent closure of the mine site. The reclamation deposit will be refunded to the Company upon completion of the reclamation to the satisfaction of the Ministry. As at December 31, 2007, the Company has no contractual liabilities or existing obligations for reclamation costs.

12. Related party transactions

For the year ended December 31, 2007, consulting fees includes \$328,500 (2006-\$254,000) expensed to companies controlled by two directors and management of the Company and mineral resource properties included \$22,915 paid to a company controlled by a director and no amount (2006-\$25,000) paid pursuant to Services Agreement with IGL. IGL was a shareholder of the Company and a director of the Company was a director of IGL.

Sundry receivables included no amount (2006-\$62,535) due from a director and no amount (2006-\$4,000) due from Wavex International Inc. ("Wavex"). The amount of \$4,000 due from Wavex as at December 31, 2006, which was unsecured, non-interest bearing and due on demand, was written off. Two directors of Wavex are directors of the Company. Sundry receivables also include \$25,000 (2006-\$25,000) due from Champion Minerals Inc. ("Champion") which is unsecured, non-interest bearing and due on demand, was repaid subsequent to December 31 2007. One director of Champion is a director of the Company. Accounts payable includes no amount (2006-\$8,764) owed to a director.

These transactions were in the normal course of business and are recorded at an exchange value established and agreed upon by the related parties.

13. Financial instruments

Fair value

The carrying value of cash, sundry receivable and accounts payable and accrued liabilities approximates fair value due to the short-term nature of these financial instruments. Marketable securities are recorded at fair value.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of financial instruments. The Company is exposed to fair value fluctuations on its marketable securities.

Commodity price risk

The ability of the Company to develop its mineral resource properties and the future profitability of the Company is directly related to the market price of certain minerals.

14. Non-cash items

	\$
Issue of common shares for acquisition of mineral resource properties	
McVittie Property	25,500
Barber Larder Property	400,000
Settlement of amount due from Northfield	18,300
<hr/>	

15. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. The loss previously reported has not been affected by the reclassifications.