

# **NFX Gold Inc.**

(an exploration stage company)

## **Consolidated Financial Statements**

**For the 3 months ended March 31, 2008**

**(unaudited)**

### **Management's Comments on Unaudited Interim Consolidated Financial Statements**

These unaudited interim consolidated financial statements of NFX Gold Inc. (the "Company") for the 3 months ended March 31, 2008 have been prepared by management and approved by the Board of Directors of the Company.

These unaudited interim consolidated financial statements have not been reviewed by the Company's external auditors.

# NFX Gold Inc.

(an exploration stage company)

## Consolidated Balance Sheets

	As at March 31, 2008 \$ (unaudited)	As at December 31, 2007 \$
<b>Assets</b>		
Current		
Cash	1,265,691	1,975,427
Marketable securities (note 3)	645,272	800,068
Receivables	65,473	55,894
Prepaid expenses	18,127	24,432
	<hr/> 1,994,563	<hr/> 2,855,821
Plant and equipment	71,328	57,274
Mineral resource properties (note 4)	9,511,522	9,035,652
	<hr/> 11,577,413	<hr/> 11,948,747
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	71,772	157,730
	<hr/> 11,770	<hr/> 11,770
Non-controlling interest	11,770	11,770
	<hr/> 11,770	<hr/> 11,770
<b>Shareholders' equity</b>		
Share capital (note 5)	16,989,635	17,184,986
Warrants (note 5)	179,757	189,473
Contributed surplus (note 5)	2,079,194	2,079,194
Deficit	(7,754,715)	(7,674,406)
	<hr/> 11,493,870	<hr/> 11,779,247
	<hr/> 11,577,413	<hr/> 11,948,747

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

	3 months ended March 31,		Cumulative from inception on July 19, 1996 to
	2008	2007	March 31,
	\$	\$	2008
	(unaudited)	(unaudited)	(unaudited)
<b>General and administrative expenses</b>			
Professional fees	11,387	10,128	461,554
Consulting fees	41,500	93,700	2,101,309
Stock-based compensation	-	114,250	2,193,851
General and office	135,494	107,321	2,463,262
Investor relations	-	-	75,401
Amortization	377	118	194,531
	<u>188,759</u>	<u>325,517</u>	<u>7,489,908</u>
<b>Loss before the undernoted items</b>	(188,759)	(325,517)	(7,489,908)
Interest income	16,045	28,919	179,492
Other income	-	11,030	41,703
Gain on sale of investments	-	-	123,376
Decrease in fair value of marketable securities	(159,596)	187,332	(429,519)
Recovery (write-down) of due from Northfield Metals Inc.	-	-	(287,395)
Write-down of due from Wavex International Inc.	-	-	(4,000)
Write-down of mineral resource properties	-	-	(299,636)
Gain on settlement of accounts payable	-	-	178,792
	<u>(332,309)</u>	<u>(98,236)</u>	<u>(7,987,095)</u>
<b>Loss for the period</b>	(332,309)	(98,236)	(7,987,095)
Income tax recovery (note 6)	252,000	-	252,000
	<u>(80,309)</u>	<u>(98,236)</u>	<u>(7,735,095)</u>
<b>Net loss for the period</b>	(80,309)	(98,236)	(7,735,095)
Change in policy for stock-based compensation	-	-	(214,432)
Transitional adjustment for increase in fair value of marketable securities	-	194,812	194,812
Deficit, beginning of period	(7,674,406)	(5,615,064)	-
	<u>(7,754,715)</u>	<u>(5,518,488)</u>	<u>(7,754,715)</u>
<b>Deficit, end of period</b>	(7,754,715)	(5,518,488)	(7,754,715)
<b>Loss per share-basic and diluted</b>	(0.01)	(0.00)	
<b>Weighted average number of common shares outstanding during the period-basic and diluted</b>	52,877,116	48,633,902	

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# NFX Gold Inc.

(an exploration stage company)

## Consolidated Statements of Cash Flows

	3 months ended March 31,		Cumulative from inception on July 19, 1996 to March 31,
	2008	2007	2008
	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Loss for the period	(80,309)	(98,236)	(7,735,095)
Items not affecting cash			
Stock-based compensation	-	114,250	2,193,851
Amortization	377	118	194,531
Gain on sale of marketable securities	-	-	(123,376)
Decrease in fair value of marketable securities	159,596	(187,332)	429,519
Gain on settlement of accounts payable	-	-	(178,792)
Recovery of amount due from Northfield Metals Inc.	-	-	287,395
Writedown of due from Wavex International Inc.	-	-	4,000
Writedown of mineral resource properties	-	-	299,636
Future income tax recovery	(252,000)	-	(252,000)
Changes in non-cash operating working capital			
Sundry receivables	(9,578)	38,728	(69,471)
Prepaid expenses	6,305	2,141	(18,127)
Accounts payable and accrued liabilities	(85,958)	4,550	479,397
	(261,567)	(125,781)	(4,488,532)
<b>Financing activities</b>			
Issuance of common shares for cash	-	-	7,078,798
Exercise of options	-	-	2,940,139
Exercise of warrants	36,532	-	2,509,315
Share issue costs	-	-	(310,470)
Non-controlling minority interest	-	-	11,770
Due to Northfield Metals Inc.	-	-	1,863,416
	36,532	-	14,092,968
<b>Investing activities</b>			
Proceeds on sale of marketable securities	-	-	330,893
Proceeds on sale of plant and equipment	-	-	24,988
Purchase of marketable securities	(4,800)	(141,225)	(1,069,197)
Plant and equipment	(17,294)	-	(730,501)
Mineral resource properties expenditures	(462,607)	(10,610)	(6,284,441)
Due from Northfield Metals Inc.	-	-	(438,199)
Organization costs	-	-	(172,288)
	(484,701)	(151,835)	(8,338,745)
<b>Net increase (decrease) in cash</b>	(709,736)	(277,616)	1,265,691
<b>Cash, beginning of period</b>	1,975,427	3,189,597	-
<b>Cash, end of period</b>	1,265,691	2,911,981	1,265,691
<b>Supplementary information</b>			
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

March 31, 2008

(unaudited)

### 1. Nature 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. Accounting presentation and disclosures

These unaudited consolidated financial statements of the Company have been prepared using accounting policies that are consistent with the policies used in preparing the Company's annual financial statements. Generally accepted accounting principles for interim financial statements do not conform in all respects to the disclosures required for annual financial statements, and accordingly, these consolidated financial statements should be read in conjunction with the annual consolidated financial statements.

#### Accounting changes

On January 1, 2008, the Company adopted amendments to CICA Handbook Section 1400, "General Standards of Financial Statement Presentation" which includes requirements to assess and disclose an entity's ability to continue as a going concern; disclosure of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern; disclosure of when financial statements are not prepared on a going concern basis, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

On January 1, 2008, the Company adopted CICA Handbook Section 1535, "Capital Disclosures" which requires disclosure of qualitative information about its objectives, policies and processes for managing capital; disclosure of quantitative data about what is regarded as capital; and disclosure of compliance with any externally imposed capital requirements and the consequences of such non-compliance.

On January 1, 2008, the Company adopted CICA Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" which requires disclosures to enable users to evaluate the significance of financial instruments on the entity's financial position and performance, and the nature and extent of risks arising from financial instruments and non-financial derivatives.

Beyond additional disclosure, the adoption of these new accounting standards did not have an effect on the Company's financial statements.

#### Future accounting changes

On January 1, 2009, the Company will adopt CICA Handbook Section 3031, "Inventories", which will replace Section 3030. The new standard requires that inventories be measured at the lower of cost and the net realizable value, provides guidelines on determining cost, prohibits the use of the last-in, first-out method (LIFO) and requires the reversal of a previous write-down when the value of inventories increases.

On January 1, 2009, the Company will adopt CICA Handbook Section 3064, "Goodwill and Intangible Assets" which will replace Section 3062. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. Concurrent with the introduction of this standard, the CICA withdrew EIC27, Revenues and Expenses during the pre-operating period.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

### 3. Marketable securities

Marketable securities include the following investments in related parties:

	March 31, 2008		December 31, 2007	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Eloro Resources Ltd. ("Eloro")	856,679	624,173	851,879	776,768
Northfield Metals Inc. ("Northfield")	18,300	18,300	18,300	18,300

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

### 4. Mineral resource properties

Property	December 31, 2007 \$	Acquisition costs \$	Exploration \$	March 31, 2008 \$
Cheminis	7,679,169	—	14,566	7,693,735
Barber Larder	903,001	—	—	903,001
Swansea	—	—	—	—
McVittie McGarry	286,472	—	2,504	288,976
Kirkland Wright	53,800	10,400	17,403	81,603
McVittie	26,795	—	—	26,795
Lemoyne	86,415	—	430,997	517,412
	<u>9,035,652</u>	<u>10,400</u>	<u>465,470</u>	<u>9,511,522</u>

#### Kirkland Wright Properties

In accordance the terms of the agreement under which the Company acquired its 100% interest in the Kirkland Wright Properties, the Company issued 20,000 common shares of Company with a value of \$10,400 to the vendor leaving 10,000 common shares to be issued by May 8, 2009.

## 5. Share capital

Share capital consists of the following issued and outstanding common shares:

	Number of shares	Amount \$
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		
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
Issued for cash:		
Exercise of warrants	92,130	36,532
Issued as payment for:		
Mineral resource properties (note 4)		
Kirkland Wright	20,000	10,400
Fair value assigned to exercise of warrants	—	9,716
Future income taxes on renunciation of flow-through expenditures	—	(252,000)
Balance, March 31, 2008	52,983,532	16,989,634

### Stock options

Under a fixed stock option plan, the Company may grant options to its employees for up to 9,200,000 common shares (December 31, 2007 – 9,200,000). 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. As at March 31, 2008 and December 31, 2007, there were 772,500 options available to be granted under the stock option plan.

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:

	Number of options	Weighted- average exercise price
Outstanding, December 31, 2006	1,225,000	0.24
Granted	2,725,000	0.55
Exercised	(300,000)	0.25
Forfeited	—	0.30
Outstanding, December 31, 2007 and March 31, 2008	3,650,000	0.50
Options exercisable	3,650,000	

A summary of the Company's fixed stock options outstanding as at March 31, 2008 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	

### 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 \$
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
Warrants issued on exercise of unit purchase warrants	—	—	1,065	—
Warrants exercised	(2,130)	(266)	(90,000)	(9,450)
Balance, March 31, 2008	208,470	39,594	1,311,065	140,163

	Unit purchase warrants		Share purchase warrants	
	Number of warrants	Weighted-average exercise price	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2006	—	—	96,167	0.40
Issued	235,600	0.25	1,412,500	0.40
Exercised	(25,000)	0.25	(12,500)	0.40
Expired	—	—	(96,167)	0.40
Outstanding, December 31, 2007	210,600	0.25	1,400,000	0.40
Issued	—	—	1,065	0.40
Exercised	(2,130)	0.25	(90,000)	0.40
Outstanding, March 31, 2008	208,470	0.25	1,311,065	0.40

A summary of the Company's warrants outstanding at March 31, 2008 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	—	811,065	February 17, 2009
\$0.25	133,470	—	February 17, 2009
	208,470	1,311,065	

### Contributed surplus

	\$
Balance, December 31, 2006	1,319,303
Premium on shares issued to IGL	—
Transferred to share capital on exercise of stock options	(195,750)
Stock-based compensation	955,641
Balance, December 31, 2007 and March 31, 2008	2,079,194

## **6. Future income tax recovery**

During the year ended December 31, 2007, the Company issued \$700,000 of flow-through common shares pursuant to the Income Tax Act (Canada). On February 28, 2008, the deductions for income tax purposes of the related expenditures were renounced to the subscribers of the flow-through shares. Share capital was reduced and future income tax liability was increased by \$252,000, representing the income tax benefits the expenditures renounced by the Company to the subscribers. However, since the Company had unrecorded loss carryforwards and income tax pools in excess of book value available for deduction, the Company recorded a recovery of future income taxes of \$252,000.

## **7. Related party transactions**

For the 3 months ended March 31, 2008, consulting fees includes \$46,500 (2007 – \$49,000) expensed to companies controlled by two directors and management of the Company.

Receivables included no amount (December 31, 2007 – \$25,000) due from Champion Minerals Inc. (“Champion”). Three directors of the Company are also directors of the Champion.

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

## **8. Capital disclosures**

Capital of the Company consists of the components of shareholders' equity. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to explore and develop its mineral resource properties for the benefit of its shareholders.

As the Company is in the exploration stage, its principal source of capital is from the issue of common shares. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions.

## **9. Financial instruments and risk management**

The carrying value of cash, receivables, accounts payable and accrued liabilities, due to NFX Gold Inc., due to Eoro Resources Ltd. and advances payable approximates fair value due to the short-term nature of these financial instruments.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk interest rate risk and commodity price risk.

### **Currency risk**

As the majority of the Company's expenditures are in Canadian dollars, the Company limits its exposure to currency risk by maintaining its cash and cash equivalents in Canadian dollars.

### **Credit risk**

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's limits its exposure to credit risk by holding its cash in deposits with high credit quality Canadian financial institutions.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through the management of its capital structure as outlined in note 7.

### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk due to the short-term nature of its financial instruments.

### **Commodity price risk**

The Company is exposed to commodity price risk with respect to uranium prices. A significant decline in uranium prices may affect the Company's ability to obtain capital for the exploration and development of its mineral resource property.