

**ICN RESOURCES LTD.**  
(formerly Icon Industries Limited)

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

## AUDITORS' REPORT

To the Shareholders of  
ICN Resources Ltd.  
(formerly Icon Industries Limited)

We have audited the consolidated balance sheets of ICN Resources Ltd. (formerly Icon Industries Limited) as at December 31, 2009 and 2008 and the consolidated statements of operations 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 positions of the Company as at December 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.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 19, 2010



**ICN RESOURCES LTD.**  
(formerly Icon Industries Limited)  
**CONSOLIDATED BALANCE SHEETS**  
AS AT DECEMBER 31

	2009	2008
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 994,253	\$ 1,352,400
Receivables	8,183	82,483
Prepaid expenses and advances	<u>48,731</u>	<u>-</u>
	1,051,167	1,434,883
<b>Reclamation Bond</b>	26,596	-
<b>Mineral property investment</b> (Note 4)	2,056,306	754,257
<b>Equipment</b> (Note 3)	<u>7,600</u>	<u>8,308</u>
	<u>\$ 3,141,669</u>	<u>\$ 2,197,448</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 261,218	\$ 118,227
<b>Shareholders' equity</b>		
Share capital (Note 5)	16,847,328	15,506,792
Share subscriptions receivable (Note 5)	(17,000)	(7,500)
Contributed surplus (Note 5)	934,582	643,590
Deficit	<u>(14,884,459)</u>	<u>(14,063,661)</u>
	<u>2,880,451</u>	<u>2,079,221</u>
	<u>\$ 3,141,669</u>	<u>\$ 2,197,448</u>

**Nature of operations and going concern** (Note 1)

**Subsequent events** (Note 12)

**On behalf of the Board:**

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"J. Stephen Barley" Director      "Herrick Lau" Director

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

**ICN RESOURCES LTD.**  
(formerly Icon Industries Limited)  
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT  
YEAR ENDED DECEMBER 31

	2009	2008
<b>EXPENSES</b>		
Accounting and audit	\$ 49,710	\$ 38,872
Advertising and promotion	4,435	2,844
Amortization	1,908	2,085
Consulting fees	50,060	106,880
Investor relations	19,824	48,384
Legal	48,080	7,753
Management fees	246,800	60,000
Office and miscellaneous	50,649	73,834
Property investigation	27,660	-
Rent	19,154	13,269
Stock-based compensation (Note 5)	308,839	232,138
Transfer agent and regulatory fees	18,822	16,311
Travel and accommodation	16,797	24,946
	<u>(862,738)</u>	<u>(627,316)</u>
<b>OTHER ITEMS</b>		
Interest income	2,656	65,829
Foreign exchange	(4,337)	-
Quebec mining exploration tax credit	481,148	-
Write-off of accounts payable	22,570	-
Write-down of mineral property (Note 4)	<u>(460,097)</u>	<u>(2,531,693)</u>
	<u>41,940</u>	<u>(2,465,864)</u>
<b>Loss before income tax</b>	(820,798)	(3,093,180)
Future income tax recovery (Note 8)	<u>-</u>	<u>103,802</u>
<b>Loss for the year</b>	(820,798)	(2,989,378)
<b>Deficit, beginning of year</b>	<u>(14,063,661)</u>	<u>(11,074,283)</u>
<b>Deficit, end of year</b>	<u>\$ (14,884,459)</u>	<u>\$ (14,063,661)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.04)</u>	<u>\$ (0.15)</u>
<b>Weighted average number of common shares outstanding</b>	<u>21,632,560</u>	<u>20,203,450</u>

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

**ICN RESOURCES LTD.**  
(formerly Icon Industries Limited)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (820,798)	\$ (2,989,378)
Items not affecting cash:		
Amortization	1,908	2,085
Stock-based compensation	308,839	232,138
Write-down of mineral property	460,097	2,531,693
Future income tax recovery	-	(103,802)
Changes in non-cash working capital items:		
Decrease (increase) in receivables	74,300	(790)
Increase in prepaid expenses and advances	(48,731)	-
Increase (decrease) in accounts payable and accrued liabilities	<u>159,581</u>	<u>(11,172)</u>
Net cash provided by (used in) operating activities	<u>135,196</u>	<u>(339,226)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral property investment	(1,678,736)	(1,334,152)
Acquisition of equipment	(1,200)	(1,099)
Increase in reclamation bond	<u>(26,596)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,706,532)</u>	<u>(1,335,251)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital stock	1,278,565	107,750
Share issuance costs	<u>(65,376)</u>	<u>-</u>
Net cash provided by financing activities	<u>1,213,189</u>	<u>107,750</u>
<b>Change in cash during the year</b>	(358,147)	(1,566,727)
<b>Cash position, beginning of the year</b>	<u>1,352,400</u>	<u>2,919,127</u>
<b>Cash position, end of the year</b>	<u>\$ 994,253</u>	<u>\$ 1,352,400</u>

**Supplement disclosure with respect to cash flows (Note 9)**

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

**ICN RESOURCES LTD.**

(formerly Icon Industries Limited)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2009

**1. NATURE OF OPERATIONS AND GOING CONCERN**

ICN Resources Ltd. (formerly Icon Industries Limited) (the "Company") is a public company listed on Tier 2 of the TSX Venture Exchange. The Company is in the business of acquiring, exploring and developing mineral resource properties. During the year ended December 31, 2009, the Company changed its name from Icon Industries Limited to ICN Resources Ltd.

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has incurred losses of \$14,884,459 since inception and further losses are anticipated in the development of its business plan. These circumstances lead to significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its mineral properties, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

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	2009	2008
Deficit	\$(14,884,459)	\$(14,063,661)
Working capital	789,949	1,316,656

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**2. SIGNIFICANT ACCOUNTING POLICIES****Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiary, Hog Ranch Nevada Inc. ("HRNI"). HRNI was incorporated on October 20, 2009 in the State of Nevada, United States of America. All inter-company balances and transactions are eliminated on consolidation.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Use of estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of management estimates include the determination of impairment of mineral properties and equipment; amounts of reclamation and environmental obligations; amortization rates for equipment; valuation allowance for future income tax assets; and determination of the assumptions used in calculating fair value of stock-based compensation. While management believes the estimations are reasonable, actual results could differ from these estimates and could impact future results of operations and cash flows.

**Equipment and amortization**

Equipment is recorded at cost and amortization is calculated using the following annual rates and methods:

Office furniture and equipment	20% declining balance
Computer equipment	30% declining balance
Equipment and machinery	20% declining balance

**Financial instruments**

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading, receivables as loans and receivables and reclamation bond as held to maturity. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

The Company provides disclosure that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performance and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date and how the entity manages those risks.

**Mineral properties**

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Mineral properties (cont'd...)**

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

The Company becomes eligible from time to time for non-repayable government grants in connection with exploration expenditures on its mineral property. These grants are recorded as a reduction in deferred exploration costs when there is reasonable assurance that i) the Company has complied with all conditions necessary to obtain the grant and ii) the amount of the grant can be determined.

**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.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and the related long-lived asset.

As at December 31, 2009 and 2008, the Company had no asset retirement obligations.

**Flow-through common shares**

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

**Stock-based compensation**

In connection with incentive stock options granted by the Company to its officers, directors, employees and consultants, an expense is recognized over the vesting period based on the estimated fair value of the options on the date of the grant as determined using the Black-Scholes option pricing model. The expense is charged to stock-based compensation and the offset is credited to contributed surplus. Cash received on exercise of incentive stock options is credited to capital stock.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Foreign currency translation**

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates which approximate those in effect on transaction dates. Exchange gains and losses arising on translation are included in the statement of operations.

The Company's foreign subsidiary is integrated with the Company and translated using the temporal method. Under this method, monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Income and expenses are translated at rates which approximate those in effect on transaction dates. Gains and losses arising from restatement of foreign currency assets and liabilities are included in earnings.

**Income taxes**

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Loss per common share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

**New accounting policies adopted**

*Goodwill and intangible assets*

The Canadian Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**New accounting policies adopted (cont'd...)**

*EIC 173: Credit risk and the fair value of financial assets and financial liabilities*

In January 2009, the CICA issued Emerging Issues Committee (“EIC”) Abstract 173 which establishes that an entity’s own credit risk 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. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

*EIC 174: Mining exploration costs*

In March 2009, the CICA issued EIC abstract 174 to provide additional guidance for mining exploration enterprises on when an impairment test is required. This abstract was applied during the current year. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

*Financial instruments - disclosures*

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, that includes additional disclosure requirements about fair value measurements for financial instruments and liquidity risk disclosures. Enhanced fair value measurements entail a three-level hierarchy that takes into account the significance of the inputs used in making the fair value measurements. Enhanced liquidity risk disclosures include a maturity analysis for financial liabilities and how an entity manages the liquidity risk. The Company has included the disclosure recommended by the new handbook sections in Note 10 to these consolidated financial statements.

**Recent Accounting Pronouncements**

*International financial reporting standards (“IFRS”)*

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

*Business Combinations, Non-controlling Interest and Consolidated Financial Statements*

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual financial statements for its fiscal year beginning January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently. The Company has not yet determined the impact of the adoption of these standards on its consolidated financial statements.

**ICN RESOURCES LTD.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009

**3. EQUIPMENT**

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment and machinery	\$ 9,180	\$ 3,892	\$ 5,288	\$ 9,180	\$ 2,570	\$ 6,610
Office furniture and equipment	3,746	2,314	1,432	2,546	2,106	440
Computer equipment	<u>8,628</u>	<u>7,748</u>	<u>880</u>	<u>8,628</u>	<u>7,370</u>	<u>1,258</u>
	\$ 21,554	\$ 13,954	\$ 7,600	\$ 20,354	\$ 12,046	\$ 8,308

**4. MINERAL PROPERTY INVESTMENT**

2009	Hog Ranch and Estill Property	Beresford Lake Property	Total
	<b>Acquisition costs</b>		
Cash payments	\$ 710,090	\$ -	\$ 710,090
Common share issuances	<u>100,000</u>	<u>-</u>	<u>100,000</u>
	<u>810,090</u>	<u>-</u>	<u>810,090</u>
<b>Deferred exploration expenditures</b>			
Assays	42,454	-	42,454
Camp	4,383	-	4,383
Consulting – geological	202,063	-	202,063
Drilling	510,802	-	510,802
Equipment rental	46,609	-	46,609
Freight	11,051	-	11,051
Miscellaneous	3,120	-	3,120
Project administration	84,188	-	84,188
Supplies	9,222	-	9,222
Surveys & maps	3,704	-	3,704
Telecommunication	2,434	-	2,434
Travel	<u>32,026</u>	<u>-</u>	<u>32,026</u>
	<u>952,056</u>	<u>-</u>	<u>952,056</u>
Net costs for the year	1,762,146	-	1,762,146
Balance, beginning of the year	-	754,257	754,257
Write off of property	<u>-</u>	<u>(460,097)</u>	<u>(460,097)</u>
Balance, end of the year	\$ 1,762,146	\$ 294,160	\$ 2,056,306

**ICN RESOURCES LTD.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009

**4. MINERAL PROPERTY INVESTMENT (cont'd...)**

<b>2008</b>	Otish Mountain Property	Beresford Lake Property	Total
<b>Acquisition costs</b>			
Cash payments	\$ 75,000	\$ -	\$ 75,000
Common share issuances	<u>195,000</u>	<u>-</u>	<u>195,000</u>
	<u>270,000</u>	<u>-</u>	<u>270,000</u>
Deferred exploration expenditures			
Consulting – geological	53,035	-	53,035
Contracted labour	65,429	-	65,429
Maps, photos, reproductions, and reports	342	-	342
Project administration	7,446	-	7,446
Claim fees, assessments & permits	12,507	215	12,722
Samples & assay	13,058	-	13,058
Travel & accommodation	23,543	-	23,543
Equipment & supplies	32,973	-	32,973
Drilling	773,217	-	773,217
Freight	<u>256,724</u>	<u>-</u>	<u>256,724</u>
	<u>1,238,274</u>	<u>215</u>	<u>1,238,489</u>
Net costs for the year	1,508,274	215	1,508,489
Balance, beginning of the year	1,023,419	754,042	1,777,461
Write off of property	<u>(2,531,693)</u>	<u>-</u>	<u>(2,531,693)</u>
Balance, end of the year	\$ -	\$ 754,257	\$ 754,257

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**Hog Ranch and Estill Property, Nevada, USA**

On April 28, 2009 the Company entered into an option agreement with Seabridge Gold Corporation (“Seabridge”) and its wholly-owned subsidiary, Seabridge Gold Inc. (“SEA”), whereby the Company paid \$500,000 and issued 1,000,000 shares of the Company to SEA, for and in consideration of Seabridge granting the Company an option to acquire a 100% interest in certain unpatented lode mining claims and land, collectively the Hog Ranch and Estill Property in Washoe County, Nevada, subject to the terms of the leases with the owners. To exercise the option, the Company shall pay an additional \$525,000 and issue an additional 1,000,000 common shares of the Company on or before April 17, 2010 (Note 12).

**4. MINERAL PROPERTY INVESTMENT (cont'd...)**

**Hog Ranch and Estill Property, Nevada, USA (cont'd...)**

The Hog Ranch property is subject to an annual advance royalty of US\$20,000, payable on November 15 of each year, and a production royalty to the owner in the amount of 1% of gross proceeds on the sale of minerals from the properties, and pay the owner a further US\$250,000 in cash upon the earlier of (i) confirmation by an independent third party of a measured and indicated gold reserve of more than 1.0 million ounces, (ii) completion of a positive bankable feasibility study which demonstrates a mine capable of producing at least 100,000 ounces of gold per annum.

The Estill property is subject to a 3% NSR with an exception of precious metals production royalty ranging from 1.8% to 3.3% depending on gold price.

The Estill property is subject to a lease payment of US\$17,760 on October 1 of each year, should the total exploration expenditure on the Estill properties be less than \$200,000; or US\$11,840 on October 1 of each year, should the total exploration expenditure on the Estill properties be \$200,000 or more.

In connection with the option agreement, the Company agreed to pay a finder's fee of \$95,000, of which \$56,250 was paid and the remainder of \$38,750 is payable upon the Company's exercise of the option.

**Beresford Lake Property, Manitoba**

The Company acquired a 100% interest in the Beresford Lake Property (the "Property") near Bisset, Manitoba pursuant to an option agreement (the "Option") with Stephen Stares, Michael Stares, and Wayne Reid (collectively the "Optionors"). To acquire its 100% interest, the Company paid the Optionors \$82,001 and issued 300,001 common shares of the Company with a value of \$60,750. The Option also included a work commitment which the Company has met. The Property is subject to a 2% NSR with the Company having the right to purchase 1% of the NSR for \$1,000,000 with a first right of refusal to the remaining 1%. The Option contains a provision for the acquisition of additional claim units in an area of interest surrounding the Property.

During the year ended December 31, 2009, the Company let certain claims lapse as the Company has no further plan on these claims. The Company thus wrote off exploration costs of \$460,097 associated with these claims.

**Otish Mountain Property, Quebec**

During the year ended December 31, 2007, the Company entered into an assignment agreement with Tasso Baras and Kevin Torudag (the "Assignors"), whereby the assignors assigned all of their rights, title and interest in and to the Letter Agreement dated March 12, 2007 with Ms. Lai Lai Chan (the "Owner") for an option to acquire 85 contiguous mineral claims (the "Property") in the Otish Mountain area of Quebec. The Company issued the Assignors 500,000 common shares, valued at \$400,000, as consideration for the Assignment.

The Property is subject to a 2% NSR with the Company having the right to purchase half of the 2% NSR (i.e. 1%) for \$1,000,000.

At December 31, 2008, the Company decided not to proceed with the options on the Otish Mountain Property and wrote off the carrying value of \$2,531,693 in acquisition and exploration costs incurred on the property.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009

**5. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited number of common shares without par value			
Issued :			
Balance, December 31, 2007	19,869,024	\$ 15,415,594	\$ 411,452
Mineral property acquisition	450,000	195,000	-
Tax benefits renounced to flow-through share subscribers	-	(103,802)	-
Stock-based compensation	-	-	232,138
Balance, December 31, 2008	20,319,024	15,506,792	643,590
Mineral property acquisition	1,000,000	100,000	-
Private placement	7,444,500	1,265,565	-
Exercise of options	150,000	40,347	(17,847)
Share issuance costs	-	(65,376)	-
Stock-based compensation	-	-	308,839
Balance, December 31, 2009	28,913,524	\$ 16,847,328	\$ 934,582

**Share subscriptions receivable**

The Company received share subscription proceeds of \$7,500 outstanding at December 31, 2008 in 2009. Subsequent to the year end, the Company received share subscription proceeds of \$17,000 outstanding at December 31, 2009.

**Share issuances**

During the year ended December 31, 2009, the Company:

- a) Completed a non-brokered private placement of 7,444,500 units ("units") at a price of \$0.17 per unit for gross proceeds of \$1,265,565. Each unit is comprised of one common share and one half of a share purchase warrant; each whole share purchase warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.25 for a period of two years. The Company paid finder's fees of \$65,376.
- b) Issued 150,000 common shares from exercise of options at an exercise price of \$0.15 per share for proceeds of \$22,500. Accordingly, \$17,847 was transferred from contributed surplus to capital stock.
- c) Issued 1,000,000 common shares pursuant to mineral property agreements on the Hog Ranch and Estill Property with a total value of \$100,000.

During the year ended December 31, 2008, the Company issued 450,000 common shares pursuant to mineral property agreements on the Otish Mountain property with a total value of \$195,000.

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**5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options**

The Company has a stock option plan (the "Stock Option Plan") under which it can grant up to a maximum of 4,263,804 options or 20% of the issued and outstanding shares of the Company at the date of grant, whichever is less. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant and the options can be granted for a maximum term of 5 years. The vesting period is determined by the board of directors and must be in compliance with the policies of the TSX-V Exchange.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2007	2,280,000	\$ 0.48
Granted	150,000	0.35
Cancelled/expired	<u>(395,000)</u>	0.37
Balance, December 31, 2008	2,035,000	0.50
Granted	3,580,000	0.20
Exercised	(150,000)	0.15
Cancelled/expired	<u>(1,495,000)</u>	0.60
Balance, December 31, 2009	3,970,000	\$ 0.20
Exercisable at December 31, 2009	1,790,000	\$ 0.19
Weighted average fair value of options granted during the year		\$0.16 (2008 - \$0.04)

At December 31, 2009, the following stock options were outstanding:

Number of Options	Exercise price	Expiry Date
340,000	\$ 0.15	February 3, 2011
100,000	0.15	September 25, 2011
150,000	0.35	November 3, 2013
880,000	0.15	March 19, 2014
1,200,000	0.22	September 29, 2014
1,050,000	0.22	October 22, 2014
100,000	0.22	December 3, 2014
150,000	0.22	December 8, 2014

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**5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock-based compensation**

For stock options granted to employees, officers, directors and consultants, the Company recognizes as an expense the estimated fair value of the stock options granted. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

For the year ended December 31, 2009 an expense of \$308,839 (2008 - \$232,138) was recorded in the consolidated financial statements of the Company as stock-based compensation and the offset was credited to contributed surplus. The fair value of stock options granted was determined using the following weighted average assumptions:

	2009	2008
Risk-free interest rate	1.71%	2.32%
Expected life of options	3 years	3 years
Annualized volatility	160.94 %	126.51 %
Dividend rate	0%	0%

**Warrants**

Warrant transactions are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, December 31, 2007	4,362,781	\$	0.71
Expired	<u>(1,759,448)</u>		0.77
Balance, December 31, 2008	2,603,333		0.30
Issued	<u>3,722,250</u>		0.25
Balance, December 31, 2009	6,325,583	\$	0.27
Exercisable at December 31, 2009	6,325,583	\$	0.27

At December 31, 2009, the following warrants were outstanding:

Number of Warrants	Exercise price	Expiry Date
2,603,333	\$ 0.30	April 13, 2010 (Subsequently expired unexercised)
3,722,250	\$ 0.25	December 17, 2011

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**6. RELATED PARTY TRANSACTIONS**

The Company paid or accrued amounts to related parties during the year ended December 31 as follows:

	2009	2008
Consulting and administrative fees to a company controlled by an officer and former director of the Company	\$ 73,164	\$ 70,888
Geological fees to companies controlled by directors of the Company	5,060	7,995
Legal fee expenses to a law firm controlled by an officer of the Company	45,270	7,753
Management fees to a company controlled by a director	246,800	60,000
Rent to a company with directors in common with the Company	19,154	13,269

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable and accrued liabilities at December 31, 2009 is \$226,450 (2008 - \$56,453) owing to related parties for services rendered to the Company.

The Company entered into a consulting agreement effective June 1, 2009 with a company controlled by the President and CEO of the Company for consulting services expiring May 31, 2012. The Company will pay a monthly fee of \$5,000 plus GST and reimburse all reasonable expenses incurred during the performance of the services. If the President is terminated as a result of a change of control of the Company, the Company shall pay a minimum severance compensation of \$330,000. The Company entered into a settlement agreement with the former President and CEO, whereby in consideration of a payment of \$189,000 to the former President, the Company was released from all claims arising from the consulting agreement with the company controlled by the former President. Of the \$189,000 cash settlement, \$96,125 was provided for the former President to exercise his stock options and warrants (Note 12). The \$189,000 was included in the 2009 accounts payable.

The Company entered into a consulting agreement effective June 1, 2009 with a company controlled by the CFO of the Company for consulting services expiring May 31, 2011. The Company will pay a monthly fee of \$3,750 plus GST and reimburse all reasonable expenses incurred during the performance of the services. If the CFO is terminated as a result of a change of control of the Company, the Company shall pay a minimum severance compensation of \$90,000.

**7. SEGMENTED INFORMATION**

The Company conducts all of its operations in North America in one business segment, being the exploration and development of mineral properties. Geographic information is as follows:

	2009	2008
Mineral properties and deferred exploration costs in		
- Canada	\$ 950,409	\$ 754,257
- United States	1,105,897	-
	<u>\$ 2,056,306</u>	<u>\$ 754,257</u>

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**8. INCOME TAXES**

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

	2009	2008
Loss before income tax recovery	\$ (820,798)	\$ (3,093,180)
Expected income tax recovery at statutory rates	\$ (246,239)	\$ (958,886)
Non-deductible items	243,807	839,589
Deductible items	(166,143)	-
Tax loss not recognized	<u>168,575</u>	<u>15,495</u>
Total income tax recovery	\$ -	\$ (103,802)

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

	2009	2008
Net operating loss carryforwards	\$ 429,000	\$ 342,000
Financing costs	44,000	47,500
Equipment and furniture	66,000	68,500
Cumulative exploration and development expenses	<u>1,921,000</u>	<u>2,003,000</u>
	2,460,000	2,461,000
Less: valuation allowance	<u>(2,460,000)</u>	<u>(2,461,000)</u>
Net future tax assets	\$ -	\$ -

The Company has incurred approximately \$1,718,000 of non-capital losses which, if unutilized, will expire through 2029. Subject to certain restrictions, the Company also has capital losses and resource exploration expenditures available to reduce taxable income of future years. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these consolidated financial statements, as their realization is not judged likely to occur.

During the year ended December 31, 2008, the Company renounced \$355,500 of flow-through share proceeds from the flow-through shares issued in fiscal 2007. Accordingly, the Company recognized a future income tax recovery of \$103,802 and a charge to capital stock. No flow-through shares were issued or renounced during the year ended December 31, 2009.

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**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	2009	2008
Cash paid for interest expense during the year	\$ -	\$ -
Cash paid for income taxes during the year	\$ -	\$ -

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The significant non-cash transactions during the year ended December 31, 2009 included:

- a) The issuance of 1,000,000 common shares with a total value of \$100,000 pursuant to the option agreement on Hog Ranch and Estill property (Note 4).

The significant non-cash transactions during the year ended December 31, 2008 included:

- a) The issuance of 450,000 common shares with a total value of \$195,000 toward the acquisition of the Otish Property.
- b) Included in mineral property costs at December 31, 2008 is \$16,590 incurred through accounts payable and accrued liabilities.

**10. FINANCIAL INSTRUMENTS AND RISK**

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

*Credit risk*

Credit risk is the risk of potential loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is limited to the carrying amount on the balance sheet and arises from the Company's cash and receivables.

The Company's cash is held through a Canadian chartered bank, which is a high-credit quality financial institution. The Company's receivables primarily consist of goods and services tax due from Federal Government of Canada. Management believes that the credit risk concentration with respect to receivables is minimal.

*Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company had a cash balance of \$994,253 to settle current liabilities of \$261,218. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

**10. FINANCIAL INSTRUMENTS AND RISK (cont'd...)**

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency rate risk

The Company is exposed to foreign currency risk as it funds its exploration programs and certain administrative expenses in the United States by using US dollars converted from its Canadian bank account. The Company does not enter into any foreign exchange hedging contracts. Notwithstanding, the Company continuously monitors this exposure to determine if any mitigation strategies become necessary. An effect of a plus or minus 10% change in the exchange rate between the Canadian and US dollars on these instruments would have a minimal change to net loss for the year.

*Sensitivity analysis*

The carrying value of cash, receivables, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturities of these financial instruments.

Based on management's knowledge of and experience in the financial markets, management does not believe that the Company's current financial instruments will be materially affected by credit risk, liquidity risk or market risk.

**Fair Value**

CICA Handbook Section 3862 "Financial Instruments – disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data.

As at December 31, 2009, the Company's financial instruments are comprised of cash, receivables, and accounts payable and accrued liabilities. The carrying value of receivables, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturities of these financial instruments.

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**10. FINANCIAL INSTRUMENTS AND RISK (cont'd...)**

**Fair Value (cont'd...)**

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash	\$ 994,253	\$ -	\$ -	\$ 994,253
Total	\$ 994,253	\$ -	\$ -	\$ 994,253

**11. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern. In the management of capital, the Company includes shareholders' equity and working capital in the definition of capital.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements.

**12. SUBSEQUENT EVENTS**

Subsequent to December 31, 2009:

- (a) Issued 382,500 common shares for gross proceeds of \$58,625 pursuant to the exercise of stock options at exercise prices ranging from \$0.15 to \$0.22 per share.
- (b) Issued 150,000 common shares for gross proceeds of \$37,500 pursuant to the exercise of warrants at an exercise price of \$0.25 per share.
- (c) The Company granted 100,000 incentive stock options to a director and an officer, exercisable at \$0.22 per share expiring on February 26, 2015.
- (d) Under the option agreement with Seabridge Gold Corporation, the Company is required to issue 1,000,000 shares and pay \$525,000 by April 17, 2010. The shares were issued and forwarded to Seabridge on April 13, 2010. In regards to the cash payment of \$525,000, subject to regulatory approval an agreement was reached under which the Company will issue to Seabridge a convertible debenture for a term of 18 months at 5% interest and convertible at Seabridge's option at \$0.30 per share in lieu of the cash payment (Note 4).