

**ICON INDUSTRIES LIMITED**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

## AUDITORS' REPORT

To the Shareholders of  
Icon Industries Limited

We have audited the balance sheets of Icon Industries Limited as at December 31, 2008 and 2007 and the 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

April 21, 2009



**ICON INDUSTRIES LIMITED**  
**BALANCE SHEETS**  
**AS AT DECEMBER 31**

	2008	2007
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,352,400	\$ 2,919,127
Receivables	<u>82,483</u>	<u>81,693</u>
	1,434,883	3,000,820
<b>Mineral property investment</b> (Note 4)	754,257	1,777,461
<b>Equipment</b> (Note 3)	<u>8,308</u>	<u>9,294</u>
	<u>\$ 2,197,448</u>	<u>\$ 4,787,575</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ <u>118,227</u>	\$ <u>150,062</u>
<b>Shareholders' equity</b>		
Share capital (Note 5)	15,506,792	15,415,594
Share subscriptions receivable (Note 5)	(7,500)	(115,250)
Contributed surplus (Note 5)	643,590	411,452
Deficit	<u>(14,063,661)</u>	<u>(11,074,283)</u>
	<u>2,079,221</u>	<u>4,637,513</u>
	<u>\$ 2,197,448</u>	<u>\$ 4,787,575</u>

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

**Subsequent events** (Notes 11)

**On behalf of the Board:**

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 "T. Barry Coughlan" Director      "Tom Wilson" Director

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

**ICON INDUSTRIES LIMITED**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED DECEMBER 31**

	2008	2007
<b>EXPENSES</b>		
Accounting and audit	\$ 38,872	\$ 29,694
Advertising and promotion	2,844	23,942
Amortization	2,085	1,305
Consulting fees	106,880	77,316
Investor relations	48,384	86,254
Legal	7,753	31,321
Management fees	60,000	60,000
Office and miscellaneous	73,834	37,917
Rent	13,269	10,957
Stock-based compensation (Note 5)	232,138	313,809
Transfer agent and regulatory fees	16,311	42,654
Travel and accommodation	<u>24,946</u>	<u>46,610</u>
	(627,316)	(761,779)
<b>OTHER ITEMS</b>		
Interest income	65,829	76,927
Write-down of mineral property (Note 4)	<u>(2,531,693)</u>	<u>-</u>
	(2,465,864)	76,927
<b>Loss before income tax</b>	(3,093,180)	(684,852)
Future income tax recovery (Note 8)	<u>103,802</u>	<u>-</u>
<b>Loss for the year</b>	(2,989,378)	(684,852)
<b>Deficit, beginning of year</b>	<u>(11,074,283)</u>	<u>(10,389,431)</u>
<b>Deficit, end of year</b>	<u>\$(14,063,661)</u>	<u>\$(11,074,283)</u>
<b>Basic and diluted loss per share</b>	\$ (0.15)	\$ (0.04)
<b>Weighted average number of common shares outstanding</b>	20,203,450	16,099,526

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

**ICON INDUSTRIES LIMITED**  
**STATEMENTS OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (2,989,378)	\$ (684,852)
Items not affecting cash:		
Amortization	2,085	1,305
Stock-based compensation	232,138	313,809
Write-down of mineral property	2,531,693	-
Future income tax recovery	(103,802)	-
Changes in non-cash working capital items:		
Increase in receivables	(790)	(77,563)
Increase (decrease) in accounts payable and accrued liabilities	<u>(11,172)</u>	<u>336</u>
Net cash used in operating activities	<u>(339,226)</u>	<u>(446,965)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral property investment	(1,334,152)	(269,756)
Acquisition of equipment	<u>(1,099)</u>	<u>(9,180)</u>
Net cash used in investing activities	<u>(1,335,251)</u>	<u>(278,936)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital stock	107,750	3,827,398
Share issuance costs	<u>-</u>	<u>(182,712)</u>
Net cash provided by financing activities	<u>107,750</u>	<u>3,644,686</u>
<b>Change in cash during the year</b>	(1,566,727)	2,918,785
<b>Cash position, beginning of the year</b>	<u>2,919,127</u>	<u>342</u>
<b>Cash position, end of the year</b>	<u>\$ 1,352,400</u>	<u>\$ 2,919,127</u>

**Supplement disclosure with respect to cash flows (Note 7)**

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

**ICON INDUSTRIES LIMITED**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008

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

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.

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 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 \$14,063,661 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 the future or that such financing will be on terms advantageous to the Company.

These 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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	2008	2007
Deficit	\$(14,063,661)	\$(11,074,283)
Working capital	1,316,656	2,850,758

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Use of 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 amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

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

**Equipment and amortization**

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

Office equipment and furniture	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 and receivables as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

**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.

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.

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

**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, 2008 and 2007, 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.

**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.

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

**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**

*Assessing Going Concern*

Effective January 1, 2008, the Company adopted the CICA Handbook Section 1400, which includes requirements for management to assess and disclose an entity's ability to continue as a going concern. The Company has included the disclosure recommended by the new handbook section in Note 1 to these financial statements.

*Capital Disclosures*

Effective January 1, 2008, the Company implemented the new CICA Handbook Section 1535 "Capital disclosures". This section specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included the disclosure recommended by the new handbook section in Note 10 to these financial statements.

*Financial Instruments*

Effective January 1, 2008, the Company implemented the new CICA Handbook Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. These two standards replace the current standard, "Financial Instruments – Disclosure and Presentation" (Section 3861), revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how those risks are managed. The Company has included the disclosure recommended by the new handbook sections in Note 9 to these financial statements.

**Recent Accounting Pronouncements**

*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.

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

**Recent Accounting Pronouncements (cont'd...)**

*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.

**3. EQUIPMENT**

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment and machinery	\$ 9,180	\$ 2,570	\$ 6,610	\$ 9,180	\$ 918	\$ 8,262
Office furniture and equipment	2,546	2,106	440	2,332	2,023	309
Computer equipment	8,628	7,370	1,258	7,743	7,020	723
	\$ 20,354	\$ 12,046	\$ 8,308	\$ 19,255	\$ 9,961	\$ 9,294

**ICON INDUSTRIES LIMITED**  
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**4. MINERAL PROPERTY INVESTMENT**

<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

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

<b>2007</b>	Otish Mountain Property	Beresford Lake Property	Total
<b>Acquisition costs</b>			
Cash payments	\$ 75,000	\$ -	\$ 75,000
Common share issuances	<u>733,000</u>	<u>-</u>	<u>733,000</u>
	<u>808,000</u>	<u>-</u>	<u>808,000</u>
<b>Deferred exploration expenditures</b>			
Consulting – geological	67,296	-	67,296
Contracted labour	38,818	-	38,818
Maps, photos, reproductions, and reports	2,955	-	2,955
Project administration	5,049	-	5,049
Survey - airborne	98,874	-	98,874
Travel and accommodation	<u>2,427</u>	<u>-</u>	<u>2,427</u>
	<u>215,419</u>	<u>-</u>	<u>215,419</u>
<b>Net costs for the year</b>	1,023,419	-	1,023,419
<b>Balance, beginning of the year</b>	<u>-</u>	<u>754,042</u>	<u>754,042</u>
<b>Balance, end of the year</b>	\$ 1,023,419	\$ 754,042	\$ 1,777,461

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.

**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.

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

**Otish Mountain Property, Quebec (cont'd...)**

The Company entered into a formal option agreement dated March 30, 2007 with Ms. Lai Lai Chan as provided for by the terms of the Letter Agreement. Pursuant to the terms of the Option Agreement, the Company has the right to earn a 100% interest in the Property by making \$250,000 in cash payments, issuing 1,000,000 common shares, and completing \$1,000,000 of expenditures on the property over 3 years as follows:

- Pay \$75,000 (paid), issue 300,000 shares on March 30, 2007 (issued with a value of \$273,000);
- Pay \$75,000 (paid), issue 350,000 shares (issued with a value of \$140,000), and incur exploration expenditures of \$300,000 by March 30, 2008 (incurred);
- Pay \$100,000, issue 350,000 shares, and incur \$350,000 by March 30, 2009;
- Incur exploration expenditures of \$350,000 by March 30, 2010.

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

Also during the year ended December 31, 2007, the Company entered into an option agreement dated April 10, 2007 with Eloro Resources Ltd. pursuant to which the Company has an option to earn up to a 55% interest in 7 mineral claims located in the Lac Henri prospect of the Otish Mountain area of Quebec. In order to earn an initial 50% interest, the Company is required to issue 300,000 common shares and complete \$1,000,000 of expenditures on the property over a 3-year period. The terms are as follows:

- Issue 50,000 shares upon signing (April 23, 2007) (issued with a value of \$60,000);
- Issue 100,000 shares (issued with a value of \$55,000), and incur \$150,000 of expenditures by the 1<sup>st</sup> year anniversary (incurred);
- Issue 150,000 shares, and incur \$300,000 of expenditures by the 2<sup>nd</sup> year anniversary;
- Incur \$550,000 of expenditures by the 3<sup>rd</sup> year anniversary.

Upon exercising the initial option, the Company has eighteen months in which to acquire a further 5% interest in the property by paying a further \$500,000 in cash.

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

**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.

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**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, 2006	9,828,549	\$ 10,785,886	\$ 153,078
Private placements	5,383,887	3,345,248	-
Flow-through private placement	1,000,000	150,000	-
Mineral property acquisition	850,000	733,000	-
Shares-for-debt settlement	542,246	81,337	-
Finder's fees in shares	135,342	121,808	-
Exercise of options	482,000	133,735	(55,435)
Exercise of warrants	649,500	163,600	-
Exercise of flow-through warrants	997,500	205,500	-
Share issuance costs	-	(304,520)	-
Stock-based compensation	-	-	313,809
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

**Share subscriptions receivable**

The Company received share subscription proceeds of \$107,750 outstanding at December 31, 2007 in 2008. The share subscriptions receivable of \$7,500 at December 31, 2008 is due from a director of the Company.

**Share issuances**

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.

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

During the year ended December 31, 2007, the Company:

- a) Completed a non-brokered private placement of 2,000,333 units ("units") at \$0.15 per unit for gross proceeds of \$300,050 and 1,000,000 flow through units ("FT units") at \$0.15 per unit for gross proceeds of \$150,000. Each unit comprises one common share and one share purchase warrant entitling the holder to acquire one additional common share of the Company at the exercise price of \$0.30 until April 19, 2009. Each FT unit comprises one flow through common share ("FT shares") and one flow through share purchase warrant entitling the holder to acquire one additional FT share of the Company at the exercise price of \$0.30 until April 19, 2009.
- b) Completed a non-brokered private placement of 3,383,554 units at \$0.90 per unit for gross proceeds of \$3,045,198. Each unit comprises one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$1.25 until November 18, 2008. The warrants are subject to the exercise term being accelerated to 30 days after the Company gives notice of such acceleration if the closing price of the Company's shares is \$2.00 or greater for 10 consecutive trading days. The Company paid finder's fees of \$182,712 in cash and 135,342 in units, where each unit has the same terms as the financing.
- c) Issued 542,246 common shares at \$0.15 per share to settle \$81,337 of accounts payable. Of the \$81,337 debt settlement, \$70,087 was repaid to a former director and a company controlled by a director.
- d) Issued 482,000 common shares from exercise of options at various prices ranging from \$0.15 to \$0.21 per share for proceeds of \$78,300. Accordingly, \$55,435 was transferred from contributed surplus to capital stock.
- e) Issued 1,647,000 common shares from exercise of warrants at various prices ranging from \$0.20 to \$0.30 per share for proceeds of \$369,100. Of the shares issued, 997,500 (with a value of \$205,500) were flow-through common shares.
- f) Issued 850,000 common shares pursuant to mineral property agreements on the Otish Mountain Property with a total value of \$733,000.

**Stock options**

The Company has a stock option plan (the "Stock Option Plan") under which it can grant up to a maximum of 4,063,804 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 policy of the TSX-V Exchange.

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

**Stock options (cont'd...)**

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2006	1,615,000	\$	0.19
Granted	1,263,000		0.72
Exercised	(482,000)		0.16
Cancelled/expired	(116,000)		0.28
Balance, December 31, 2007	2,280,000		0.48
Granted	150,000		0.35
Cancelled/expired	(395,000)		0.37
Balance, December 31, 2008	2,035,000	\$	0.50
Exercisable at December 31, 2008	1,816,250	\$	0.49
Weighted average fair value of options granted during the year			\$0.04 (2007 - \$0.44)

At December 31, 2008, the following stock options were outstanding:

Number of Options	Exercise price	Expiry Date
195,000	\$ 0.31	July 14, 2009
440,000	0.15	February 3, 2011
100,000	0.15	September 25, 2011
100,000	0.41	March 13, 2012
200,000	0.90	April 19, 2012
850,000	0.70	August 7, 2012
150,000	0.35	November 3, 2013

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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, 2008 an expense of \$232,138 (2006 - \$313,809) was recorded in the 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:

	2008	2007
Risk-free interest rate	2.32%	4.43%
Expected life of options	3 years	3 years
Annualized volatility	126.51 %	106.39%
Dividend rate	Nil	Nil

**Warrants**

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2006	1,250,000	\$ 0.20
Issued	4,759,781	0.68
Exercised	<u>(1,647,000)</u>	0.22
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
Exercisable at December 31, 2008	2,603,333	\$ 0.30

At December 31, 2008, the following warrants were outstanding:

Number of Warrants	Exercise price	Expiry Date
2,603,333	\$ 0.30	April 13, 2010

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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:

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	2008	2007
Consulting and administrative fees to a company controlled by a director	\$ 70,888	\$ 30,000
Geological fees to companies controlled by directors of the Company	7,995	53,716
Legal fee expenses to a law firm controlled by a director of the Company	7,753	29,176
Management fees to a company controlled by a director	60,000	60,000
Rent and office services to a company with directors in common with the Company	13,269	24,681

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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.

During the year ended December 31, 2008, the Company issued Nil (2007 – 467,246) common shares to settle accounts payable of \$Nil (2007 - \$70,087) owed to a former director and a company controlled by a director.

Included in accounts payable and accrued liabilities at December 31, 2008 is \$56,453 (2007 - \$92,126) owing to related parties for services rendered to the Company.

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

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	2008	2007
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, 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.

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**7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)**

The significant non-cash transactions during the year ended December 31, 2007 included:

- a) The issuance of 850,000 common shares with a total value of \$733,000 towards the acquisition of the Otish Mountain Property.
- b) The issuance of 542,246 common shares to settle accounts payable of \$81,337.
- c) The issuance of 135,342 common shares as finder's fee with a total value of \$121,808.
- d) Included in mineral property costs at December 31, 2007 is \$37,253 incurred through accounts payable and accrued liabilities.

**8. INCOME TAXES**

Income tax expense (recovery) varies from the amount that would be computed by applying the combined federal and provincial income tax rate as follows:

	2008	2007
Loss before income tax recovery	\$ (3,093,180)	\$ (684,852)
Expected income tax recovery at statutory rates	\$ (958,886)	\$ (233,672)
Non-deductible expenses	839,589	168,150
Tax loss not recognized	<u>15,495</u>	<u>65,522</u>
Total income tax recovery	\$ (103,802)	\$ -

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

	2008	2007
Net operating loss carryforwards	\$ 342,000	\$ 298,600
Financing costs	47,500	65,700
Equipment and furniture	68,500	70,600
Cumulative exploration and development expenses	<u>2,003,000</u>	<u>1,514,200</u>
	2,461,000	1,949,100
Less: valuation allowance	<u>(2,461,000)</u>	<u>(1,949,100)</u>
Net future tax assets	\$ -	\$ -

**8. INCOME TAXES (cont'd...)**

The Company has incurred approximately \$1,300,000 of operating losses which, if unutilized, will expire through 2028. 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 financial statements, as their realization is not judged likely to occur.

During the year ended December 31, 2007, the Company issued 1,997,500 common shares on a flow-through basis for gross proceeds of \$355,500. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. The gross proceeds of \$355,500 were renounced in February 2008. Accordingly, the Company recognized a future income tax recovery of \$103,802 and a charge to capital stock.

**9. 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 are high-credit quality financial institutions. The Company's receivables primarily consist of goods and services tax due from Federal Government of Canada.

*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, 2008, the Company had a cash balance of \$1,352,400 to settle current liabilities of \$118,227. 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.

*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.

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

(b) Foreign currency rate risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is insignificant and therefore does not hedge its foreign exchange risk.

*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.

**10. 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.

**11. SUBSEQUENT EVENTS**

Subsequent to December 31, 2008:

- (a) The Company entered into a letter agreement with Seabridge Gold Inc. ("Seabridge"), whereby in consideration of \$500,000 and 1,000,000 common shares of the Company, Seabridge will grant the Company an option to purchase its 100% interest in certain unpatented lode mining claims and land, collectively the Hog Ranch and Estill Property in Washoe County, Nevada. To exercise the option, the Company shall pay Seabridge \$525,000 and 1,000,000 common shares of the Company on or before 12 months from the receipt of acceptance of the letter agreement by the TSX-Venture Exchange (obtained on April 17, 2009).
- (b) The Company granted 1,080,000 incentive stock options to directors, officers and consultants of the Company, exercisable at \$0.15 per share expiring on March 19, 2014.