

ICON INDUSTRIES LIMITED

**FINANCIAL STATEMENTS
(Unaudited)**

MARCH 31, 2009

ICON INDUSTRIES LIMITED

(the “Company”)

Financial Statements

Three Months Ended March 31, 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

“T. Barry Coughlan”

President and Chief Executive Officer

“T. R. Wilson”

Chief Financial Officer

May 28, 2009

ICON INDUSTRIES LIMITED
BALANCE SHEETS
(Unaudited)

| | As at March 31, 2009 | As at December 31, 2008 |
|---|-------------------------|-------------------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 1,215,128 | \$ 1,352,400 |
| Receivables | <u>85,575</u> | <u>82,483</u> |
| | 1,300,703 | 1,434,883 |
| Mineral property investment (Note 4) | 754,257 | 754,257 |
| Equipment (Note 3) | <u>8,948</u> | <u>8,308</u> |
| | <u>\$ 2,063,908</u> | <u>\$ 2,197,448</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|---------------------|---------------------|
| Current | | |
| Accounts payable and accrued liabilities | <u>\$ 32,161</u> | <u>\$ 118,227</u> |
| Shareholders' equity | | |
| Share capital (Note 5) | 15,506,792 | 15,506,792 |
| Share subscriptions receivable (Note 5) | (7,500) | (7,500) |
| Contributed surplus (Note 5) | 672,132 | 643,590 |
| Deficit | <u>(14,139,677)</u> | <u>(14,063,661)</u> |
| | <u>2,031,747</u> | <u>2,079,221</u> |
| | <u>\$ 2,063,908</u> | <u>\$ 2,197,448</u> |

Nature of operations and going concern (Note 1)

Subsequent events (Notes 10)

On behalf of the Board:

“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
(Unaudited)
THREE MONTHS ENDED MARCH 31

| | 2009 | 2008 |
|---|-----------------------|-----------------------|
| EXPENSES | | |
| Accounting and audit | \$ 11,250 | \$ 15,500 |
| Advertising and promotion | - | 2,434 |
| Amortization | 560 | 483 |
| Consulting fees | 9,640 | 15,740 |
| Investor relations | - | 15,475 |
| Management fees | 15,000 | 15,000 |
| Office and miscellaneous | 17,549 | 10,374 |
| Rent | 3,870 | - |
| Stock-based compensation | 28,542 | 68,427 |
| Transfer agent and regulatory fees | 9,141 | 8,341 |
| Travel and accommodation | <u>4,651</u> | <u>1,976</u> |
| | (100,203) | (153,750) |
| OTHER ITEMS | | |
| Interest income | 1,279 | 30,147 |
| Recovery of costs | <u>22,908</u> | <u>-</u> |
| Loss for the period | (76,016) | (123,603) |
| Deficit, beginning of period | <u>(14,063,661)</u> | <u>(11,074,283)</u> |
| Deficit, end of period | <u>\$(14,139,677)</u> | <u>\$(11,197,886)</u> |
| Basic and diluted loss per share | \$ (0.00) | \$ (0.01) |
| Weighted average number of common shares outstanding | 20,319,024 | 19,869,024 |

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

ICON INDUSTRIES LIMITED
STATEMENTS OF CASH FLOWS
(Unaudited)
THREE MONTHS ENDED MARCH 31

| | 2009 | 2008 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the period | \$ (76,016) | \$ (123,603) |
| Items not affecting cash: | | |
| Amortization | 560 | 483 |
| Stock-based compensation | 28,542 | 68,427 |
| Changes in non-cash working capital items: | | |
| Increase in receivables | (3,092) | (32,926) |
| Increase (decrease) in accounts payable and accrued liabilities | <u>(69,476)</u> | <u>30,757</u> |
| Net cash used in operating activities | <u>(119,482)</u> | <u>(56,862)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Mineral property investment | (16,590) | (42,945) |
| Acquisition of equipment | <u>(1,200)</u> | <u>-</u> |
| Net cash used in investing activities | <u>(17,790)</u> | <u>(42,945)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of capital stock | - | - |
| Share subscriptions received | <u>-</u> | <u>80,000</u> |
| Net cash provided by financing activities | <u>-</u> | <u>80,000</u> |
| Change in cash during the period | (137,272) | (19,807) |
| Cash position, beginning of the period | <u>1,352,400</u> | <u>2,919,127</u> |
| Cash position, end of the period | <u>\$ 1,215,128</u> | <u>\$ 2,899,320</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
(Unaudited)
MARCH 31, 2009

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.

| | As at March 31, 2009 | As at December 31, 2008 |
|-----------------|-------------------------|-------------------------------|
| Deficit | \$(14,139,677) | \$(14,063,661) |
| Working capital | 1,268,542 | 1,316,656 |

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 March 31, 2009 and December 31, 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.

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

| | March 31, 2009 | | | December 31, 2008 | | |
|--------------------------------|------------------|--------------------------|-----------------|-------------------|--------------------------|-----------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Equipment and machinery | \$ 9,180 | \$ 2,901 | \$ 6,279 | \$ 9,180 | \$ 2,570 | \$ 6,610 |
| Office furniture and equipment | 3,746 | 2,241 | 1,505 | 2,546 | 2,106 | 440 |
| Computer equipment | <u>8,628</u> | <u>7,464</u> | <u>1,164</u> | <u>8,628</u> | <u>7,370</u> | <u>1,258</u> |
| | <u>\$ 21,554</u> | <u>\$ 12,606</u> | <u>\$ 8,948</u> | <u>\$ 20,354</u> | <u>\$ 12,046</u> | <u>\$ 8,308</u> |

ICON INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. MINERAL PROPERTY INVESTMENT

| March 31, 2009 | Otish Mountain Property | Beresford Lake Property | Total |
|--|-------------------------------|----------------------------|------------|
| Acquisition costs | \$ - | \$ - | \$ - |
| Deferred exploration expenditures | - | - | - |
| Net costs for the period | - | - | - |
| Balance, beginning of the period | - | 754,257 | 754,257 |
| Balance, end of the period | \$ - | \$ 754,257 | \$ 754,257 |

| December 31, 2008 | Otish Mountain Property | Beresford Lake Property | Total |
|--|-------------------------------|----------------------------|-------------|
| Acquisition costs | | | |
| Cash payments | \$ 75,000 | \$ - | \$ 75,000 |
| Common share issuances | 195,000 | - | 195,000 |
| | 270,000 | - | 270,000 |
| 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 | 256,724 | - | 256,724 |
| | 1,238,274 | 215 | 1,238,489 |
| 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 | (2,531,693) | - | (2,531,693) |
| Balance, end of the year | \$ - | \$ 754,257 | \$ 754,257 |

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

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.

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 1st year anniversary (incurred);
- Issue 150,000 shares, and incur \$300,000 of expenditures by the 2nd year anniversary;
- Incur \$550,000 of expenditures by the 3rd 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.

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

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.

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 |
| Stock-based compensation | - | - | 28,542 |
| Balance, March 31, 2009 | 20,319,024 | \$ 15,506,792 | \$ 672,132 |

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.

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, 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 | 1,080,000 | | 0.15 |
| Cancelled/expired | <u>-</u> | | - |
| Balance, March 31, 2009 | 3,115,000 | \$ | 0.38 |
| Exercisable at March 31, 2009 | 2,211,250 | \$ | 0.46 |
| Weighted average fair value of options granted during the period | | | \$0.10 (2008 - \$0.04) |

At March 31, 2009, 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 |
| <u>1,080,000</u> | <u>0.15</u> | <u>March 19, 2014</u> |

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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 three months ended March 31, 2009 an expense of \$28,542 (2008 - \$68,427) 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:

| | 2009 | 2007 |
|--------------------------|---------|----------|
| Risk-free interest rate | 1.20% | 2.32% |
| Expected life of options | 3 years | 3 years |
| Annualized volatility | 86.4 % | 126.51 % |
| Dividend rate | Nil | Nil |

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, March 31, 2009 and December 31, 2008 | 2,603,333 | \$ | 0.30 |
| Exercisable at March 31, 2009 | 2,603,333 | \$ | 0.30 |

At March 31, 2009, 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 three months ended March 31 as follows:

| | 2009 | 2008 |
|---|-----------|-----------|
| Consulting and administrative fees to a company controlled by a director | \$ 18,291 | \$ 15,000 |
| Geological fees to companies controlled by directors of the Company | 4,640 | - |
| Management fees to a company controlled by a director | 15,000 | 15,000 |
| Rent and office services to a company with directors in common with the Company | 3,560 | - |

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 March 31, 2009 is \$4,600 (December 31, 2008 - \$56,453) owing to related parties for services rendered to the Company.

7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

| | 2008 | 2007 |
|--|------|------|
| Cash paid for interest expense during the period | \$ - | \$ - |
| Cash paid for income taxes during the period | \$ - | \$ - |

There were no significant non-cash transactions during the three month periods ended March 31, 2009 and 2008.

8. 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.

(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.

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9. 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.

10. SUBSEQUENT EVENT

Subsequent to March 31, 2009, the Company executed the formal option agreement on May 6, 2009 with Seabridge Gold Inc. ("Seabridge"), whereby in consideration of \$500,000 and 1,000,000 common shares of the Company, Seabridge granted 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 complete the exercise of the option, the Company shall pay Seabridge \$525,000 and 1,000,000 common shares of the Company on or before April 17, 2010