

**ELECTRA GOLD LTD.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 and 2006**

**(Expressed in Canadian Dollars, unless otherwise noted)**



## AUDITORS' REPORT

To the Shareholders of  
Electra Gold Ltd.

We have audited the balance sheets of Electra Gold Ltd. as at December 31, 2007 and 2006 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, 2007 and 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

April 22, 2008

"Morgan & Company"

Chartered Accountants

# ELECTRA GOLD LTD.

## BALANCE SHEETS

(Expressed in Canadian Dollars, unless otherwise noted)

	DECEMBER 31	
	2007	2006
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 114,327	\$ 15,936
Receivables	245,874	205,198
Prepaid expenses	56,968	-
Inventory	69,000	52,500
	<u>486,169</u>	<u>273,634</u>
Reclamation Deposits (Note 3)	164,000	160,000
Equipment (Note 4)	257,721	332,782
Mineral Properties (Note 5)	864,003	678,998
	<u>864,003</u>	<u>678,998</u>
	<u>\$ 1,771,893</u>	<u>\$ 1,445,414</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 200,256	\$ 238,714
Loan payable (Note 6)	159,816	315,430
Due to related parties (Note 7)	68,054	100,348
	<u>428,126</u>	<u>654,492</u>
Royalties Payable (Note 8)	238,889	178,858
Asset Retirement Obligation (Note 9)	94,000	-
	<u>94,000</u>	<u>-</u>
	<u>761,015</u>	<u>833,350</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 10)	14,134,122	13,612,772
Contributed Surplus (Note 10)	661,444	555,099
Deficit	(13,784,688)	(13,555,807)
	<u>1,010,878</u>	<u>612,064</u>
	<u>\$ 1,771,893</u>	<u>\$ 1,445,414</u>

Approved on behalf of the Board of Directors:

"Johan Shearer"

Director

"Lana Eagle"

Director

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

# ELECTRA GOLD LTD.

## STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in Canadian Dollars, unless otherwise noted)

	YEARS ENDED DECEMBER 31	
	2007	2006
<b>Sales</b>	\$ 2,494,555	\$ 2,301,676
<b>Cost Of Sales</b>		
Cost of production	1,974,864	1,819,757
Royalties	240,124	214,780
Depletion	23,466	21,680
	2,238,454	2,056,217
<b>Gross Profit</b>	256,101	245,459
<b>Expenses</b>		
Amortization	90,258	121,771
Consulting and financing fees	143,325	357,606
Directors fees	9,000	-
Filing fees	31,087	37,209
Management fees	49,700	50,250
Office and general	90,631	88,510
Professional fees	22,913	42,871
Property investigation expenses	2,000	-
Stock based compensation	145,265	104,911
	584,179	803,128
<b>Other Income</b>		
Insurance claim proceeds	-	30,881
Interest income	7,069	-
	7,069	30,881
<b>Write Off Of Mineral Properties</b>	(3,408)	-
<b>Loss Before Income Taxes</b>	(324,417)	(526,788)
<b>Future Income Taxes Recovered</b>	95,536	44,854
<b>Net Loss For The Year</b>	(228,881)	(481,934)
<b>Deficit, Beginning Of Year</b>	(13,555,807)	(13,073,873)
<b>Deficit, End Of Year</b>	\$ (13,784,688)	\$ (13,555,807)
<b>Basic And Diluted Loss Per Share</b>	\$ (0.02)	\$ (0.02)
<b>Weighted Average Number Of Shares Outstanding</b>	29,547,114	25,266,724

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

# ELECTRA GOLD LTD.

## STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars, unless otherwise noted)

	YEARS ENDED DECEMBER 31	
	2007	2006
<b>Cash Flows Provided By (Used In)</b>		
<b>Operating Activities</b>		
Net loss for the year	\$ (228,881)	\$ (481,934)
Non cash expenses:		
Amortization	90,258	121,771
Accrued long-term royalties	60,031	60,856
Depletion	23,466	21,680
Future income taxes recovered	(95,536)	(44,854)
Loan repayment deducted from accounts receivable	(155,614)	(152,343)
Stock based compensation	145,265	104,911
Write off of mineral properties	3,408	-
Changes in non-cash operating assets and liabilities:		
(Increase) decrease in receivables	(40,676)	(33,001)
(Increase) decrease in inventories	(16,500)	-
(Increase) decrease in prepaid expenses	(56,968)	-
Increase (decrease) in accounts payable and accrued liabilities	(38,458)	66,052
	<b>(310,205)</b>	<b>(336,862)</b>
<b>Investing Activities</b>		
Acquisition of equipment	(15,197)	(30,000)
Mineral property acquisition and exploration expenditures, net of option income	(117,879)	(64,566)
Reclamation deposits	(4,000)	(110,000)
	<b>(137,076)</b>	<b>(204,566)</b>
<b>Financing Activities</b>		
Advances from (repayments to) related parties	(32,294)	453
Proceeds from share issuances	577,966	370,037
	<b>545,672</b>	<b>370,490</b>
<b>(Decrease) Increase In Cash</b>	<b>98,391</b>	<b>(170,938)</b>
<b>Cash, Beginning Of Year</b>	<b>15,936</b>	<b>186,874</b>
<b>Cash, End Of Year</b>	<b>\$ 114,327</b>	<b>\$ 15,936</b>
<b>Cash Paid During The Year For Interest</b>	<b>\$ 17,857</b>	<b>\$ 30,229</b>
<b>Cash Paid During The Year For Income Taxes</b>	<b>\$ -</b>	<b>\$ -</b>

### Supplemental Disclosure - Non Cash Investing and Financing Activities

On December 31, 2007, the Company recorded an asset retirement obligation on the Apple Bay mine in the amount of \$94,000.

In 2006, the Company issued 675,000 shares in exchange for debts in the amount of \$54,000.

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

# **ELECTRA GOLD LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### **1. NATURE OF OPERATIONS, ECONOMIC DEPENDENCE AND GOING CONCERN**

Electra Gold Ltd. (the "Company") is a mining company, specializing in the development of and exploration for industrial minerals used in the cement industry. The Company was incorporated in the Province of British Columbia on December 1, 1981 as a result of the amalgamation of Electra Mining Corporation and Pacific North West Resources Ltd.

The Company is in the process of mining the Apple Bay mineral properties located on Vancouver Island near Port Hardy, British Columbia. 94% of the Company's entire mineral production in 2007 was sold to one customer (2006 – 100%) (the "Customer"). In addition, a 48% of cost of sales (2006 - 54%) was performed by a private company owned by a shareholder of the Company. The mineral claims are also located on crown land within the traditional territory of a first nation band. The Company's operations are exposed to the financial and operating risks of these business partners.

The Company is also in the process of exploring other industrial mineral properties and is considered to be an exploration company. The recoverability of the amounts shown for these other mineral exploration properties is dependent on the existence of economically recoverable reserves on these properties.

These financial statements have been prepared 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 for the foreseeable future. The Company has incurred losses since inception. The Company's ability to continue as a going concern is dependant upon its ability to obtain continued credit and operational support from its operational partners and management. Management plans to obtain increased net cash inflow from Customer revenues, additional customers for its products, lower operating costs, and share capital financing from shareholders and new investors. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Basis of Presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by The Canadian Institute of Chartered Accountants ("CICA").

# **ELECTRA GOLD LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the determination of impairment of assets, the remaining mine life used to calculate the annual depletion of capitalized costs, the values of transactions with related parties, royalties payable, estimates to account for the abandonment of long-lived assets, variables in the use of the Black-Scholes option pricing valuation model to record the fair value ascribed to equity instruments, valuation allowance for future income tax assets; and determining whether contingent assets or liabilities exist. Management reviews significant estimates on a periodic basis and, where necessary, makes adjustments prospectively.

#### c) Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, reclamation bond, accounts payable, loan payable, amounts due to related parties and royalties payable. Unless otherwise noted, the Company is not exposed to significant interest or credit risks arising from these financial instruments and the fair values of these financial instruments approximate their carrying values.

The Company's functional currency is the Canadian dollar. There is no significant foreign exchange risk to the Company. The Company does not engage in any form of derivative or hedging instruments.

#### d) Foreign Currency Translation

Foreign currency monetary assets and liabilities are translated into the Canadian dollar reporting currency at the rate of exchange at the balance sheet date. Non-monetary assets, liabilities and equity balances are translated at historical translation rates. Revenues and expense transactions are translated at the exchange rate in effect during the transaction period. Exchange gains and losses are included in the statement of operations.

#### e) Revenue Recognition

Sales are recognized and recorded using the completed contract method at agreed prices, when title transfers, and the rights and obligations of ownership pass to the customer and collection is reasonably assured.

# **ELECTRA GOLD LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### **2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

f) Inventory

Inventory is recorded at the lower of cost and net realizable value. Inventory consists of ore that has been extracted and hauled to the crushing and loading facility. Cost includes extraction and crushing costs. Hauling costs are expensed as incurred.

g) Equipment

Equipment is recorded at cost and amortized over the estimated useful lives of the respective items using the declining balance method at rates of 20% to 30% per year.

h) Mineral Properties

Mineral properties comprise acquisition costs including option payments to maintain mineral property titles in good standing and exploration costs directly incurred on the properties. The Company records its interest in mineral properties and related expenditures at cost or at an ascribed amount if the consideration is common shares, less option payments received. From time to time, the Company acquires or sells property interests pursuant to the terms of option agreements. As options are exercisable entirely at the discretion of the optionee, the related amounts are recorded upon payment or receipt. Exploration expenditures are capitalized until the properties are sold, abandoned or brought into production. Capitalized costs related to sold or abandoned properties are written off in the period of sale or abandonment. Capitalized costs related to producing properties are amortized to production on the unit-of-production method, based upon the depletion of estimated production capacity.

i) Long-Lived Assets

Long-lived assets include equipment and mineral properties. Long-lived assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Carrying amounts are written off to the extent capitalized costs exceed expected undiscounted future net cash flows.

# **ELECTRA GOLD LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **i) Long-Lived Assets (Continued)**

The Company follows the recommendations in CICA Handbook Section 3063 – “Impairment of Long-Lived Assets” and the CICA’s Emerging Issues Committee (“EIC”) emerging extract EIC-126 – “Accounting by Mining Enterprises for Exploration Costs”. Section 3063 requires that the Company review long-lived assets, including mining properties for impairment. Long-lived assets are assessed for impairment when events and circumstances warrant. EIC-126 consensus is that a mining enterprise in the development stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the development stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, a mining enterprise is required to consider the conditions in Section 3063 for impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition management’s development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired the capitalized costs is written down to the estimated recoverable amount.

#### **j) Asset Retirement Obligations**

The Company is required to recognize a liability for an asset retirement obligation on long-lived assets when a legal liability exists and the amount of the liability is reasonably determinable. Asset retirement obligations are calculated on discounted future payment estimates and the liability is accreted over the expected term of the obligation. Subsequent adjustments are made on a prospective basis when there are changes to the underlying assumptions. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and amortized or depleted to operations in accordance with the mineral properties accounting policy.

#### **k) Share Capital**

i) Non-monetary consideration - Agent’s warrants, stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued is based on the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors.

# **ELECTRA GOLD LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### k) Share Capital (Continued)

- ii) Compensatory stock option transactions with directors, officers, employees and outside consultants are charged to operations or capitalized to mineral properties with an offsetting credit to contributed surplus. Stock options which vest immediately are recorded at the date of grant. Stock options that vest over time are valued at the grant date and recorded using the straight line method over the vesting period. Consideration received on the exercise of stock options together with the related portion previously recorded in contributed surplus is credited to share capital.
- iii) Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as prepaid expenses. Share issuance costs related to uncompleted share subscriptions are charged to operations.
- iv) Resource expenditure deductions for Canadian income tax purposes related to Canadian exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company follows the accounting prescribed by the CICA Emerging Issues Committee (EIC) in EIC-146 "Flow-through Shares". On the date the expenditures are renounced, a future income tax liability and a corresponding reduction in the share capital is recorded. The future income tax liability is offset by available future income tax assets and the Company records the future income tax benefit in the statement of operations as a recovery of future income taxes.

#### l) Income Taxes

The Company follows the future income tax asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on the estimated tax effects of temporary differences in the carrying value of assets and liabilities in the financial statements and their respective tax bases, using income tax rates substantively enacted on the balance sheet date. The effect of a change in income tax rates on the future income tax assets and liabilities is recognized in net earnings in the period of the change. A valuation allowance is provided to the extent that it is more likely than not that future income tax benefits will not be realized.

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

(Expressed in Canadian Dollars, unless otherwise noted)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### m) Earnings Per Share

Basic earnings per share are calculated by dividing net income (loss) by the weighted average number of shares issued and fully paid. The calculations of earnings per share on a diluted basis are calculated using the treasury stock method which considers the potential exercise of outstanding financial instruments with equity purchase or conversion features. Basic and diluted (loss) per share are equal as the assumed conversion of equity instruments would be anti-dilutive.

#### n) Variable Interest Entities

The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", to provide accounting guidance related to variable interest entities ("VIE"). A VIE exists when the entity's equity investment is at risk. When a VIE is determined to exist the guidance requires the VIE to be consolidated by the primary beneficiary. The Company has determined that it does not have a primary beneficiary interest in VIEs.

#### o) Accounting Policy Changes

Effective January 1, 2007, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments under CICA Handbook Section 3855 *Financial instruments – Recognition and Measurement*, Section 3861 *Financial Instruments – Disclosure and Presentation*, Section 3865 *Hedges* and Section 1530 *Comprehensive Income*. As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

- i) CICA Section 3855, *Financial Instruments – Recognition and Measurement*, sets out criteria for the recognition and measurement of financial instruments. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered and most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statement of operations or accumulated other comprehensive income, depending on the classification of the related instruments.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or liability. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if the requirements had always been in effect. Changes to the fair value of assets and liabilities prior to adoption are recognized by adjusting opening deficit or opening "other accumulated comprehensive income".

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

(Expressed in Canadian Dollars, unless otherwise noted)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### o) Accounting Policy Changes (Continued)

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification as follows: (1) held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net earnings in the period in which they arise; (2) held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost and amortization of premiums or discounts and losses due to impairment are included in current period net earnings; (3) available-for-sale financial assets are measured at fair value and changes in fair value are included in "other comprehensive income" until the gain or loss is recognized in income; (4) all derivative financial instruments are measured at fair value, even when they are part of a hedging relationship and changes in fair value are included in net earnings in the period in which they arise, except for hedge transactions which qualify for hedge accounting treatment in which case gains and losses are recognized as other comprehensive income.

In accordance with this new standard, the Company has classified accounts receivable as loans and receivables. Accounts payable and accrued liabilities and due to related parties are classified as other liabilities.

- ii) CICA Section 3861, *Financial Instruments – Disclosure and Presentation*, establishes the requirements for the disclosure and presentation of financial instruments and non-financial derivatives. Derivatives embedded in other financial instruments must be separated and measured at fair value. The Company currently does not have embedded derivatives.
- iii) CICA Section 3865, *Hedging*, specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any financial instruments which qualify for hedge accounting.

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

(Expressed in Canadian Dollars, unless otherwise noted)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### o) Accounting Policy Changes (Continued)

- iv) CICA Section 1530, *Comprehensive Income*, specifies how comprehensive income is to be reported and presented. Comprehensive income is the change in the Company's shareholder equity that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other comprehensive income until such items are realized.

This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity.

As there were no other comprehensive income items, comprehensive loss for the year was equal to the net loss for the year.

Effective January 1, 2007, the Company adopted CICA Section 1506, Accounting Changes, effective for annual and interim periods beginning on or after January 1, 2007. The new standard establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Company on any new primary source of GAAP that has been issued but is not yet effective. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

#### p) Future Accounting Pronouncements

The following accounting pronouncements are applicable to future reporting periods. The Company is currently evaluating the effects of adopting these standards:

- i) On January 8, 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Section 3064, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets.

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### p) Future Accounting Pronouncements (Continued)

- ii) On September 15 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. Section 1535, Capital Disclosures requires that a company disclose information that enables users of its financial statements to evaluate its objectives, policies and procedures for managing capital including disclosures of any externally imposed capital requirements and the consequences for non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, 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 the entity manages those risks.

### 3. RECLAMATION DEPOSITS

The Company has posted reclamation term deposits with the Company's bankers in the amount of \$164,000 (2006 - \$110,000) as a condition of approval to a Work System and Reclamation Program Permit issued by B.C. Ministry of Energy and Mines.

### 4. EQUIPMENT

	2007		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer equipment	\$ 8,288	\$ 6,842	\$ 1,446
Office trailer	15,197	-	15,197
Trailers	139,332	62,724	76,608
Trucks	376,327	211,857	164,470
	<u>\$ 539,144</u>	<u>\$ 281,423</u>	<u>\$ 257,721</u>

  

	2006		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer equipment	\$ 8,288	\$ 6,223	\$ 2,065
Trailers	139,332	43,572	95,760
Trucks	376,327	141,370	234,957
	<u>\$ 523,947</u>	<u>\$ 191,165</u>	<u>\$ 332,782</u>

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### 5. MINERAL PROPERTIES

	2007						
	BALANCE BEGINNING OF YEAR	ACQUISITION AND RETIREMENT COSTS	EXPLORATION EXPENDITURES	OPTION PAYMENT	ACCUMULATED DEPLETION	WRITE-OFF	BALANCE END OF YEAR
Apple Bay	\$ 526,983	\$ 94,000	\$ 177,879	\$ (60,000)	\$ (23,466)	\$ -	\$ 715,396
Hankin Pt.	50,000	-	-	-	-	-	50,000
Lang Bay	98,607	-	-	-	-	-	98,607
Alberta Iron	3,408	-	-	-	-	(3,408)	-
	<b>\$ 678,998</b>	<b>\$ 94,000</b>	<b>\$ 177,879</b>	<b>\$ (60,000)</b>	<b>\$ (23,466)</b>	<b>\$ (3,408)</b>	<b>\$ 864,003</b>

  

	2006					
	BALANCE BEGINNING OF YEAR	ACQUISITION COSTS	EXPLORATION EXPENDITURES	OPTION PAYMENT	ACCUMULATED DEPLETION	BALANCE END OF YEAR
Apple Bay	\$ 536,112	\$ -	\$ 52,551	\$ (40,000)	\$ (21,680)	526,983
Hankin Pt.	50,000	-	-	-	-	50,000
Lang Bay	50,000	-	48,607	-	-	98,607
Alberta Iron	-	3,408	-	-	-	3,408
Total	<b>\$ 636,112</b>	<b>\$ 3,408</b>	<b>\$ 101,158</b>	<b>\$ (40,000)</b>	<b>\$ (21,680)</b>	<b>\$ 678,998</b>

a) Apple Bay

The Company signed lease and sublease agreements dated September 30, 2002 with a director and an officer of the Company, a company controlled by this individual and an unrelated party. Pursuant to the agreements, the Company leased the mineral rights to the Apple Bay property located near Port Hardy on Vancouver Island for an initial term expiring February 7, 2031. In consideration, the Company issued 3,000,000 shares at \$0.10 per share and agreed to pay two royalties to each of the related and unrelated parties which total \$1.00 per metric tonne of industrial product sold on the property. The Company may purchase one half of each of the royalties for \$500,000. Both royalty holders have provided a right of first refusal to the Customer to purchase these royalties. The Company also agreed to spend \$100,000 in exploration expenditures during the first year of the agreement (spent) and an aggregate of \$300,000 within five years. The Company will also pay a 3% net smelter returns royalty ("NSR") for all base and precious metals produced from the property.

Pursuant to an agreement dated June 25, 2003, the Company purchased additional Apple Bay claims from a director and an officer of the Company, for \$13,140 which represented the related party's carrying cost plus a 0.5% NSR on all base and precious metals produced from the property.

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### 5. MINERAL PROPERTIES (Continued)

#### a) Apple Bay (Continued)

The Company entered into an agreement dated February 3, 2005 with a company for the exploration development and mining of base and precious mineral resources within the Apple Bay property. The company may earn a 100% interest in the property by making a total of \$200,000 in cash payments over time to the Company, and upon a production decision, paying an additional \$800,000 in cash or shares. The Company retains the right to explore and exploit the property for non-metallic industrial minerals, and in addition, was granted the right to explore certain of the company's mineral claims for non-metallic industrial minerals. In 2007, the Company received a payment of \$60,000 (2006 - \$40,000) pursuant to the agreement.

#### b) Hankin Point

On April 11, 2003, the Company purchased 100% of the interest in the Hankin Point and Coal Harbor claims from a director and an officer of the Company and a company controlled by this individual, all of which are situated in the Nanaimo Mining Division, British Columbia. In consideration, the Company issued 500,000 shares at \$0.10 per share, which is the exchange amount agreed to by the related parties and agreed to a royalty equal to \$0.60 for each metric tonne of limestone produced or removed from the claims.

#### c) Lang Bay

On June 25, 2003, the Company acquired the Lang Bay claims from directors of the Company in exchange for 500,000 shares at \$0.10 per share, which is the exchange amount agreed to by the related parties. These claims are located approximately 15 kilometers south east of Powell River, British Columbia.

#### d) Alberta Iron

On April 26, 2006 the Company acquired the Alberta Iron claims from the president of the Company for the reimbursement of staking costs in the amount of \$3,408. During the year ended December 31, 2007, the Company wrote off the properties as management had no immediate plans to further explore or develop the properties.

Canoe South Flake and Albreda

#### e) On July 25, 2007, the Company acquired the Canoe South Flake Mica deposit and the Albreda Mica deposit. These claims are located in the community of Valemount, British Columbia. These properties were acquired on behalf of the Company by the president.

# **ELECTRA GOLD LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### **6. LOAN PAYABLE**

On April 1, 2004 the Company entered in to a five year agreement with the Customer to finance the purchase of equipment in the amount of \$518,124 for the Apple Bay mining operation. The equipment is secured by a note payable bearing interest at 8% per year and is repayable from sales to the Customer at the rate of \$1.50 per tonne. As of December 31, 2007, the Company owed \$159,816 (2006 - \$315,430) under this loan facility.

### **7. DUE TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS**

The Company acquired and leased mineral properties from related parties as disclosed in the mineral properties note and issued shares for indebtedness as disclosed in the share capital note.

- a) At December 31, 2007, a total of \$68,054 (2006 - \$100,348) was due to directors and officers of the Company and companies controlled by these individuals for fees, royalties and expenses. The amounts due are unsecured, non-interest bearing and bear no fixed terms of repayment.
- b) The Company incurred and capitalized geological and consulting fees performed by a director and an officer of the Company in the amount of \$94,850 (2006 - \$77,700) and incurred royalties totaling \$48,025 (2006 - \$48,685) with a company controlled by this individual. The amounts 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.
- c) The Company incurred consulting fees performed by directors and officers of the Company in the amount of \$132,625 (2006 - \$nil). The amounts 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.
- d) The Company incurred management fees performed by directors of the Company in the amount of \$37,200 (2006 - \$60,000). The amounts 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.
- e) The Company incurred directors fees performed by directors of the Company in the amount of \$9,000 (2006 - \$nil). The amounts 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.
- f) Included in prepaid expenses, is an amount of \$55,000 which was paid to a Company controlled by a former director for consulting fees. The amount was in the normal course of operations and was measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

# **ELECTRA GOLD LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### **7. DUE TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)**

- g) Included in capital assets is an amount of \$3,000 which was paid to a company controlled by an officer and director for an office trailer. The amount was in the normal course of operations and was measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### **8. ROYALTIES PAYABLE**

The Company entered into an agreement dated August 20, 2003 with a first nation band which grants the Company the exclusive right to mine certain claims over the term of the agreement expiring June 30, 2013. A royalty of \$1.00 per metric tonne of ore mined is payable. Payment for one half of the royalty is deferred until production exceeds 200,000 metric tonnes in a calendar year. As at December 31, 2007, an amount of \$238,889 (2006 - \$178,858) is owed under this deferral arrangement and as production is not budgeted to reach 200,000 tonnes for the year ending December 31, 2007, the amount has been classified as a long term liability.

### **9. ASSET RETIREMENT OBLIGATION**

As of December 31, 2007, the Company recorded an estimate for the future cost of reclaiming the Apple Bay mine in the amount of \$94,000. The estimate reflects the present value to reclaim the quarry and mitigation system representing approximately seven hectares of land area.

### **10. SHARE CAPITAL**

- a) Authorized

Unlimited number of common shares without par value

Unlimited number of class A preference shares without par value

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### 10. SHARE CAPITAL (Continued)

b) Issued

	COMMON SHARES	SHARE CAPITAL	CONTRIBUTED SURPLUS	TOTAL
Balance, December 31, 2005	23,516,085	\$ 13,233,589	\$ 450,188	\$ 13,683,777
Issued for cash				
Private placement at \$0.12 per share	1,876,667	225,200	-	225,200
Exercise of warrants at \$0.10	662,500	66,250	-	66,250
Exercise of stock options at \$0.10	285,261	28,527	-	28,527
Exercise of stock options at \$0.15	30,000	4,500	-	4,500
Private placement at \$0.08 per unit	750,000	60,000	-	60,000
Shares issued in settlement of debt	675,000	54,000	-	54,000
Share subscriptions receivable	-	(14,440)	-	(14,440)
Tax benefits renounced	-	(44,854)	-	(44,854)
Stock based compensation	-	-	104,911	104,911
Balance, December 31, 2006	27,795,513	13,612,772	555,099	14,167,871
Issued for cash				
Private placement at \$0.08 per unit	1,250,000	100,000	-	100,000
Funds deposited from placement	-	14,440	-	14,440
Private placement at \$0.16 per unit	1,250,000	200,000	-	200,000
Exercise of stock options at \$0.10	235,261	23,526	-	23,526
Exercise of stock options at \$0.10	200,000	20,000	-	20,000
Private placement at \$0.10 per unit	1,800,000	180,000	-	180,000
Warrant exercise @ \$0.12	375,000	45,000	-	45,000
Stock based compensation	-	-	145,265	145,265
Stock options exercised	-	38,920	(38,920)	-
Tax benefits renounced	-	(95,536)	-	(95,536)
	32,905,774	14,139,122	661,444	14,800,566
Share subscriptions receivable	-	(5,000)	-	(5,000)
<b>Balance, December 31, 2007</b>	<b>32,905,774</b>	<b>\$ 14,134,122</b>	<b>\$ 661,444</b>	<b>\$ 14,795,566</b>

b) Issued

Year Ended December 31, 2007

- i) On May 4, 2007, the Company issued 1,250,000 share capital units at a price of \$0.08 a unit pursuant to a non-brokered private placement for total proceeds of \$100,000. Each unit consists of one share and one share purchase warrant. The warrants are exercisable for one year from the date of grant at \$0.12.
- ii) On July 19, 2007, the Company issued 1,250,000 share capital units at a price of \$0.16 a unit pursuant to a non-brokered private placement for total proceeds of \$200,000. 625,000 units are flow through and 625,000 are non flow through with no warrants attached.

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### 10. SHARE CAPITAL (Continued)

#### b) Issued (Continued)

- iii) On December 5, 2007, the Company issued 1,800,000 share capital units at a price of \$0.10 a unit pursuant to a non-brokered flow through private placement for total proceeds of \$180,000. Each unit consists of one share and one share purchase warrant. The warrants are exercisable for one year from the date of grant at \$0.16.

Year Ended December 31, 2006

- i) On May 4, 2006, the Company issued 1,876,667 share capital units at a price of \$0.12 a unit pursuant to a non-brokered private placement for total proceeds of \$225,200. Each unit consists of one share and one share purchase warrant. The warrants are exercisable for two years from the date of grant at \$0.20 per share in the first year and \$0.30 per share in the second year. As at December 31, 2006, \$14,440 of the proceeds was not fully paid.
- ii) On December 14, 2006, the Company issued 750,000 share capital units at a price of \$0.08 a unit pursuant to a non-brokered private placement for total proceeds of \$60,000. Each unit consists of one share and one share purchase warrant. The warrants are exercisable for one year from the date of grant at \$0.10 per share.
- iii) On December 14, 2006, the Company issued 675,000 shares at \$0.08 per share for the settlement of \$54,000 of indebtedness pursuant to a debt settlement agreement with a director and an officer of the Company.

#### c) Stock Options

The Company maintains a stock option plan for directors, officers, employees and consultants and may issue share purchase options up to 10% of the issued share capital of the Company at the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 5 years and vesting is determined by the directors.

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### 10. SHARE CAPITAL (Continued)

#### c) Stock Options (Continued)

The following table summarizes the Company's stock option activity during the years ended December 31, 2007 and 2006. The options issued vested immediately and have a two year term. The remaining weighted average life of outstanding options at December 31, 2007 is 1.3 years (2006 – 1.5 years).

	2007		2006	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	1,485,261	\$ 0.10	1,550,000	\$ 0.10
Granted	1,370,522	0.10	1,020,522	0.14
Exercised	(435,261)	0.10	(315,261)	0.10
Expired	(850,000)	0.10	(770,000)	0.10
Outstanding, end of year	<b>1,570,522</b>	<b>\$ 0.10</b>	1,485,261	\$ 0.10

The following tables summarize the Company's stock options outstanding at December 31, 2007 and 2006:

2007		
NUMBER	EXERCISE PRICE	EXPIRY DATE
200,000	\$ 0.10	December 12, 2008
50,000	\$ 0.10	February 23, 2009
600,000	\$ 0.10	April 11, 2009
100,000	\$ 0.10	April 27, 2009
150,000	\$ 0.10	June 1, 2009
470,522	\$ 0.10	July 1, 2009
<b>1,570,522</b>		

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### 10. SHARE CAPITAL (Continued)

#### c) Stock Options (Continued)

NUMBER	2006	
	EXERCISE PRICE	EXPIRY DATE
850,000	\$ 0.10	April 27, 2007
235,261	\$ 0.10	November 1, 2007
400,000	\$ 0.08	December 12, 2008
<u>1,485,261</u>		

#### Stock Based Compensation

Total stock based compensation recognized in the year was \$145,265 (2006 - \$104,911, based on a risk free interest rate of 4.0% to 4.6% (2006 – 4.1%), an expected life of two years (2006 – 1.6 years), expected volatility of 166% to 178% (2006 – 93%) and a dividend yield rate of \$nil for both years.

#### d) Share Purchase Warrants

The following table summarizes the Company's share purchase warrant activity during the years ended December 31, 2007 and 2006.

	2007		2006	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	<b>2,626,667</b>	<b>\$ 0.17</b>	3,012,500	\$ 0.10
Granted at \$0.10 each	-	-	750,000	0.10
Granted at \$0.20 each	-	-	1,876,667	0.20
Granted at \$0.12 each	<b>1,250,000</b>	<b>0.12</b>	-	-
Granted at \$0.16 each	<b>1,800,000</b>	<b>0.16</b>	-	-
Exercised	<b>(375,000)</b>	<b>0.12</b>	(662,500)	0.10
Expired	<b>(375,000)</b>	<b>0.12</b>	(2,350,000)	0.10
Outstanding, end of year	<b>4,926,667</b>	<b>\$ 0.20</b>	2,626,667	\$ 0.17

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars, unless otherwise noted)

### 10. SHARE CAPITAL (Continued)

#### d) Share Purchase Warrants (Continued)

The following tables summarize the Company's warrants outstanding for the years ended December 31, 2007 and 2006.

2007		
NUMBER	EXERCISE PRICE	EXPIRY DATE
1,876,667	\$ 0.30	May 4, 2008
1,250,000	\$ 0.12	May 4, 2008
1,800,000	\$ 0.16	December 15, 2008
<b>4,926,667</b>		

2006		
NUMBER	EXERCISE PRICE	EXPIRY DATE
1,876,667	\$ 0.20	May 4, 2007
750,000	\$ 0.10	December 20, 2007
<b>2,626,667</b>		

### 11. INCOME TAXES

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

	2007	2006
Rate	<b>34%</b>	34%
Income tax recovery at statutory rates	\$ 111,000	\$ 180,000
Non-deductible differences	(50,000)	(36,000)
Temporary differences	(39,000)	(82,000)
Effect of change in tax rates	(186,000)	-
Future income tax assets recognized (not recognized)	259,536	(17,146)
Future income taxes recovered	<b>\$ (95,536)</b>	\$ (44,854)

# ELECTRA GOLD LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

(Expressed in Canadian Dollars, unless otherwise noted)

### 11. INCOME TAXES (Continued)

The significant components of the Company's net future income tax assets were approximately as follows:

	<u>2007</u>	<u>2006</u>
Exploration and development deductions	\$ 193,000	\$ 339,000
Equipment	270,000	239,000
Non-capital losses carried forward	236,000	291,000
Other temporary differences	1,000	2,000
	<hr/>	<hr/>
Total future tax assets	700,000	871,000
Valuation allowance	(700,000)	(871,000)
	<hr/>	<hr/>
Net future income tax assets	\$ -	\$ -

As at December 31, 2007 the Company's significant future income tax assets and liabilities comprise:

- a) Non-capital losses carried forward of approximately \$872,000 which may be used to reduce future taxable income, and expire between fiscal 2008 and 2027.
- b) Canadian and foreign acquisition, exploration and development expenses amounting to approximately \$1,511,000 which may be used indefinitely to offset future taxable income.

The Company is committed to spending flow-through share proceeds in the amount of approximately \$132,000 by March 31, 2009.

### 12. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in Canada in one business segment, being the mining of industrial mineral properties.

### 13. SUBSEQUENT EVENTS

- a) On January 7, 2008, the Company acquired the Blackwater Perlite deposit on Graham Island, B.C.
- b) On March 26, 2008, 62,500 warrants were exercised for total proceeds of \$7,500.
- c) On March 27, 2008, 470,522 options were exercised for total proceeds of \$47,522.
- d) On April 9, 2008, 125,000 warrants were exercised for total proceeds of \$15,000.