

**Vangold Resources Ltd.**  
(A Development Stage Company)

Consolidated Financial Statements  
(Unaudited - Prepared by Management)

June 30, 2009 and December 31, 2008

**NOTICE TO READER**

Our auditors have not reviewed these unaudited consolidated financial statements for the interim period ended June 30, 2009. Vangold Resources Inc.'s management prepared these financial statements in accordance with accounting principles generally accepted in Canada. You should read these unaudited consolidated financial statements in conjunction with Vangold Resources Inc.'s audited financial statements for the year ended December 31, 2008.

**Vangold Resources Ltd.**  
(A Development Stage Company)

**CONSOLIDATED BALANCE SHEETS**

(Nature of Operations and Going Concern - note 1)

	June 30 2009	December 31 2008
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (note 4)	2,188,803	5,061,010
Accounts receivable (notes 5 and 16)	130,145	295,796
Prepaid expenses	28,071	1,304,093
<b>Total current assets</b>	<b>2,347,019</b>	<b>6,660,899</b>
Due from related party (note 16)	916,286	388,001
Equipment, net (note 6)	88,951	107,369
Mineral properties (note 7)	4,840,541	4,541,304
Investment in International Beryllium Corporation (note 3)	2,736,969	3,259,955
Oil and gas properties (note 8)	6,818,234	4,737,138
Other investments (note 9)	197,031	201,551
Investment in Pacific Kanon Gold Corporation (note 10)	1,613,114	1,477,443
	<b>19,558,145</b>	<b>21,373,660</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 16)	536,223	974,795
<b>Total current liabilities</b>	<b>536,223</b>	<b>974,795</b>
Asset retirement obligation (note 11)	9,474	9,980
<b>Total liabilities</b>	<b>545,697</b>	<b>984,775</b>
Commitments (note 17)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 12(a))	31,576,870	31,576,870
Contributed surplus (note 12(d))	3,354,515	2,942,015
Accumulated other comprehensive income	711,000	711,000
Deficit	(16,629,937)	(14,841,000)
	<b>19,012,448</b>	<b>20,388,885</b>
	<b>19,558,145</b>	<b>21,373,660</b>

*See accompanying notes*

On behalf of the Board:

*Dal S. Brynelsen*  
Director

*J. Michael Mackey*  
Director

**Vangold Resources Ltd.**

(A Development Stage Company)

**CONSOLIDATED STATEMENTS  
OF OPERATIONS AND DEFICIT**

For the periods	Three Months	Six Months	Three Months	Six Months
	Ended	Ended	Ended	Ended
	June 30, 2009	June 30, 2009	June 30, 2008	June 30, 2008
	\$	\$	\$	\$
Revenue				
Petroleum revenue	2,338	12,135	31,470	42,431
Interest and other income	925	7,148	79,335	348,571
	3,263	19,283	110,805	390,571
Expenses				
Operating costs, oil and gas	(297)	2,536	11,057	26,270
General and administrative (note 16)	575,070	980,465	553,557	962,898
Stock based compensation (note 12c)	183,100	412,500	315,975	362,302
Depreciation and amortization	6,842	20,303	8,070	15,513
	764,715	1,415,804	888,659	1,366,983
Loss before other income ( expense)	(761,452)	(1,396,521)	(777,854)	(976,512)
Other income ( expense)				
Impairment of available for sale investments	23,158	(4,500)	-	-
Gain on dilution of investment in IBC Advanced Alloys	-	-	-	1,301,425
Equity loss from investments	(51,598)	(387,916)	132,349	(954,690)
Net Income (loss) for the period	(789,892)	(1,788,937)	(645,505)	147,997
	(15,840,045)	(14,841,000)	(12,046,575)	(12,840,077)
Deficit, end of period	(16,629,937)	(16,629,937)	(12,692,080)	(12,692,080)
Income(loss)per share		(0.02)		0.001
Weighted average of common shares outstanding		85,550,560		85,550,560

**Vangold Resources Ltd.**  
(A Development Stage Company)

**Consolidated Statements of Cash Flow**

For the periods	Three Months	Six Months	Three Months	Six Months
	Ended June 30	Ended June 30	Ended June 30	Ended June 30
	2009	2009	2008	2008
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	(789,892)	(1,788,037)	(777,954)	(976,512)
Add (deduct) items not involving cash:				
Depletion, depreciation and amortization	6,842	20,303	8,070	15,513
Stock-based compensation	183,100	412,500	315,975	362,302
Gain on dilution of investment	—	—	—	—
Equity loss from investments	51,598	387,916	—	—
Impairment of available for sale investments	(23,158)	4,500	—	—
Changes in operating assets and liabilities:				
Accounts receivable	40,578	165,651	(148,197)	(32,034)
Prepaid expenses	(6,076)	1,276,022	2,120	116,109
Accounts payable and accrued liabilities		(438,572)	(137,309)	(235,747)
Cash used in operating activities	(537,008)	40,083	(737,295)	(151,672)
<b>INVESTING ACTIVITIES</b>				
Advances to equity accounted investments	—	—	(116,000)	(542,154)
Purchase of available for sale securities	—	—	—	—
Advances to related parties	(228,285)	(528,285)	—	—
Additions and acquisitions to oil and gas properties	(257,905)	(2,081,096)	(251,179)	(636,684)
Additions to mineral properties	(182,939)	(299,237)	(473,391)	(666,400)
Acquisition of equipment	(1,885)	(1,885)	(20,100)	(24,870)
Cash provided by (used in) investing activities	(671,014)	(2,910,503)	(860,070)	(1,870,108)
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of private placements	—	—	—	(100,000)
Repayment for shares returned to treasury	—	—	619,571	666,325
Proceeds from exercise of options	—	—	—	—
Cash provided by financing activities	—	—	691,571	566,325
Effect of exchange rate changes	25,214	(1,787)	—	—
Change in cash, during period	(1,182,808)	(2,872,207)	(977,794)	(2,054,152)
Cash, beginning of period	3,371,611	5,061,010	10,230,510	11,306,868
Cash, end of period	2,188,803	2,188,803	9,252,716	9,252,716
<b>Supplemental cash flow information</b>				
Income taxes paid in cash	—	—	—	—
Interest paid in cash	—	—	—	—

See accompanying notes

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

Vangold Resources Ltd. (a Development Stage Company) (“the Company”) is in the business of acquisition and exploration of mineral properties and the exploration, development, production and marketing of crude oil and natural gas. The Company currently holds mineral property interests located in Canada, the United States, Uganda and Papua New Guinea, and oil and gas interests located in Canada, United States, Kenya, Rwanda and Armenia.

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has no significant source of revenue and has significant cash requirements to meet its administrative overhead and maintain its mineral property and oil and gas interests. The ability of the Company to continue as a going concern is dependent upon the continued support from its directors, the ability to continue to raise adequate financing or achieving profitable operations in the future, the outcome of which cannot be predicted at this time. These consolidated financial statements do not reflect 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**

These consolidated financial statements have been prepared in accordance with Canadian GAAP and reflect the following significant accounting policies.

### **Principles of consolidation**

The consolidated financial statements for the period ended June 30, 2009 and the year ended December 31, 2008 include the accounts of the Company and its wholly owned subsidiaries, Corning Energy, Inc. (a Nevada corporation), 686614 B.C. Ltd. (a British Columbia corporation) and Rwenzori Copper and Nickel Ltd. (a Ugandan corporation).

On November 28, 2007, the Company exchanged its shares in Horn Rare Metals Ltd., which owned the Brazilian and Uganda beryllium properties, for shares in Janina Resources Ltd. who subsequently amalgamated to form International Beryllium Corporation, subsequently renamed IBC Advanced Alloys Corp, a Toronto Stock Exchange (“TSX”) Venture listed company. As at June 30, 2009, the Company owns approximately 22.1% of IBC. The accounting of this investment was changed to the equity method of accounting on November 28, 2007 (*note 3*).

On June 1, 2007, the Company exchanged its shares and shareholders’ loans in Kanon Resources Ltd. for shares in Pacific Kanon Gold Corporation and accounted for the investment under the equity method of accounting. As at June 30, 2009 the Company owned 49.8% of Pacific Kanon Gold Corporation (*note 10*).

All intercompany transactions and balances have been eliminated on consolidation. Included in these consolidated financial statements are the results of operations of the parent and the above subsidiaries from their respective dates of incorporation or purchased by the Company.

### **Foreign currency translation**

The consolidated financial statements are presented in Canadian dollars. The Company and its subsidiaries are considered to be integrated operations and the accounts are translated using the temporal method. Under this method, foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates that prevailed at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical exchange rates, except for items carried at their market value, which are translated at the rate

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of exchange in effect at the consolidated balance sheet dates. Revenue and expense items are translated at average rates of exchange during the year, except for depletion, depreciation and amortization, which are translated at the same rates of exchange as the related assets. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired.

**Oil and gas properties**

The Company follows the full cost method of accounting for oil and gas properties. Under this method, all costs associated with the acquisition of, exploration for and the development of petroleum and natural gas reserves are capitalized, recognizing one cost centre per country. The Company's oil and gas interests are held in five cost centres: Canada, the United States, Rwanda, Kenya and Armenia. Such costs include land acquisition costs, geological and geophysical expenses, costs of drilling both productive and non-productive wells and related overhead charges. Such costs do not necessarily reflect present values. Proceeds from the sale of oil and gas properties reduce capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion.

Costs directly associated with the acquiring and evaluating of unproved properties are initially excluded from the costs subject to depletion. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned to the property, the cost of the property is added to the costs subject to depletion. The costs related to a cost centre from which there is production is depleted on the unit of production method based on estimated proven reserves.

In applying the full cost method, the Company calculates a ceiling test which restricts the capitalized costs less accumulated depletion from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on forecasted future prices. If the net carrying cost of the oil and gas properties exceeds the ultimate recoverable amount, the cost centre is written down to its fair value using the expected present value approach. This approach incorporates risks and uncertainties in the expected future cash flows, which are discounted using a risk free rate.

Depletion has been determined on a gross basis with gas and oil reserves converted to a common unit of measure or barrel of oil equivalent (BOE).

Substantially, all oil and gas activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

**Mineral properties**

The Company capitalizes the acquisition costs of mineral properties and related exploration and development costs. The amounts shown for mineral properties represent costs incurred to date, less write-downs, and do not necessarily reflect present or future values. These costs will be amortized over the estimated productive lives of the properties upon commencement of commercial production using the unit-of-production method. Costs relating to mineral properties that are sold or abandoned are written off when such events occur or are written down to a nominal amount when management decides not to commit any further exploration or development of the property. Interests acquired under option agreements, whereby option payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in earnings for the year. Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected title defects.

## **Equipment**

Equipment is recorded at cost and is depreciated on the declining balance basis at the following rates: Computer hardware - 30% per annum; Office furniture - 20% per annum; Mining equipment - 20% per annum; Automotive - 30% per annum. The Company recognized depreciation of \$ 6,842 for the period ended June 30, 2009.

## **Investments**

The Company accounts for investments subject to significant influence using the equity method. Under this method, declines in the market value are expensed when such declines are considered to be other than temporary. During the period, the investments accounted for using the equity method were Pacific Kanon Gold Corporation and IBC.

## **Impairment of long-lived assets**

The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash cash flows expected from its use and disposal. If there is impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows or alternatively market prices for similar assets when quoted market prices are not available.

## **Asset retirement obligation**

The Company recognizes the fair value of an asset retirement obligation (“ARO”) in the period in which it is incurred, with a corresponding increase to the cost of the corresponding oil, gas or mineral property. The increase to capitalized costs is depleted on the same basis as the underlying asset.

The ARO liabilities are carried on the consolidated balance sheets at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in depletion, depreciation and amortization. Subsequent changes in the fair value of the ARO due to revisions in the estimate of the timing or amount of future cash flows are capitalized and amortized over the remaining useful life of the underlying asset.

Actual expenditures incurred are charged against the accumulated obligation with the resulting difference recognized in income as a gain or loss.

## **Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the year. Future income tax assets and liabilities are recognized in the period for temporary differences between the income tax and accounting bases of assets and liabilities as well as for the potential benefit of income tax losses and other deductions carried forward to future years.

Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. The value of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

Future income taxes are recognized to the extent they are considered more likely than not to be realized.

## **Revenue recognition**

The Company recognizes revenue from gas sales when gas is received by the buyers, there is persuasive evidence of an arrangement and collectibility is reasonably assured. Revenue is recognized at the Company's proportionate interest in the operation.

The Company records revenue gross of royalties. Royalties represent the entitlements of the government to a portion of the Company's share of gas production in the jurisdiction of the operation.

Interest income on cash and cash equivalents and short-term investments is recognized on the accrual basis.

## **Stock-based compensation**

The Company follows the fair value method of accounting for the stock options awards granted to employees, directors, and non-employees under the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*.

The fair value of stock options is determined by the widely used *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock.

The fair value of options issued as stock-based compensation is recognized as an expense over the vesting period of the related option. Consideration received on the exercise of stock options is recorded as share capital and the associated amounts previously recognized as contributed surplus are reclassified to share capital. Previously recognized stock-based compensation for an option that is forfeited is adjusted to income by reversing the compensation cost in the period of forfeiture.

## **Earnings (loss) per share**

The earnings (loss) per share figures is calculated using the weighted average number of shares outstanding during the respective fiscal periods. Diluted earnings (loss) per share is calculated using the treasury stock method which, for outstanding stock options and warrants, assumes that the proceeds to be received on the exercise of the stock options and warrants are applied to repurchase common shares at the average market price for the period, for purposes of determining the weighted average number of shares outstanding.

## **Use of estimates and measurement uncertainty**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment costs are based on estimates of reserves and useful lives. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

The assessment of any impairment of resource interests and plant and equipment is dependent upon estimates of fair value that take into account factors such as reserves, economic and market conditions and the useful lives of assets.

Asset retirement obligations are recognized in the period in which they arise and are stated at the fair market value of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulation and remediation practices.

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Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measurement of the fair value of the Company's stock options.

### **Financial instruments – recognition and measurement**

Financial assets and liabilities are recognized on the consolidated balance sheets when the Company becomes party to the contractual provisions of the instrument. Financial instruments are initially recognized and subsequently measured based on their classification as held-for-trading, available-for-sale financial assets, held-to-maturity, loans and receivables, or other financial liabilities as follows:

- Held-for-trading financial instruments are purchased and incurred with the intention of generating income in the near term. These instruments are measured at their fair value and transaction costs are taken directly to net income along with changes in fair value recognized in net income for the year.
- Available-for-sale financial assets are financial assets that are designated as available-for-sale and are not categorized into any other financial instrument category. These instruments are measured at their fair value including direct and incremental transaction costs and changes in fair value are included in other comprehensive loss until the asset is removed from the balance sheet or until such time that it has been determined that the loss is other than temporary. The loss will then be taken directly to net income.
- Held-to-maturity investments are financial assets with fixed or determinable payments that the Company has the intention and ability to hold to maturity. These are initially recognized at fair value and are measured at amortized cost using the effective interest rate method. The Company has no financial assets classified as held to maturity.
- Loans and receivables are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost, using the effective interest rate method.
- If not classified as held for trading, financial liabilities are classified as other liabilities. After initial recognition at fair value other liabilities are measured at amortized cost using the effective interest rate method. Gains or losses are recognized in net income (loss) for the period when the liability is derecognized.

### **Comprehensive income**

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. The Company has included a consolidated statement of comprehensive income and a category, accumulated other comprehensive loss, has been included in the shareholders' equity section of the consolidated balance sheets. The components of this category will include unrealized gains and losses on financial assets classified as available-for-sale, cumulative translation adjustments and effective portion of cash flow hedges.

### **Recent accounting pronouncements**

The CICA issued Handbook Section 3064 – Goodwill and Intangible Assets (as a replacement for Section 3062) effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company has adopted the new standard for its fiscal year beginning January 1, 2009. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of the standard has no impact on the Company's consolidated financial statements.

The Corporation adopted EIC-174, Mining Exploration Costs. EIC-174 provides guidance on the capitalization of mining exploration costs, particularly when mining reserves have not been proven. The EIC also defines when an impairment test should be performed on previously capitalized costs. The implementation of this standard did not have a material impact upon the Consolidated Balance Sheets, Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit, Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss) or Consolidated Statements of Cash Flows.

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Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards ("IFRS") over a transition period to be complete by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Canadian GAAP will converge with IFRS through a combination of two methods: as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board and may be introduced in Canada before the complete changeover to IFRS; and standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the complete changeover to IFRS. As the International Accounting Standards Board currently, and expectedly, has projects underway that should result in a new pronouncement that continue to evolve IFRS, and as this Canadian convergence initiative is in an early stage as of the date of these consolidated financial statements, it is premature to currently assess the impact of the Canadian initiative on the Company's consolidated financial statements.

### Changes in accounting policies

The Company adopted the provisions of the CICA Handbook, Section 1400 – General Standards of Financial Statement Presentation, Section 3031 – Inventories, and Sections 3862 and 3863 – Financial Instruments – Disclosure and Presentation on January 1, 2008. Other than additional footnote disclosures, going concern (*note 1*) and financial instruments (*note 15*), the adoption of these sections had no impact on the Company's consolidated financial statements. In addition to the above noted accounting policies, on January 1, 2008, the Company also adopted the CICA Handbook Section 1535 – Capital Disclosures (*note 19*).

### 3. INVESTMENT IN IBC ADVANCED ALLOYS CORP

As at December 31, 2006, the Company owned a 51% equity interest in Horn Rare Metals Ltd. ("Horn Rare Metals"), and Horn Rare Metals which was a consolidated subsidiary.

Effective November 28, 2007, Horn Rare Metals completed the reverse take-over and amalgamation with Janina Resources Ltd. The Company exchanged its shares in Horn Rare Metals, which owned the Brazilian and Uganda beryllium properties for shares in Janina Resources Ltd. who subsequently amalgamated to form IBC, a TSX Venture listed company. The Company received 25,609,756 shares of IBC in exchange for its Horn Rare Metals shares. The Company incurred \$122,743 in transaction fees and other costs relating to this transaction. The Company realized a total dilution gain of \$2,987,546 as a result of the amalgamation in 2007 and in 2006, \$298,610, as a result of the issuance of treasury shares by Horn Rare Metals. The effect of these dilution gains was not recorded in the previously issued 2007 and 2006 consolidated financial statements (*note 1*).

On March 28, 2008, IBC raised gross proceeds of \$7,135,149 through the sale of 14,000,000 common shares in private placement. In addition, during the year, IBC issued 5,693,963 common shares as part of the consideration paid on several business acquisitions.

As at June 30, 2009, the Company owns approximately 22.1% of IBC. To reflect the significant influence over IBC, the accounting of this investment was changed to the equity method of accounting on November 28, 2007.

#### Investment in IBC

	2009	2008
	\$	\$
Original cost of Horn Rare Metals Ltd. shares exchanged	210	210
Gain on dilution of investment	4,819,758	4,819,758
Share of contributed surplus	704,000	704,000
Foreign exchange on translation	711,000	711,000
Transaction fees and other costs	129,588	129,588
Deduct share of loss since acquisition	(3,627,587)	(3,104,601)
	<u>2,736,969</u>	<u>3,259,955</u>

**4. CASH AND CASH EQUIVALENTS**

	<b>2009</b>	<b>2008</b>
	\$	\$
Cash (bank indebtedness)	<b>96,603</b>	279,026
Cash equivalents	<b>2,092,200</b>	4,781,984
	<b>2,188,803</b>	5,061,010

**5. ACCOUNTS RECEIVABLE**

	<b>2009</b>	<b>2008</b>
	\$	\$
Other receivables	<b>91,781</b>	167,502
Related party receivables	<b>38,364</b>	128,294
	<b>130,145</b>	295,796

**6. EQUIPMENT**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
	\$	\$	\$
<b>2009</b>			
Equipment	<b>261,750</b>	<b>173,159</b>	<b>88,951</b>
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
	\$	\$	\$
<b>2008</b>			
Equipment	260,225	152,856	107,36

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**7. MINERAL PROPERTIES**

The Company's interests in mineral properties are as follows:

	North Belt Property	South Belt Property	Gallagher Property	Feni Island Property	Uganda	Total
June 30, 2009	\$	\$	\$	\$	\$	\$
Acquisition costs						
Balance, beginning of period	-	1	-	372,000	182,573	554,573
Incurred during the period	-	-	-	138,000	-	138,000
Disposals, write-offs	-	-	-	-	-	-
<b>Balance, end of period</b>	-	1	-	510,000	182,573	692,573
Exploration expenditures						
Drilling	-	-	-	-	-	-
Assaying	-	-	-	-	33,907	33,907
Field wages	-	-	-	3,436	6,610	10,046
Food, travel and lodging	-	-	-	-	-	-
Geological consulting	-	-	-	-	39,105	39,105
Professional fees	-	-	-	-	43,200	43,200
Staking and other costs	-	-	-	7,575	22,536	30,111
Tenement costs	-	-	-	1,780	3,089	4,869
Recovery of mineral costs	-	-	-	-	-	-
Balance, beginning of year	-	-	-	12,791	148,357	161,148
Disposal, write-offs	-	-	-	1,879,808	2,106,922	3,986,730
<b>Balance, end of year</b>	-	1	-	1,892,599	2,255,279	4,147,878
<b>Total</b>	-	1	-	2,402,599	2,437,852	4,840,451
	North Belt Property	South Belt Property	Gallagher Property	Feni Island Property	Uganda	Total
December 31, 2008	\$	\$	\$	\$	\$	\$
Acquisition costs						
Balance, beginning of year	54,650	1	9,028	372,000	182,573	618,252
Incurred during the year	-	-	-	-	-	-
Disposals, write-offs	(54,650)	-	(9,028)	-	-	(63,678)
<b>Balance, end of year</b>	-	1	-	372,000	182,573	554,574
Exploration expenditures						
Drilling	-	-	-	-	1,133,989	1,133,989
Assaying	-	-	-	-	11,245	11,245
Field wages	-	-	-	34,584	-	34,584
Food, travel and lodging	-	-	-	49,192	27,923	77,115
Geological consulting	-	-	-	2,183	308,809	310,992
Professional fees	-	-	-	-	68,500	68,500
Staking and other costs	637	-	3,969	5,495	61,768	71,869
Tenement costs	-	-	-	2,188	81,851	84,039
Recovery of mineral costs	(14,405)	-	-	-	-	(14,405)
	(13,768)	-	3,969	93,642	1,694,085	1,777,928
Balance, beginning of year	71,476	16,645	27,948	1,786,166	445,037	2,347,272
Disposal, write-offs	(57,708)	(16,645)	(31,917)	-	(32,200)	(138,470)
<b>Balance, end of year</b>	-	-	-	1,879,808	2,106,922	3,986,730
<b>Total</b>	-	1	-	2,251,808	2,289,495	4,541,304

### **North Belt Property, Rossland, British Columbia**

The Company has a 100% interest in eight mineral claims, of which seven are subject to a 4% NSR royalty and a 50% interest in 11 mineral claims subject to a 4% NSR royalty. The Company also owns 38 acres of real property. By agreement dated February 24, 2003, the Company acquired all rights, title and interest in and to certain Crown Granted Mineral claims and surface rights included in the North Belt Property. As consideration, the Company issued 100,000 common shares at \$0.21 per share. The Company also agreed to a 5% NSR on future production.

The Company completed a mineral property agreement with Teck Cominco Metals Ltd. for the purchase of a 100% interest, subject to a 2% NSR, in nine Crown Granted Mineral claims in Rossland, B.C. The Company issued 50,000 common shares at \$0.21 per share.

During the year ended December 31, 2004, the Company staked a group of claims in the Trail Mining Division, British Columbia, known as the Gertrude claims. A third party opposed the staking and the Company utilized all mandated appeal processes to retain the claims, but was unsuccessful. Accordingly, the legal costs associated with the Gertrude claims of \$12,072 have been included with exploration expenditures.

By agreement dated September 14, 2004, between Teck Cominco, Metals Ltd., Landore Resources Inc., and the Company, the Company acquired a 100% interest in three Crown Granted Mineral claims located in Rossland, B.C. As consideration, the Company issued 20,000 common shares at \$0.30 per share. The claims are subject to a 2% NSR royalty. For the year ended December 31, 2008, management has elected to abandon their interests in the property and \$112,358 of costs have been charged to operations.

### **South Belt Property, Rossland, British Columbia**

The Company has a 100% interest, subject to a 2% NSR royalty, in 66 mineral claims.

The Company entered into an Option and Joint Venture Letter Agreement with a private company, Rossland Resources Ltd. (the "Optionee" or "RRL") that has a director in common with the Company to facilitate the exploration of the South Belt Property. Under the terms of the agreement, the Optionee must expend \$1,850,000 in exploration expenditures and issue 800,000 common shares to the Company in installments through September 30, 2009 to earn a 70% interest in the mineral claim. As at December 31, 2008, the Company has received 400,000 common shares from the optionee.

Throughout 2008, all exploration work in the Rossland District was carried by the Optionee at total cost of \$1.2 million. As at June 30, 2008, RRL had earned a 50% interest. For the year ended December 31, 2008, management has elected to carry their interests in the property at a nominal value and \$16,645 of costs have been charged to operations.

### **Gallagher Gold Project, Nevada, US**

The Company acquired by staking a 100% interest in 24 contiguous unpatented mineral claims in White Pine County, Nevada. These claims are held in trust for the exclusive benefit of the Company. As no work has been carried out on these claims over the last three years, management having elected to focus their activities on other interests, the associated costs have been charged to operations.

### **Feni Island, Papua New Guinea**

The Company entered into an agreement dated February 5, 2003 (amended June 10, 2003) to option a 75% undivided interest in the Feni Gold Project located in New Ireland Province, Papua New Guinea. The property is subject to a 1% NSR royalty. The Company may, at its sole discretion, exercise the option in stages by making the following exploration expenditures and issuing common shares:

**Stage 1:** Expending a minimum of \$250,000 on exploration in the 15 months from date of agreement (expended) and issuing 200,000 common shares (issued).

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**Stage 2:** Expending an additional \$250,000 on exploration, including drilling, prior to September 26, 2004 (expended) and issuing an additional 200,000 common shares (issued).

**Stage 3:** Pursuant to an amendment to the agreement dated March 15, 2005, the Company will expend a further \$100,000 on exploration during 2005, \$50,000 on signing of the agreement and \$50,000 on June 30, 2005, and issue a further 200,000 common shares. The Company fulfilled the foregoing and a 50% interest in the mineral property vested to the Company.

**Stage 4:** Pursuant to an amendment to the agreement dated March 15, 2005, the Company will expend an additional \$1,260,000 on exploration prior to June 30, 2008, and issue an additional 200,000 common shares. After fulfilling these obligations a further 25% interest in the mineral property will vest to the Company for a total interest of 75%. As at June 30, 2009 the Company had not met its obligations under the agreement.

**Uganda, Africa**

By agreement dated July 11 and October 7, 2005, the Company entered into an option agreement with Rwenzori Copper and Nickel Mines Ltd., a Uganda company, to earn a 100% interest in seven copper-cobalt prospects in West Uganda. As consideration for the option, the Company will pay 100% of exploration costs (a minimum of US\$20,000 per year for three years) and issue 250,000 common shares.

**8. OIL AND GAS PROPERTIES**

	<b>Cost</b>	<b>Net book Value</b>
	<b>\$</b>	<b>\$</b>
<b>2009</b>		
Canada	3,918,431	3,875,558
Rwanda	499,017	499,017
Kenya	1,430,067	1,430,067
United States	803,462	-
Armenia	1,013,592	1,013,592
	<u>7,664,569</u>	<u>6,818,234</u>
<b>2008</b>	<b>Cost</b>	<b>Value</b>
	<b>\$</b>	<b>\$</b>
Canada	2,265,902	2,223,030
Rwanda	563,363	563,363
Kenya	1,035,147	1,035,147
United States	803,462	-
Armenia	915,598	915,598
	<u>5,583,472</u>	<u>4,737,138</u>

## 9. OTHER INVESTMENTS

<b>Available for sale June 30, 2009</b>	<b>Carrying value \$</b>	<b>Market value \$</b>
Investment in Coppermoly Ltd.	107,110	107,110
Investment in New Guinea Gold Corporation - Shares	64,000	64,000
Investment in New Guinea Gold Corporation - Warrants	25,920	25,920
Investment in Rossland Resources Ltd.	—	—
	<b>197,031</b>	<b>197,031</b>

  

<b>Available for sale securities December 31, 2008</b>	<b>Carrying value \$</b>	<b>Market value \$</b>
Investment in Coppermoly Ltd.	45,631	45,631
Investment in New Guinea Gold Corporation - Shares	130,000	130,000
Investment in New Guinea Gold Corporation - Warrants	25,920	25,920
Investment in Rossland Resources Ltd.	—	—
	<b>210,551</b>	<b>201,551</b>

As at June 30, 2009, the Company had 2,288,700 common shares in Coppermoly Ltd. with a market value of \$107,110.

On January 16, 2008, the Company received a secured promissory note of \$2,000,000 from New Guinea Gold Corporation. The secured promissory note also entitled the Company to 400,000 common shares and 400,000 warrants as bonus compensation. As at June 30, 2009, the promissory note was repaid and the common shares and the warrants received are valued at \$64,000 and at \$25,920 respectively.

On April 24, 2007, the Company entered into an Option and Joint Venture Letter Agreement with Rossland Resources Ltd. Under the terms of the agreement, Rossland Resources Ltd. has to incur \$1,850,000 in exploration expenditures and issue 800,000 common shares by September 2009 to earn a 70% interest in the claim. As at June 30, 2009, the Company has received 400,000 common shares of Rossland Resources Ltd.

The Company classifies its investments as available-for-sale and records the changes in market price in current year's operations as the decline in value is other than temporary.

## 10. INVESTMENT IN PACIFIC KANON GOLD CORPORATION

The Company acquired a 50% interest in Kanon Resources Ltd. ("KRL") in January 2004, which was accounted for using the equity method. The remaining interest was held by New Guinea Gold Ltd. ("NGG"). KRL held exploration licenses in Papua New Guinea. During the period of ownership, funds were lent from the Company to fund KRL's operations and administration costs. The total of these loans to June 2007 was \$1,526,428. The Company, KRL, and NGG signed a Share Exchange Agreement effective June 1, 2007. Under the agreement the Company and NGG sold their equity interests in KRL to Pacific Kanon Gold Corporation ("PKGC") and settled the outstanding loan receivable from KRL of \$1,546,428 in exchange for 22,500,000 fully paid common shares of PKGC. PKGC also raised \$100,000 in seed capital from the issue of 5,000,000 units to other parties, which were subsequently acquired by the Company and NGG.

## Investment in Pacific Kanon Gold Corporation

	2009 \$	2008 \$
Original cost of Kanon Resources Ltd. - shares exchanged	406,000	406,000
Shareholders' loan assigned	1,526,428	1,526,428
Additional shares acquired	79,999	79,999
	<u>2,012,427</u>	<u>2,012,427</u>
Deduct share of loss since acquisition	(1,613,114)	(534,984)
<b>Investment in Pacific Kanon Gold Corporation</b>	<u><b>1,503,382</b></u>	<u><b>1,477,443</b></u>

## 11. ASSET RETIREMENT OBLIGATION

Although the ultimate amount of the asset retirement obligation is uncertain, the fair value of these obligations is based on information currently available. As at June 30, 2009, the estimated total undiscounted amount required to the asset retirement obligation in respect of the Company's properties is \$9,474. This relates primarily to the dismantling, remediation and ongoing treatment and monitoring of the East Corning sites under the legal, regulatory and other obligations. While it is expected some expenditures will be incurred during the operation of the site to which it relates, the significant component will only be incurred at the end of the project's life.

## 12. SHARE CAPITAL

### (a) Common shares

**Authorized:** Unlimited common shares without par value.

#### Issued and outstanding:

	Shares #	Value \$
Balance, December 31, 2006	76,129,359	27,527,993
Issued on exercise of options	119,460	40,378
Issued on private placement, net of costs	6,887,000	2,595,836
For acquisition of properties	300,000	163,000
Balance, December 31, 2007	<u>83,435,819</u>	<u>30,327,207</u>
Issued on exercise of options	2,357,207	1,286,011
Returned to treasury	(100,000)	(36,348)
<b>Balance, March 31, 2009</b>	<u><b>85,693,026</b></u>	<u><b>31,576,870</b></u>

During the year ended December 31, 2008:

- (i) 700,000 options were exercised at a price of \$0.22 for proceeds of \$154,000. The associated value transferred from contributed surplus is \$98,577;
- (ii) 100,000 shares were returned to treasury due to cancellation in a private placement; and
- (iii) 1,657,207 options were exercised at a price of \$0.30 for proceeds of \$497,162. The associated value transferred from contributed surplus is \$536,272.

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During the year ended December 31, 2007, the Company issued units under the terms of the private placement announced November 2, 2007, broken into Tranche I completed on November 27, 2007 and Tranche II completed on December 21, 2007. The private placement dated November 27, 2007 consists of 4,300,000 units consisting of one common share issued at \$0.50, and one share purchase warrant which is exercisable at \$0.60 per share until, November 27, 2008. The private placement dated December 21, 2007 consists of 2,587,000 units, consisting of one common share issued at \$0.50 and one share purchase warrant which is exercisable at \$0.60 per share until December 21, 2008. The Company has valued the warrants issued in connection with these private placements at fair market value using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate of 4.00%; volatility of 80%; dividend yield of 0.00%; and approximate expected life of one year.

During the year ended December 31, 2007:

- (i) 6,887,000 shares were issued by way of private placement for proceeds of \$2,595,836;
- (ii) 119,460 stock options were exercised at a price of \$0.22 per share for proceeds of \$26,281;
- (iii) 200,000 shares were issued pursuant to the terms of the Feni Island option agreement; and
- (iv) 100,000 shares were issued in consideration for the acquisition of 50% of Block 6 in Armenia.

**(b) Share purchase warrants**

A summary of the Company's warrants issued and outstanding as at June 30, 2009 and December 31, 2008 and the changes for the periods then ended is presented below:

	2009		2008	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
<b>Outstanding, beginning of period</b>			6,887,000	\$0.60
Granted	-	-		
Expired	-	-	(6,887,000)	(0.60)
<b>Outstanding, end of period</b>	-	-	-	-

As at December 31, 2007, the Company has outstanding warrants to purchase an aggregate of 6,887,000 common shares as follows:

Balance of warrants outstanding	Exercise price per warrant	Expiry date
4,300,000	\$0.60	November 27, 2008
2,587,000	\$0.60	December 21, 2008

The fair value of the warrants issued during the year ended December 31, 2007 was determined using the *Black-Scholes Option Pricing Model* based upon the following terms and assumptions:

Risk-free interest rate	4%
Expected life	1 year
Annual volatility	80%
Dividend rate	nil

**(c) Stock options**

The Company's Board of Directors approved the adoption of a stock incentive plan in accordance with the policies of the TSX Venture Exchange. The Board of Directors is authorized to grant options under this plan to directors, officers, consultants or employees to acquire up to 20% of the issued and outstanding common shares to a maximum of 15,000,000 shares. The number of options granted might exceed 10% of the outstanding shares at the time of granting the options. The exercise prices of options granted shall not be less than the fair market value of the common shares on the date of grant and the exercise period from the date the option is granted. The maximum number of options that may be granted to any one person must not exceed 5% of the common shares outstanding at the time of the grant or 2% if the Optionee is a consultant or employed in an investor relations capacity. Under the plan the options vest equally over 18 months.

The fair value of the options granted during the year was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

On March 7, 2008, a total of 1,450,000 stock options were granted to consultants at an exercise price of \$0.50 per share. The term of these options is three years. The assumptions used for the Black-Scholes option pricing model were an expected life of the three years, a risk free interest rate of 4.00%, a dividend yield of 0%, and an expected volatility of 80%.

On March 10, 2008, a total of 2,700,000 stock options were granted to directors, officers, and a consultant at an exercise price of \$0.50 per share. The term of these options is five years for directors and officers, and three years for the consultant. The assumptions used for the Black-Scholes option pricing model were an expected life of five years, a risk free interest rate of 2.18% a dividend yield of 0%, and an expected volatility of 95%.

On October 2, 2008, a total of 1,400,000 stock options were granted to officers at an exercise price of \$0.25 per share. The term of these options is five years. The assumptions used for the Black-Scholes option pricing model were a expected life of three years, a risk free interest rate of 2.93%, a dividend yield of 0%, and an expected volatility of 86%.

During the period ended June 30, 2009 the Company recognized stock based compensation of \$183,100 (2008 - \$315,975).

A summary of changes in the Company's stock options is presented below:

	2009		2008	
	Number	Weighted average exercise price	Number	Weighted average exercise price
<b>Balance, beginning of period</b>	<b>6,750,000</b>	<b>\$0.41</b>	<b>5,777,207</b>	<b>\$0.34</b>
Granted	-	-	<b>5,650,000</b>	<b>\$0.44</b>
Exercised	-	-	<b>(2,357,207)</b>	<b>\$0.26</b>
Forfeited/cancelled			<b>(2,320,000)</b>	<b>(\$0.40)</b>
<b>Balance, end of period</b>	<b>6,750,000</b>	<b>\$0.41</b>	<b>5,777,207</b>	<b>\$0.34</b>

Exercise price	Weighted average remaining contractual life	Outstanding	Exercisable
\$0.30	1.50	1,100,000	1,100,000
\$0.35	1.75	300,000	300,000
\$0.50	2.00	1,450,000	1,870,000
\$0.50	4.00	2,500,000	2,090,000
\$0.25	4.50	1,400,000	466,666

**(d) Contributed surplus**

A summary of the contributed surplus account is presented below:

	\$
Balance December 31, 2006	1,207,201
Stock options issued	269,736
Warrants issued	787,741
Stock options exercised	(14,097)
Stock options cancelled	(53,863)
Balance December 31, 2007	2,196,718
Stock options issued	678,232
Stock options exercised	(634,302)
Premium paid on acquisition of shares	(2,633)
Share of contributed surplus of equity investees	704,000
Balance December 31, 2008	2,942,015
Stock options issued	412,500
Balance June 30, 2009	<u>3,354,515</u>

**(e) Weighted average common shares outstanding**

	2009	2008
	\$	\$
Weighted average number of common shares outstanding - basic	<b>85,550,560</b>	84,909,537
Dilution effect of stock options and warrants	<b>nil</b>	nil
<b>Weighted average number of common shares outstanding - diluted</b>	<b>85,550,560</b>	84,909,537

**13. INCOME TAXES**

The Company is subject to Canadian federal and provincial income taxes at an approximate rate of 31.00%.

**Net operating loss carryforwards**

The net operating loss carryforwards expire as follows:

	2009	2008
	\$	\$
<b>Canada</b>		
2014	<b>555,540</b>	555,540
2015	<b>770,929</b>	770,929
2027	<b>724,991</b>	724,991
2028	<b>1,311,400</b>	1,311,400
	<b>3,362,860</b>	3,362,860

The Company also has net capital losses of \$64,144 available to offset future taxable capital gains in Canada.

**14. SEGMENTED INFORMATION**

The Company is primarily engaged in mining exploration and oil and gas activities in Canada, Papua New Guinea, Uganda, the United States, Rwanda, Kenya and Armenia. Revenue relates to sales of oil and gas from production at Killam in Canada and East Coming in the United States. The Company's reportable segments are summarized in the table below:

**June 30, 2009**

<b>Country</b>	<b>Revenue</b> \$	<b>Interest income</b> \$	<b>Depletion and depreciation</b> \$	<b>Expenditures for mining interests</b> \$	<b>Expenditures for oil and gas interests</b> \$	<b>Total assets</b> \$
Canada	8,803	7,148	20,303	-	1,652,528	11,685,018
United States	3,332	-	-	-	-	-
Papua New Guinea	-	-	-	150,791	-	2,402,599
Rwanda	-	-	-	-	-	499,017
Kenya	-	-	-	-	394,921	1,430,067
Uganda	-	-	-	148,357	-	2,437,852
Armenia	-	-	-	-	97,994	1,103,592
<b>Total</b>	<b>12,135</b>	<b>7,148</b>	<b>20,303</b>	<b>299,148</b>	<b>1,823,191</b>	<b>19,558,145</b>

**2008**

<b>Country</b>	<b>Revenue</b> \$	<b>Interest income</b> \$	<b>Depletion and depreciation</b> \$	<b>Expenditures for mining interests</b> \$	<b>Expenditures for oil and gas interests</b> \$	<b>Total assets</b> \$
Canada	-	268,805	7,443	596	1,488	15,770,539
United States	10,961	-	-	-	1,179	23,664
Papua New Guinea	-	-	-	45,856	-	2,204,022
Rwanda	-	-	-	-	14,768	97,508
Kenya	-	-	-	-	169,896	491,521
Uganda	-	-	-	140,557	-	768,167
Armenia	-	-	-	-	198,174	535,388
<b>Total</b>	<b>10,961</b>	<b>268,805</b>	<b>7,443</b>	<b>187,009</b>	<b>385,505</b>	<b>19,890,809</b>

**15. FINANCIAL RISK MANAGEMENT**

**Categories of financial assets and liabilities**

Under Canadian GAAP, financial instruments are classified into one of the following five categories: held-for-trading, held to maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. Fair values are determined directly by reference to published price quotations in an active market.

The carrying values of the Company's financial instruments are classified into the following categories:

	<b>2009</b> \$	<b>2008</b> \$
Held for trading <sup>(1)</sup>	<b>2,188,803</b>	<b>5,061,010</b>
Available for sale investments <sup>(2)</sup>	<b>197,031</b>	<b>201,551</b>
Loans and receivables <sup>(3)</sup>	<b>1,046,431</b>	<b>683,797</b>
Other financial liabilities <sup>(4)</sup>	<b>536,223</b>	<b>974,795</b>

<sup>(1)</sup> includes cash and cash equivalents.

<sup>(2)</sup> includes other investments in Coppermoly, Rossland Resources Ltd. and NGG

<sup>(3)</sup> includes the accounts receivables and due from related party

<sup>(4)</sup> includes accounts payable, and accrued liabilities.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. For available for sale securities carrying values are reflective of quoted market prices at June 30, 2009. All other instruments are short-term in nature and therefore fair values approximate their carrying values. The fair values of the Company's financial instruments are not materially different from their carrying values.

### **Risks arising from financial instruments and risk management**

The Company's activities expose it to a variety of interest rate risks; credit risk; liquidity risk and market risk (including foreign exchange and commodity price risk). Reflecting the current stage of development of the Company's various projects, the Company's overall risk management program focuses on facilitating the Company's ability to continue as a going concern and seeks to minimize potential adverse effects on the Company's ability to execute its business plan. Risk management is the responsibility of the finance function. Material risks are identified and monitored and are discussed by senior management and with the Audit Committee of the Board of Directors.

#### **(a) Interest rate risk**

The Company does not have any debt obligations which expose it to interest rate risk. The Company places its cash and cash equivalents and short-term investments with maturities of 90 days or less with high credit quality financial institutions.

#### **(b) Credit risk**

Credit risk arises from cash and cash equivalents held with banks and financial institutions, as well as credit exposure on outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the accounts receivable.

The Company's cash and cash equivalents are held through large reputable Canadian financial institutions, and in short-term GICs and management believes the risk of loss is remote.

The Company generates revenue from the sale of natural gas through its agents. Payment is made within 45 days from delivery and the amount outstanding at any one time is not a material amount. Accordingly, the Company has no identified credit risks at the current time.

The Company has never held any asset backed paper instruments.

#### **(c) Liquidity risk**

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations. As at June 30, 2009, the Company had positive working capital of \$1,810,796 (2008 - \$5,686,104). Accordingly, the Company is able to meet its current obligations and has minimal liquidity risk.

#### **(d) Equity price risk**

The Company holds interests in a number of equity investments. The Company is subject to the volatility of the individual interest share prices which could result in unexpected gains and losses.

## **16. RELATED PARTY TRANSACTIONS**

During the period ended June 30, 2009, the Company recorded transactions with related parties at the exchange amount, being the amounts established and agreed to between the transacting parties.

As at June 30, 2009, accounts receivable consisted of \$38,364 (2008 - \$128,294) owed to the Company by related parties, and receivables from employees, directors and companies with common directors.

On July 31, 2008, the Company entered into an agreement with PKGC to defer the repayment of advances until the date that is fifteen months after completion of their initial private offering. This arrangement is non-interest bearing.

Related party transactions included:

- (a) During 2009, the Company incurred \$180,500 (2008 - \$213,000) of executive and director compensation comprised of fees paid for consulting, management, and advisory services by directors and executives and their related companies.
- (b) The Company reimbursed its directors for general and administrative expenses of \$3,178 (2008 - \$3,516).

## **17. COMMITMENTS**

- (a) The Company is committed under a lease agreement for office premises expiring June 30, 2014 in the amount of \$40,122 per annum.
- (b) The Company signed a Production Sharing Contract with the Republic of Kenya for Block 3A (12,192 sq. kms). Under the terms of the contract, in the initial contract period of three years, in addition to a signing bonus of US\$75,000, which has been paid, the Company will expend over three years a minimum of US\$3,000,000 to conduct a technical study and plans to acquire 1,000 km 2D seismic and 50 sq. km 3D seismic data and US\$6,000,000 on a drilling program. The Company has been in negotiations with the Republic of Kenya to amend the committed expenditures section of the contract.
- (c) The Company signed a Technical Evaluation Agreement with the Republic of Rwanda for 1,631 sq. km evaluation area in the Kivu Graben region. Under the terms of the agreement, the Company will conduct an evaluation of the hydrocarbon potential, aeromagnetic and gravity surveys will be conducted over an 18 month period with a budgeted cost of US\$1,151,020.
- (d) The Company signed a Joint Operating Agreement with Blackstairs Energy, which defines the Company's obligation for the joint exploration, approval, development and production of oil and gas reserves from Blocks 4, 5 and 6 in Armenia. Under the terms of the contract the first phase is for a five-year term and the Company's total financial commitment is estimated to be US\$1,200,000.
- (e) The Company signed a Production Sharing Contract with the Republic of Kenya for Block 3B (12,490 sq. kms). Under the terms of the contract, in the initial period of three years, in addition to a signing bonus of US\$75,000, the Company will acquire 1,000 km 2D seismic and 50 sq. km of 3D of seismic data for US\$3,000,000. The Company has been in negotiations with the Republic of Kenya to amend the terms of the contract, including the required expenditures.

## **18. CAPITAL DISCLOSURES**

The Company manages its cash and cash equivalents, common shares, options and warrants as capital. As the Company is in the exploration and development stage, its principal source of funds for its operations is from the issuance of common shares. The issuance of common shares requires the approval of the Board of Directors. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its mineral and oil and gas properties for the benefit of its shareholders. The Company primarily uses stock options to retain and provide future incentives to key members of the management team. The granting of stock options is determined by the Compensation Committee of the Board of Directors.

In 2009, the Company reviewed their investment strategy and determined that it was appropriate to invest surplus cash in cash and cash equivalents (2009 - \$2,092,208; 2008 - \$4,781,984).

## **19. SUBSEQUENT EVENTS**

- (a) The Company entered into a letter of intent dated August 19, 2009 with New Guinea Gold Corporation (NGG) to acquire certain assets from NGG, specifically, 30,000,001 common shares of Pacific Kanon Gold Corp. (PKG) a private company incorporated in British Columbia, Shareholders loans made by NGG to PKGC, NGG's 20% interest in the Mount Penck property in New Guinea and NGG's 50% interest in the Feni Island property in New Guinea. The purchase price is \$3,000,000 consisting of cash

of \$500,000 and the issuance of the Company's common shares equal to 19.9% of the than issued common shares. The letter of intent is subject to TSXV approval.

- (b) The Company granted a total of 5,350,000 stock options at an exercise price of \$0.15 to directors, officers, employees and consultants of the Company. The options have a ten year term and expire on August 11, 2019.