



**NORTHERN LION
GOLD CORP.**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

AUDITORS' REPORT

To the Shareholders of
Northern Lion Gold Corp.

We have audited the consolidated balance sheets of Northern Lion Gold Corp. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

March 24, 2009



**NORTHERN LION GOLD CORP.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31**

	2008	2007
ASSETS		
Current		
Cash and equivalents	\$ 2,079,377	\$ 5,124,847
Marketable securities (Note 4)	971,619	4,314,534
Receivables	304,709	66,617
Prepaid expenses	6,070	11,551
Total current assets	3,361,775	9,517,549
Mineral property interests (Note 5)	5,115,679	2,281,092
Equipment (Note 6)	22,192	21,528
Total assets	\$ 8,499,646	\$ 11,820,169
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 341,058	\$ 245,456
Accounts payable to related parties (Note 8)	-	9,803
Total current liabilities	341,058	255,259
Shareholders' equity		
Capital stock (Note 7)	22,779,863	22,767,283
Contributed surplus (Note 7)	3,469,536	3,288,628
Deficit	(18,090,811)	(14,491,001)
Total shareholders' equity	8,158,588	11,564,910
Total liabilities and shareholders' equity	\$ 8,499,646	\$ 11,820,169

Nature and continuance of operations (Note 1)

Subsequent event (Note 14)

On behalf of the Board:

"John Lando"

Director

"Lyle Brown"

Director

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

NORTHERN LION GOLD CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED DECEMBER 31

	2008	2007
EXPENSES		
Amortization	\$ 5,216	\$ 4,129
Consulting	192,021	225,832
Filing and regulatory fees	22,657	21,697
Foreign exchange	(79,939)	10,831
Investor relations	31,434	36,673
Management fees	66,407	68,560
Office and administrative fees	126,596	90,826
Office and general	81,269	94,021
Professional fees	122,508	99,244
Rent	25,080	25,602
Salary and benefits	-	21,261
Stock-based compensation (Note 7)	180,908	251,537
Travel	50,020	77,400
Loss before other items	(824,177)	(1,027,613)
OTHER ITEMS		
Interest income	97,151	120,592
Loss on sale of mineral property interests (Note 5)	-	(206,250)
Loss on sale of marketable securities (Note 4)	(614,419)	(29,209)
Unrealized loss on marketable securities (Note 4)	(1,631,810)	(700,542)
Write-off of mineral property interests (Note 5)	(626,555)	-
	(2,775,633)	(815,409)
Loss for the year	(3,599,810)	(1,843,022)
Deficit, beginning of year	(14,491,001)	(12,647,979)
Deficit, end of year	\$ (18,090,811)	\$ (14,491,001)
Basic and diluted loss per common share	\$ (0.12)	\$ (0.06)
Weighted average number of common shares outstanding	31,161,109	30,626,266

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

NORTHERN LION GOLD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (3,599,810)	\$ (1,843,022)
Items not affecting cash:		
Amortization	5,216	4,129
Stock-based compensation	180,908	251,537
Loss on sale of marketable securities	614,419	29,209
Loss on sale of mineral property interests	-	206,250
Unrealized loss on marketable securities	1,631,810	700,542
Write-off of mineral property interests	626,555	-
Changes in non-cash working capital items:		
Increase in receivables	(238,092)	(22,155)
Decrease in prepaid expenses	5,481	7
Increase in accounts payable and accrued liabilities	28,653	8,732
Decrease in accounts payable to related parties	-	(2,718)
Net cash used in operating activities	<u>(744,860)</u>	<u>(667,489)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	-	505,000
Share issuance costs	(220)	(26,870)
Net cash (used in) provided by financing activities	<u>(220)</u>	<u>478,130</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property interests	(3,391,196)	(839,107)
Purchase of equipment	(5,880)	(11,892)
Proceeds from sale of marketable securities	1,096,686	413,079
Proceeds from sale of mineral property interests	-	5,000,000
Sale of mineral property interests costs	-	(111,692)
Net cash (used in) provided by investing activities	<u>(2,300,390)</u>	<u>4,450,388</u>
Change in cash and equivalents during the year	(3,045,470)	4,261,029
Cash and equivalents, beginning of year	<u>5,124,847</u>	<u>863,818</u>
Cash and equivalents, end of year	\$ 2,079,377	\$ 5,124,847
Cash and equivalents is represented by:		
Cash	\$ 687,396	\$ 691,381
Cash equivalents	<u>1,391,981</u>	<u>4,433,466</u>
	\$ 2,079,377	\$ 5,124,847

Supplemental disclosures with respect to cash flows (Note 12)

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

NORTHERN LION GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the laws of the Province of British Columbia and is in the business of exploration of mineral property interests in Europe. To date, the Company has not yet earned significant revenues and is considered to be in the exploration stage.

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

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that may be necessary should the Company be unable to continue operations.

	2008	2007
Working capital	\$ 3,020,717	\$ 9,262,290
Deficit	(18,090,811)	(14,491,001)

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are as follows:

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant inter-company transactions and balances have been eliminated upon consolidation.

Estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

Significant accounts that require estimates as the basis for determining the stated amounts include marketable securities, mineral property interests, equipment, stock-based compensation, future income taxes and foreign currency translations.

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

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Non-monetary assets and liabilities and revenues and expenses are translated at the rates prevailing on the respective transaction dates. Foreign exchange gains and losses are included in loss for the year.

Cash and equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Marketable Securities

Securities held for trade which are traded on a recognized securities exchange, are recorded at fair values based on quoted closing bid prices at the balance sheet dates or the closing bid prices on the last day the security traded if there were no trades at the balance sheet dates with both realized and unrealized gains and losses recorded in earnings on the statement of operations.

Mineral property interests

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition, exploration and development of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The recorded cost of mineral property interests is based on cash paid and the value of shares issued as consideration. The recorded amount may not reflect recoverable value as this will be dependent on the exploration and development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company does not have any significant asset retirement obligations.

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

Equipment

Equipment, being computer equipment, is recorded at cost less accumulated amortization. Amortization is calculated using the declining balance method at the rate of 30% per annum.

Stock-based compensation

The Company uses the fair value method for measuring compensation costs and therefore all stock based awards to employees and non-employees are recorded at fair value on the date of the grant and the associated expense is recognized over the vesting period.

Loss per share

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

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year and does not include outstanding options and warrants. Dilutive loss per common share is not presented separately from loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive.

Future income taxes

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

Financial instruments – recognition and measurement

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

The Company classified its cash and equivalents and marketable securities as held for trading which are measured at fair value. Receivables are classified as loans and receivables, accounts payable and accrued liabilities and accounts payable to related parties are classified as other liabilities, all of which are measured at amortized cost.

3. ADOPTION OF NEW ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted the following accounting standards issued by the Canadian Instituted of Chartered Accountants ("CICA")

(i) Assessing going concern – Section 1400

The Accounting Standards Board (AcSB) amended the Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

(ii) Capital disclosures – Section 1535

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences. (See note 9)

(iii) Financial Instruments – Section 3862 & 3863 – Disclosure and Presentation

These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles for recognizing, measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. (See note 10)

Effective January 1, 2009, the Company is required to adopt the following accounting standards issued by the CICA

(i) Goodwill and intangible assets (Section 3064)

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, EIC 27, "Revenue and Expenditures in the Pre-operating Period", will be withdrawn. We are currently assessing the impact of this new accounting standard on our consolidated financial statements.

NORTHERN LION GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. ADOPTION OF NEW ACCOUNTING POLICIES (cont'd...)

Effective January 1, 2011, the Company is required to adopt the following accounting standards issued by the CICA

In January 2009, the CICA issued Handbook Sections 1582 – *Business Combinations* (“Section 1582”), 1601 – *Consolidated Financial Statements* (“Section 1601”) and 1602 – *Non-controlling Interests* (“Section 1602”) which replaces CICA Handbook Section 1581 – *Business Combinations* and 1600 – *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

International Financial Reporting Standards (“IFRS”)

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

4. MARKETABLE SECURITIES

As at December 31, 2008, the Company’s holdings of marketable securities consisted of 982,426 common shares (December 31, 2007 – 1,628,126 common shares) of Lappland Goldminers AB (“Lappland Goldminers”) with a quoted market value of \$971,619 (December 31, 2007 - \$4,314,534). The Company will not sell more than 10% of Lappland Goldminers shares in any 30-day period without the prior written consent of Lappland Goldminers. During the year ended December 31, 2008, 645,700 common shares (December 31, 2007 – 143,600) with a value of \$1,711,105 (December 31, 2007 – \$442,288) were sold for proceeds of \$1,096,686 (December 31 2007 – \$413,079) resulting in a realized loss of \$614,419 (December 31, 2007 - \$29,209). The Company recorded an unrealized loss on its investment of \$1,631,810 (December 31, 2007 - \$700,542) to operations due to mark-to-market valuation during the year. Subsequent to year end, the Company sold 325,840 common shares for net proceeds of \$342,850.

NORTHERN LION GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

5. MINERAL PROPERTY INTERESTS

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing. However, this should not be construed as a guarantee of title. The mineral properties may be subject to prior claims, agreements, or transfers and rights of ownership may be affected by undetected defects. The properties in which the Company has committed to earn an interest are located in various parts of Europe.

	Cercal, Portugal	Moura, Portugal	Republic of Cyprus	Other Sweden	Other Finland	Total
Balance, December 31, 2006	\$ 697,239	\$ -	\$ -	\$ 160,370	\$10,443,492	\$ 11,301,101
Additions						
Acquisition costs	7,545	-	-	611,200	-	618,745
Advance	37,208	55,240	-	-	-	92,448
Assaying	9,497	2,629	-	-	2,700	14,826
Consulting	178,753	148,407	-	15,366	3,850	346,376
Drilling	-	209,588	-	-	-	209,588
Field personnel	20,256	6,351	-	4,504	24,218	55,329
Land use and permits	14,170	33,876	-	2,269	60,047	110,362
Legal	1,182	-	-	1,802	-	2,984
Maps and images	3,324	-	-	-	-	3,324
On site costs	5,520	19,486	-	3,057	15,687	43,750
Reports	7,350	-	-	-	-	7,350
Stock-based compensation	4,858	-	-	-	-	4,858
Travel and lodging	9,089	10,956	-	-	1,928	21,973
Total for the year	298,752	486,533	-	638,198	108,430	1,531,913
	995,991	486,533	-	798,568	10,551,922	12,833,014
Sale of mineral property interests	-	-	-	-	(10,551,922)	(10,551,922)
Balance, December 31, 2007	995,991	486,533	-	798,568	-	2,281,092
Additions						
Acquisition costs	-	-	37,800	-	-	37,800
Advance	(18,411)	-	-	-	-	(18,411)
Airborne geophysical	-	-	-	130,095	-	130,095
Assaying	79,166	161,888	147	9,978	-	251,179
Consulting	386,303	651,775	12,605	88,821	-	1,139,504
Drilling	447,377	1,195,520	-	-	-	1,642,897
Field personnel	11,365	11,539	-	-	-	22,904
Land use and permits	7,600	35,637	-	-	-	43,237
Maps and images	3,633	-	-	-	-	3,633
On site costs	46,338	82,822	-	7,775	-	136,935
Travel and lodging	21,186	30,408	1,041	18,734	-	71,369
Total for the year	984,557	2,169,589	51,593	255,403	-	3,461,142
	1,980,548	2,656,122	51,593	1,053,971	-	5,742,234
Write-off during the year	-	-	-	(626,555)	-	(626,555)
Balance, December 31, 2008	\$1,980,548	\$2,656,122	\$ 51,593	\$ 427,416	\$ -	\$ 5,115,679

5. MINERAL PROPERTY INTERESTS (cont'd...)

Cercal, Portugal

The Company has entered into an agreement with SES Sweden AB ("SES") to explore an area of geological interest previously identified by SES in the Iberian Pyrite Belt, in Portugal. The Company has an option to acquire a 95% interest in consideration of payments of 80,000 Euro (30,000 Euro paid), over four years. The payment requirement for the next fiscal year is 20,000 Euro. SES will retain the remaining 5% interest in the property, which will be carried until the Company obtains a bankable feasibility study on the property. SES has also granted to the Company a ten year right of first refusal on any proposed transfer by SES of any interest it may have in properties in Portugal, Spain or Cyprus.

The Company was also granted an exploration licence by the Portuguese government mining authority to explore certain areas of the Iberian Pyrite Belt. The licence is valid for an initial period of two years and requires minimum exploration expenditures in the first and second years of 150,000 Euro (incurred) and 260,000 Euro (incurred), respectively. Three, one-year, extensions beyond the initial term are available, subject to meeting certain conditions. Minimum exploration expenditures of 300,000 Euro are required for each extension year. During the year ended December 31, 2008, the Company was granted the first one-year extension with minimum exploration expenditures of 300,000 Euro (incurred). Mineral production from the license is subject to a 3% net smelter royalty in favour of the Government of Portugal.

Moura, Portugal

The Company has been granted an exploration licence for the Moura-Vila Verde de Ficalho region of southeastern Portugal. The exploration licence has an initial term of two years with three one-year extensions available, subject to certain conditions. Under the exploration licence, the Company is required to incur 300,000 Euro before May 25, 2008 (incurred) and 550,000 Euro (incurred) before May 25, 2009 in exploration costs. Three one-year extensions beyond the initial term are available, subject to certain conditions and minimum exploration expenditures of 450,000 Euro are required for each extension year. Mineral production from the licence is subject to a 3% net smelter return royalty in favour of the Government of Portugal.

Republic of Cyprus

On May 15, 2008, the Company entered into an option agreement with Katla Exploration Ltd. ("Katla") to acquire a 90% interest in an exploration permit by making payments totaling US\$175,000 (\$25,000 paid) and issuing 220,000 common shares (40,000 issued with a value of \$12,800) of the Company to Katla over two years, and incurring exploration expenditures of \$2,625,000 over a three year period. The Company is required to incur exploration expenditures of US\$375,000, pay US\$50,000 and issue 80,000 common shares on or before October 18, 2009.

Other, Sweden

The Company holds a 100% interest in several claims in the Bergslagen area of south-central Sweden.

The Company has entered into an agreement with Lappland Goldminers to acquire a 100% interest in Nynäsberget gold prospect in central Sweden. Under the agreement, the Company paid to Lappland Goldminers SEK4,000,000, by the issuance of 1,018,667 common shares (the "Shares") of the Company, with a value of \$611,200. The agreement provides that the Shares will be subject to a two year hold period, after which the Company will have the first right to purchase or place the Shares, should Lappland Goldminers wish to sell all or a portion of them.

During the year ended December 31, 2008, the Company applied for a one year extension to the Nynäsberget gold prospect; however the Sweden mine inspector did not grant the Company the extension. Consequently, all related costs were written off to operations.

NORTHERN LION GOLD CORP.
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5. MINERAL PROPERTY INTERESTS (cont'd...)

Other, Finland

In June 2007, the Company entered into an agreement to sell all of its Finnish mineral property interests. The purchase price was \$10,457,364, consisting of \$5 million cash and 1,771,726 shares of Lapland Goldminers at a value of \$5,457,364 (Note 4). Total proceeds less mineral property costs of \$10,551,922 and selling costs of \$111,692 resulted in a loss on sale of mineral property interests of \$206,250.

6. EQUIPMENT

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 50,778	\$ 28,586	\$ 22,192	\$ 44,898	\$ 23,370	\$ 21,528

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
100,000,000 common shares, without par value			
Issued			
Balance, December 31, 2006	28,062,138	\$ 21,677,953	\$ 3,032,233
Private placement	2,020,000	505,000	-
Finders fees	53,200	13,300	-
Finders fees	-	(13,300)	-
Mineral property interests	1,018,667	611,200	-
Stock-based compensation	-	-	256,395
Share issuance costs	-	(26,870)	-
Balance, December 31, 2007	31,154,005	22,767,283	3,288,628
Mineral property interests	40,000	12,800	-
Stock-based compensation	-	-	180,908
Share issuance costs	-	(220)	-
Balance, December 31, 2008	31,194,005	\$ 22,779,863	\$ 3,469,536

During the year ended December 31, 2008, the Company issued 40,000 common shares with a value of \$12,800 pursuant to the mineral property agreement as outlined in note 5.

During the year ended December 31, 2007, the Company completed a non-brokered private placement of 2,020,000 units ("Units") at a price of \$0.25 per Unit for gross proceeds of \$505,000. Each Unit consisted of one common share and one warrant to purchase an additional common share for a period of two years at a price of \$0.40. During the second year of their term, the warrants will expire 30 days after the Company gives notice to the warrant holders that the closing market price of the Company's shares has been equal to or greater than \$0.80 for a period of 20 consecutive days. The Company paid finders fees by issuing 53,200 Units with the same terms and conditions as the private placement.

NORTHERN LION GOLD CORP.
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

(a) Stock options

The Company has a formal stock option plan in place, whereby it is authorized to grant options to executive officers, directors, employees and consultants, for up to 5,612,427 common shares. The exercise price of each option shall not be less than the discounted market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years, and are subject to a vesting provision whereby 25% are exercisable on the date of grant and 12.5% become exercisable every 3 months. The entire option will be vested in a period of 18 months.

Stock option transactions are summarized as follows:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,857,500	\$ 0.40	2,482,500	\$ 0.37
Granted	250,000	0.50	1,450,000	0.45
Exercised	-	-	-	-
Cancelled	(1,080,000)	0.33	(75,000)	0.45
Outstanding, end of year	3,027,500	\$ 0.43	3,857,500	\$ 0.40
Options exercisable, end of year	2,883,750	\$ 0.43	3,131,250	\$ 0.38
Weighted average fair value per option granted	-	\$ 0.13	-	\$ 0.30

The following is a summary of the status of the stock options that were outstanding at December 31, 2008:

Outstanding Options		
Number of Shares	Exercise Price	Expiry Date
100,000	\$0.25	February 26, 2012
100,000	\$0.35	February 26, 2012
10,000	\$0.30	August 31, 2011
1,387,500	\$0.40	December 30, 2010
115,000	\$0.40	January 5, 2011
200,000	\$0.44	October 18, 2012
750,000	\$0.47	May 9, 2012
250,000	\$0.50	March 1, 2010
70,000	\$0.60	March 2, 2010
45,000	\$0.60	June 6, 2010
<u>3,027,500</u>		

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

(b) Stock-based compensation

The total stock-based compensation calculated under the fair value method for options granted in 2008 was \$32,175 (2007 - \$437,393). The stock-based compensation expense for the year was \$180,908 (2007 - \$256,395). From the total stock-based compensation expense of \$180,908 (2007 - \$256,395), \$Nil (2007 - \$4,858) was allocated to mineral property interests. The following weighted average assumptions were used for the Black-Scholes option-pricing model calculation of stock options vested and granted during the year:

	2008	2007
Risk-free interest rate	3.15%	4.22%
Expected life of options	3.2 years	5 years
Annualized volatility	81.30%	87.89%
Dividend rate	0.00%	0.00%

(c) Warrants

At December 31, 2008, warrants were outstanding enabling holders to acquire the following number of shares:

	Number of Warrants	Weight average Exercise Price
Balance, December 31, 2006	-	\$ -
Warrants issued	2,073,200	0.40
Balance, December 31, 2007	2,073,200	\$ 0.40
Warrants issued	-	\$ -
Balance, December 31, 2008	2,073,200	\$ 0.40

Number of Shares	Exercise Price	Expiry Date
1,859,200	\$ 0.40	March 12, 2009 (Expired subsequent to year end)
214,000	\$ 0.40	March 15, 2009 (Expired subsequent to year end)
2,073,200		

8. RELATED PARTY TRANSACTIONS

Accounts payable to related parties at December 31, 2008 totalling \$Nil (2007 - \$9,803) consisted of \$Nil (2007 - \$9,803) due to a private company controlled by a director of the Company's subsidiary for reimbursed expenditures and consulting fees.

The Company entered into the following transactions with related parties:

- Paid or accrued \$66,407 (2007 - \$68,560) for management fees to directors.
- Paid or accrued \$Nil (2007 - \$139,168) for legal fees of which \$Nil (2007 - \$2,285) was capitalized to mineral property interests, \$Nil (2007 - \$76,826) was allocated to the sale of mineral property interests and \$Nil (2007 - \$23,309) was charged against capital stock, to a law practice in which a director was the principal.
- Paid or accrued consulting fees and reimbursed expenditures of \$Nil (2007 - \$21,213) to a company controlled by a former director of the Company's subsidiary. The Company allocated \$Nil (2007 - \$18,200) of these fees and expenses to mineral property interests.

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8. RELATED PARTY TRANSACTIONS (cont'd...)

- d) Paid or accrued \$Nil (2007 - \$3,760) for accounting services to an accounting firm in which a director is a partner.
- e) Paid or accrued consulting fees and reimbursed expenditures of \$134,439 (2007 - \$70,307) to a company controlled by a director of the Company's subsidiaries. The Company allocated \$125,580 (2007 - \$58,097) of these fees and expenses to mineral property interests.

These transactions were in the normal course of operations and are measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

9. MANAGEMENT OF CAPITAL

The Company manages its capital to safeguard its ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

The Company considers the items included in shareholder's equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets, incur debt, or return capital to shareholders. As of December 31, 2008, the Company does not have any debt and is not subject to externally imposed capital requirements.

10. FINANCIAL INSTRUMENTS

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity, credit, currency, interest rate and price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient cash balances to meet current working capital requirements. The Company is considered to be in the exploration stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration stage. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash and equivalents is invested in business accounts with quality financial institutions and which is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, marketable securities, and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions.

The majority of the Company's cash and cash and equivalents are held with major Canadian based financial institutions. Receivable mainly consist of refundable value added tax from the Government of Portugal.

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10. FINANCIAL INSTRUMENTS (cont'd...)

Currency risk

The Company operates in Canada, Portugal, Sweden and Republic of Cyprus and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company and may also affect the value of the Company's assets and liabilities.

The Company's cash and equivalents, marketable securities, receivables, and accounts payable and accrued liabilities are held in several currencies and therefore are subject to fluctuations against the Canadian dollar.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term maturity.

Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company's marketable securities are classified as held for trading and trade on the stock market. The Company closely monitors its marketable securities stock market movements and commodity prices of precious metals, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

The estimated fair value of financial assets is equal to their carrying values. The Company's financial assets were held in the following currencies:

December 31, 2008	Stated in Canadian Dollars				
	Canadian Dollar	US Dollar	European Euro	Swedish Krona	Total
Carrying Value					
Cash	490,070	177,288	17,824	2,214	687,396
Cash equivalents	1,391,981	-	-	-	1,391,981
Cash and equivalents	1,882,051	177,288	17,824	2,214	2,079,377
Marketable securities	-	971,619	-	-	971,619
Receivables	29,297	-	274,839	573	304,709

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10. FINANCIAL INSTRUMENTS (cont'd...)

The estimated fair value of financial liabilities is equal to their carrying values. The Company's financial liabilities were held in the following currencies:

December 31, 2008	Stated in Canadian Dollars			
	Carrying Value	Canadian Dollar	European Euro	Swedish Krona
Accounts payable and accrued liabilities	105,302	232,648	3,108	341,058
Accounts payable to related parties	-	-	-	-

11. SEGMENTED INFORMATION

The Company operates in one business segment, the exploration of mineral properties. Geographic information is as follows:

	Canada	Finland	Portugal	Sweden	Republic of Cyprus	Total
December 31, 2008						
Mineral property interests	\$ -	\$ -	\$ 4,636,670	\$ 427,416	\$ 51,593	\$ 5,115,679
Equipment	22,192	-	-	-	-	22,192
Other assets	3,066,325	-	292,663	2,787	-	3,361,775
Total assets	\$ 3,088,517	\$ -	\$ 4,929,333	\$ 430,203	\$ 51,593	\$ 8,499,646
Loss for the year	\$ 2,951,773	\$ -	\$ 22,095	\$ 625,942	\$ -	\$ 3,599,810

	Canada	Finland	Portugal	Sweden	Republic of Cyprus	Total
December 31, 2007						
Mineral property interests	\$ -	\$ -	\$ 1,482,524	\$ 798,568	\$ -	\$ 2,281,092
Equipment	21,528	-	-	-	-	21,528
Other assets	8,992,772	-	508,721	16,056	-	9,517,549
Total assets	\$ 9,014,300	\$ -	\$ 1,991,245	\$ 814,624	\$ -	\$ 11,820,169
Loss for the year	\$ 1,632,434	\$ 183,620	\$ 26,968	\$ -	\$ -	\$ 1,843,022

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12. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	2008	2007
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

Significant non-cash transactions for the year ended December 31, 2008 included:

- a) \$253,395, included in mineral property interests incurred through accounts payable.
- b) The Company issued 40,000 common shares of the Company with a value of \$12,800 pursuant to an option agreement to acquire a 90% interest in an exploration permit located in the Republic of Cyprus (Note 5).

Significant non-cash transactions for the year ended December 31, 2007 included:

- a) \$186,446, included in mineral property interests incurred through accounts payable and \$9,803 incurred through accounts payable to related parties.
- b) \$4,858, included in mineral property interests incurred through stock-based compensation.
- c) The Company issued 1,018,667 common shares of the Company with a value of \$611,200 pursuant to a property purchase agreement to acquire a 100% interest in Nynäsberget gold prospect.
- d) The Company received 1,771,726 shares of Lapland Goldminers at a value of \$5,457,364 pursuant to an agreement to sell all of its Finnish mineral property interests.
- e) The Company issued 53,200 units with a value of \$13,300 as finders' fees in connection with the private placement.

13. INCOME TAXES

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

	2008	2007
Loss for the year	\$ (3,599,810)	\$ (1,843,022)
Expected income tax (recovery)	(1,115,941)	(628,839)
Difference in foreign tax rates	1,307	(148)
Non-deductible items	1,101,273	398,875
Deductible items	(11,736)	(47,725)
Unrecognized benefit of non-capital losses	25,097	277,837
Total income tax recovery	\$ -	\$ -

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13. INCOME TAXES (cont'd...)

Details of future income taxes assets (liabilities) are as follows:

	2008	2007
Future income tax assets (liabilities):		
Capital loss carryforwards	\$ 1,050,700	\$ 920,000
Non-capital loss carryforwards	2,218,500	977,670
Marketable securities	267,000	94,500
Equipment	19,950	19,300
Mineral properties	(1,055,200)	119,700
Share issuance costs	<u>6,300</u>	<u>16,700</u>
Total future income tax assets	2,507,250	2,147,870
Less: valuation allowance	<u>(2,507,250)</u>	<u>(2,147,870)</u>
Net future income tax assets	\$ -	\$ -

The Company has non-capital losses for Canadian income tax purposes of approximately \$4,000,000, for Portuguese income tax purposes of approximately \$4,700,000 and for Swedish income tax purposes of approximately \$19,000 which can be carried forward to reduce taxable income in future years. Unless utilized, these losses will expire for Canada through 2028, for Portugal through 2014 and for Sweden carried forward indefinitely. In addition, the Company has capital losses of approximately \$8,083,000 which are available to reduce any capital gains in future years. Future tax benefits, which may arise as a result of these non-capital losses, capital losses and other tax assets, have not been recognized in these financial statements and have been offset by a valuation allowance.

14. SUBSEQUENT EVENT

The following event occurred subsequent to December 31, 2008.

On January 16, 2009, the Company entered into a loan agreement (the "Agreement") with New World Resource Corp. ("New World"). Under the terms of the Agreement, the Company will advance up to \$500,000 to New World, of which \$300,000 was advanced to New World on January 26, 2009. One additional draw of \$200,000 will be available to New World at New World's discretion. The loan, together with the interest accrued thereon, will be payable on or before September 30, 2009. The loan will bear interest at a rate of 10% per annum, accruing daily. The loan will be secured by a pledge (the "Pledge") of all of the shares of New World's subsidiary, New World Resource Bolivia S.A., which has an option to acquire a 75% interest in a joint venture project on the Lipeña mining concession in Bolivia from Empresa Minera Marte S.R.L. The Company will have the opportunity to take over the Lipeña option agreement if New World is unable to repay the loan. John Lando and Lyle Brown are directors of both the Company and New World and Mr. Lando is the President of both companies. The terms of the Agreement and Pledge were negotiated by the independent directors of the Company, and both Mr. Lando and Mr. Brown declared their interests in the transaction and abstained from voting on it.