



**FINANCIAL REVIEW**

**Fiscal Year Ended December 31, 2008**

**RADIUS GOLD INC.**

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Expressed in Canadian Dollars)



**BDO Dunwoody LLP**  
Chartered Accountants

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholder of,  
Radius Gold Inc.  
(An Exploration Stage Company)

We have audited the consolidated balance sheets of Radius Gold Inc. (An Exploration Stage Company) as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit and comprehensive loss and cash flows for each of the years in the three-year period ended December 31, 2008. 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 and the standards of the Public Company Accounting Oversight Board (United States). 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 each of the years in the three year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada  
April 24, 2009

### **COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA – UNITED STATES REPORTING DIFFERENCES**

The reporting standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. PCAOB reporting standards also require the addition of an explanatory paragraph when prior year statements have been restated as described in note 17 and newly adopted financial instruments accounting policy, such as those described in Note 2, have a material effect on the consolidated financial statements. Although we conducted our audit in accordance with both Canadian generally accepted auditing standards and the standards of the PCAOB, our report to the shareholders on the Consolidated Financial Statements dated April 24, 2009 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada  
April 24, 2009

**RADIUS GOLD INC.**  
**(An Exploration Stage Company)**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2008 AND 2007**  
**(Expressed in Canadian Dollars)**

	<b>2008</b>	Restated – (Note 17) <b>2007</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 772,989	\$ 2,378,514
Marketable securities and investments (Note 4)	1,486,139	4,624,095
Advances and other receivables (Note 7)	96,683	56,543
GST receivable	10,399	27,919
Due from related parties (Note 7)	168,877	50,498
Prepaid expenses and deposits	60,697	85,212
	2,595,784	7,222,781
<b>LONG-TERM DEPOSITS</b>	22,063	22,063
<b>VAT RECOVERABLE</b> (Note 2)	39,945	22,766
<b>PROPERTY &amp; EQUIPMENT</b> (Note 5)	245,559	289,888
<b>MINERAL PROPERTIES</b> (Notes 6, 7 and 14)	13,874,003	15,923,030
	\$ 16,777,354	\$ 23,480,528
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 227,480	\$ 371,962
<b>FUTURE INCOME TAX LIABILITY</b> (Notes 13 and 17)	886,000	1,437,000
	1,113,480	1,808,962
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (Note 8)	42,587,194	42,587,194
<b>CONTRIBUTED SURPLUS</b> (Note 8)	4,329,806	4,164,587
<b>DEFICIT</b>	(31,209,395)	(25,045,176)
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b> (Note 11)	(43,731)	(35,039)
	15,663,874	21,671,566
	\$ 16,777,354	\$ 23,480,528

Nature of Operations and Ability to Continue as a Going Concern (Note 1)  
 Commitments (Notes 6, 8 and 12)  
 Subsequent Event (Note 14)

**APPROVED BY THE DIRECTORS:**

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*“signed”*  
 Simon Ridgway, Director

\_\_\_\_\_  
*“signed”*  
 Mario Szotlender, Director

**See Accompanying Notes**

**RADIUS GOLD INC.**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**  
**(Expressed in Canadian Dollars)**

	2008	(Restated – Note 17) 2007	(Restated – Note 17) 2006
<b>EXPENSES</b>			
Amortization	\$ 88,609	\$ 62,097	\$ 58,780
Consulting fees (Note 7)	69,346	54,112	18,301
Donations	772	998	20,748
Legal and accounting fees	107,910	64,405	86,561
Management fees (Note 7)	60,000	60,000	60,000
Non-cash compensation charge (Note 8)	165,219	722,225	1,230,750
Office and miscellaneous	66,651	68,612	36,609
Public relations	83,020	113,770	132,828
Property investigations	-	-	24,835
Rent and utilities	39,703	24,358	26,965
Repair and maintenance	25,206	11,469	7,158
Salaries and wages (Note 7)	275,052	179,817	133,244
Telephone and fax	23,269	15,876	14,923
Transfer agent and regulatory fees	15,580	19,891	17,120
Travel and accommodation	103,601	81,849	61,654
	(1,123,938)	(1,479,479)	(1,930,476)
<b>OTHER INCOME (EXPENSES)</b>			
Foreign currency exchange gain (loss)	106,022	(310,141)	42,413
Loss on uncollectible receivable	-	(22,172)	-
Loss on disposal of property and equipment	(31,520)	(9,183)	-
Gain (loss) on sale of marketable securities	(86,145)	(130,389)	32,146
Investment income (net)	179,789	371,716	319,891
Other income	-	86,868	25,022
Write off of prepaid expenses and deposits	(18,352)	-	-
Write off of mineral properties costs	(5,741,075)	(784,879)	(3,052,802)
	(5,591,281)	(798,180)	(2,633,330)
<b>Loss before income taxes</b>	(6,715,219)	(2,277,659)	(4,563,806)
Future income tax recovery (expense) – Notes 13 and 17	551,000	(547,000)	248,000
<b>Net loss for the year</b>	(6,164,219)	(2,824,659)	(4,315,806)
<b>BASIC AND DILUTED LOSS PER SHARE</b>	\$(0.12)	\$(0.05)	\$(0.08)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	53,548,488	53,425,577	52,991,262

See Accompanying Notes

**RADIUS GOLD INC.**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF DEFICIT AND COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**  
**(Expressed in Canadian Dollars)**

	2008	(Restated – Note 17) 2007	(Restated – Note 17) 2006
Deficit, beginning of the year			
As previously reported	\$ (23,608,176)	\$ (22,220,517)	\$ (17,904,711)
Prior period adjustment (Note 17)	(1,437,000)	-	-
As restated	(25,045,176)	(22,220,517)	(17,904,711)
Net loss for the year	(6,164,219)	(2,824,659)	(4,315,806)
<b>Deficit, end of the year</b>	<b>\$ (31,209,395)</b>	<b>\$ (25,045,176)</b>	<b>\$ (22,220,517)</b>
<b>Net Loss</b>	<b>(6,164,219)</b>	<b>(2,824,659)</b>	<b>(4,315,806)</b>
Other comprehensive income, net of tax			
Unrealized loss on available-for-sale marketable securities	(8,692)	(71,475)	-
<b>COMPREHENSIVE LOSS</b>	<b>\$ (6,172,911)</b>	<b>\$ (2,896,134)</b>	<b>\$ (4,315,806)</b>

See Accompanying Notes

**RADIUS GOLD INC.**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**  
**(Expressed in Canadian Dollars)**

	2008	(Restated – Note 17) 2007	(Restated – Note 17) 2006
<b>OPERATING ACTIVITIES</b>			
Net loss for the year	\$ (6,164,219)	\$ (2,824,659)	\$ (4,315,806)
Items not involving cash:			
Loss on uncollectible receivables	-	22,172	-
Amortization	88,609	62,097	58,780
Loss (gain) from disposal of asset	31,520	9,183	-
Unrealized foreign exchange	(8,494)	(109,490)	(79,561)
Settlement of severance payment	4,936	-	-
Write off of prepaid expenses and deposits	18,352	-	-
Write off of deferred exploration costs	5,741,075	784,879	3,052,802
Loss on disposal of investments	86,145	-	-
Future income tax expense (recovery) (Notes 13 and 17)	(551,000)	547,000	(248,000)
Non-cash compensation charge (Note 8)	165,219	722,225	1,230,750
	(587,857)	(786,593)	(301,035)
Changes in non-cash working capital items:			
Advances and other receivables	(32,729)	742,360	(531,379)
GST receivable	17,520	(14,231)	12,364
Prepaid expenses	(12,237)	(7,504)	6,953
Accounts payable and accrued liabilities	(44,354)	236,121	43,067
	(659,657)	170,153	(770,030)
<b>FINANCING ACTIVITIES</b>			
Due to related parties	-	(10,510)	(24,619)
Proceeds on issuance of common shares, net	-	7,000	51,000
	-	(3,510)	26,381
<b>INVESTING ACTIVITIES</b>			
Purchase of marketable securities and investments	(2,929,277)	(230,863)	(3,370,185)
Due from related parties	(118,379)	97,372	108,779
Expenditures on deferred exploration costs	(3,778,759)	(3,127,878)	(2,759,185)
VAT recoverable	(19,067)	-	-
Proceeds from sale of assets	47,520	67,846	-
Proceeds from sale of marketable securities and investments	5,972,395	4,595,619	6,282,572
Purchase of property & equipment	(149,460)	(98,052)	(5,022)
	(975,027)	1,304,044	256,959
Foreign exchange on opening cash and cash equivalents	29,159	(25,870)	(3,167)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR</b>	(1,605,525)	1,444,817	(489,857)
Cash and cash equivalents - beginning of year	2,378,514	933,697	1,423,554
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 772,989	\$ 2,378,514	\$ 933,697

Supplemental cash flow information - Note 9

**See Accompanying Notes**

**RADIUS GOLD INC.**  
**(An Exploration Stage Company)**  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**  
**(Expressed in Canadian Dollars)**

	Guatemala		Nicaragua		Mexico		Peru		Ecuador	Other	Year Ended December 31, 2008	
	General Exploration	Mineral Concessions	General Exploration	Mineral Concessions	General Exploration	Mineral Concessions	General Exploration	Mineral Concessions	Cerro Colorado	General Exploration		
<b>ACQUISITION COSTS</b>												
BALANCE - BEGINNING OF YEAR	\$ -	\$ 4,142,864	\$ -	\$ 82,482	\$ -	\$ -	\$ -	\$ -	\$ 210,566	\$ 113,130	\$ -	\$ 4,549,042
Shares	-	-	-	-	-	-	-	-	-	-	-	-
Cash	-	-	-	-	-	-	-	-	36,817	-	-	36,817
	-	-	-	-	-	-	-	-	36,817	-	-	36,817
Write-off Acquisition Costs	-	-	-	-	-	-	-	-	(36,817)	(113,130)	-	(149,947)
BALANCE - END OF YEAR	-	4,142,864	-	82,482	-	-	-	-	210,566	-	-	4,435,912
<b>DEFERRED EXPLORATION COSTS</b>												
BALANCE - BEGINNING OF YEAR	\$ -	\$ 6,496,839	\$ -	\$ 4,144,643	\$ -	\$ 299,639	\$ 157,651	\$ 246,417	\$ 24,116	\$ 4,683	\$ 11,373,988	
Amortization	-	-	-	-	-	-	-	-	-	-	-	
Property Payment/Investigation	-	705	-	2,150	-	-	-	1,766	-	-	4,621	
Automobile	70	3,660	5,136	118,021	16,560	1,351	17,043	2,836	-	-	164,677	
Camp, food and supplies	99	3,804	16,288	103,367	15,281	3,733	4,726	833	-	-	148,131	
Drafting, maps and printing	15	72	115	1,780	1,767	64	6,389	628	-	-	10,830	
Drilling	-	-	-	416,555	-	-	-	-	-	-	416,555	
Exploration administration	2,301	1,258	1,470	16,334	562	731	14,645	1,178	-	-	38,479	
Foreign Exchange loss (gain)	6	(46)	179	2,099	863	5	(1,622)	1,634	-	-	3,118	
Environment	-	-	-	47,462	-	-	-	-	-	-	47,462	
Geochemistry	-	5,822	25,011	186,427	26,145	15,088	10,143	3,782	-	-	272,418	
Geological consulting (Note 7)	-	34,581	91,994	384,135	169,574	48,258	144,722	3,340	-	-	876,604	
Other consulting	3,972	4,964	6,420	49,167	18,682	27,065	40,217	34,065	-	-	184,552	
Legal and accounting	82	2,780	1,467	42,600	34,908	-	35,630	6,575	-	-	124,042	
Licenses, rights and taxes	2,048	19,995	4,506	105,202	742	119,120	12,090	42,488	16,729	-	322,920	
Linecutting & trenching	261	366	3,668	38,492	3,313	1,720	441	100	-	-	48,361	
Underground development	-	-	-	-	-	-	-	-	-	-	-	
Materials	44	280	547	53,849	1,097	119	1,917	209	-	-	58,062	
Maintenance	347	1,019	864	31,892	857	254	5,199	261	-	-	40,693	
Miscellaneous	32	1,958	292	3,631	358	306	1,344	109	-	-	8,030	
Medical expenses	1,610	3,170	1,411	18,421	3,618	344	2,876	2	-	-	31,452	
Public relations	-	-	1,173	151,556	803	-	-	-	25,093	-	178,625	
Road building	-	-	-	15,808	-	-	-	-	-	-	15,808	
Rent and utilities	2,661	17,807	411	51,366	6,109	931	9,088	1,021	-	-	89,394	
Rental equipment	-	-	-	2,484	425	-	-	-	-	-	2,909	
Salaries and wages (Note 7)	-	28,232	14,235	256,069	27,863	-	38,068	-	-	-	364,467	
Shipping	67	121	8,149	20,808	3,910	613	2,554	5	-	-	36,227	
Telephone and communications	337	1,841	914	33,438	3,843	522	4,450	119	-	-	45,464	
Travel and accommodation	82	1,357	12,304	53,803	31,739	5,038	15,982	1,025	-	-	121,330	
	14,034	133,746	196,554	2,206,916	369,019	225,262	365,902	101,976	41,822	-	3,655,231	
Expenditures Recovered	-	-	-	-	-	-	-	-	-	-	-	
Write-off Exploration Costs	(14,034)	(1,497,038)	(196,554)	(2,537,091)	(369,019)	(320,924)	(523,553)	(62,294)	(65,938)	(4,683)	(5,591,128)	
BALANCE - END OF YEAR	-	5,133,547	-	3,814,468	-	203,977	-	286,099	-	-	9,438,091	
<b>TOTAL MINERAL PROPERTIES - END OF YEAR</b>	\$ -	\$ 9,276,411	\$ -	\$ 3,896,950	\$ -	\$ 203,977	\$ -	\$ 496,665	\$ -	\$ -	\$ 13,874,003	

See Accompanying Notes

**RADIUS GOLD INC.**  
(An Exploration Stage Company)  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(Expressed in Canadian Dollars)

	Guatemala		Nicaragua		Mexico		Peru		Ecuador	Other	Year Ended December 31, 2007
	Mineral Concessions	General Exploration	Mineral Concessions	General Exploration	Mineral Concessions	General Exploration	Mineral Concessions	General Exploration	Cerro Colorado	General Exploration	
<b>ACQUISITION COSTS</b>											
BALANCE - BEGINNING OF YEAR	\$ 4,142,864	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 113,130	\$ -	\$ 4,255,994
Shares	-	-	29,000	-	-	-	-	64,000	-	-	93,000
Cash	-	-	53,482	-	-	-	-	146,566	-	-	200,048
	-	-	82,482	-	-	-	-	210,566	-	-	293,048
BALANCE - END OF YEAR	4,142,864	-	82,482	-	-	-	-	210,566	113,130	-	4,549,042
<b>DEFERRED EXPLORATION COSTS</b>											
BALANCE - BEGINNING OF YEAR	\$ 5,753,973	\$ 349,838	\$ 3,069,580	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,734	\$ 4,129	\$ 9,182,254
Amortization	-	-	-	-	-	-	-	-	-	-	-
Property Payment/Investigation	23,060	-	1,809	-	-	-	-	16,135	6,750	-	47,754
Automobile	9,970	10	91,505	10,197	11,884	2,426	17,957	-	-	-	143,949
Camp, food and supplies	12,761	2,294	65,738	8,618	9,034	542	4,716	805	-	-	104,508
Drafting, maps and printing	184	-	1,943	2,260	4,157	162	451	-	-	-	9,157
Exploration administration	5,503	-	25,908	1,279	1,279	1,955	3,375	-	-	-	39,299
Environment	-	-	14,219	-	-	2,501	-	-	-	-	16,720
Geochemistry	6,614	6,085	32,824	19,980	19,980	3,077	13,579	-	-	-	102,139
Geological consulting (Note 7)	67,918	41,493	277,810	130,571	163,770	77,303	58,330	8,574	554	-	826,323
Other consulting	23,004	-	102,330	12,731	15,243	24,136	102,781	-	-	-	280,226
Legal and accounting	8,311	-	31,868	18,397	20,522	10,034	9,661	-	-	-	98,793
Licenses, rights and taxes	13,882	-	86,576	14,582	97,776	3,233	2,362	-	-	-	218,412
Linecutting & trenching	22,317	-	27,260	2,034	3,607	-	850	-	-	-	56,068
Underground development	423,769	-	-	-	-	-	-	-	-	-	423,769
Materials	8,983	-	26,370	753	765	1,335	6,191	-	-	-	44,397
Maintenance	2,840	-	18,299	430	456	-	382	-	-	-	22,407
Miscellaneous	3,239	-	2,626	343	917	60	438	-	-	-	7,623
Medical expenses	6,890	456	11,816	3,045	3,421	262	37	-	-	-	25,927
Road building	-	-	11,265	-	-	-	-	-	-	-	11,265
Rent and utilities	31,090	-	35,629	4,561	4,561	-	-	-	-	-	75,840
Rental equipment	748	-	6,762	90	90	-	-	-	-	-	7,690
Salaries and wages	43,660	8,084	126,277	12,040	12,040	2,419	-	-	-	-	204,520
Shipping	3,613	1,658	9,873	3,199	3,641	906	336	-	-	-	23,226
Telephone and communications	5,917	870	24,727	3,636	3,636	177	261	-	-	-	39,223
Travel and accommodation	18,593	2,548	55,553	15,863	15,870	27,123	8,575	3,253	-	-	147,378
	742,866	63,498	1,088,987	264,609	392,649	157,651	246,417	19,382	554	-	2,976,613
Write-off Exploration Costs	-	(413,336)	(13,924)	(264,609)	(93,010)	-	-	-	-	-	(784,879)
BALANCE - END OF YEAR	6,496,839	-	4,144,643	-	299,639	157,651	246,417	24,116	4,683	-	11,373,988
<b>TOTAL MINERAL PROPERTIES - END OF YEAR</b>	<b>\$ 10,639,703</b>	<b>\$ -</b>	<b>\$ 4,227,125</b>	<b>\$ -</b>	<b>\$ 299,639</b>	<b>\$ 157,651</b>	<b>\$ 456,983</b>	<b>\$ 137,246</b>	<b>\$ 4,683</b>	<b>\$ -</b>	<b>\$ 15,923,030</b>

See Accompanying Notes

## **Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### **1. Nature of Operations and Ability to Continue as a Going Concern**

Radius Gold Inc. (The Company) was formed by the amalgamation of Radius Explorations Ltd. and PilaGold Inc. which became effective on July 1, 2004.

The Company is engaged in acquisition and exploration of mineral properties located primarily in Central and South America. The amounts shown for the mineral properties represent costs incurred to date and do not reflect present or future values. The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. Accordingly, the recoverability of these capitalized costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their development and upon future profitable production or disposition thereof.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2008, the Company had not yet achieved profitable operations, has accumulated losses of \$31,209,395 since inception, and is expected to incur further losses in the development of its business, all of which raises substantial doubt about its ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

### **2. Significant Accounting Policies**

Management has prepared the consolidated financial statements of the Company in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results may differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement and within the framework of the significant accounting policies summarized below.

#### **a) Principles of Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

- i) Minerales Sierra Pacifico S.A. and Exploraciones Mineras de Guatemala S.A., companies incorporated under the laws of Guatemala;
- ii) Minerales de Nicaragua S.A. and Desarrollo Geologico Minerao, S.A., companies incorporated under the laws of Nicaragua;
- iii) Recursos Del Cibao, S.A., a company incorporated under the laws of the Dominican Republic;
- iv) Radius Panamá Corporation, Weltern Resources Corp. and Corporación Geológica de Panamá, companies incorporated under the laws of Panamá;
- v) Radius (Cayman) Inc. and Pavon (Cayman) Inc., companies incorporated under the laws of Cayman Island;

## **Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies – (cont'd)**

#### a) Principles of Consolidation – (cont'd)

- vi) Geometales Del Norte-Geonorte, a company incorporated under the laws of Mexico and
- vii) Minera Aymara S.A.C. (formerly called Radius Peru, S.A.C.), a company incorporated under the laws of Peru on May 4, 2007.

All significant inter-company transactions have been eliminated upon consolidation.

#### b) Cash and Cash Equivalents

Cash and cash equivalents included highly liquid investments with original maturities of three months or less.

#### c) Marketable Securities

Marketable securities are recorded at market value as they are considered available-for-sale.

#### d) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 2. Significant Accounting Policies – (cont'd)

#### e) Property, Equipment and Amortization

Property and equipment are recorded at cost. Equipment is amortized over their estimated useful lives using the following methods:

Leasehold improvements	5 years straight-line
Trucks	4 – 8 years straight-line
Computer equipment	25% - 50% declining balance
Furniture and equipment	20% declining balance
Geophysical equipment	20% declining balance
Website	30% declining balance

Additions to equipment are amortized at one-half rate during the year of acquisition.

#### f) Basic and Diluted Loss Per Share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented.

For the years ended December 31, 2008, 2007 and 2006, potentially dilutive common shares (relating to options outstanding at year-end) totalling 5,025,000 (2007: 5,150,000; 2006: 3,475,000) were not included in the computation of loss per share because their effect was anti-dilutive.

#### g) Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income taxes assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

#### h) Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

## **Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies – (cont'd)**

#### **i) Stock-based Compensation**

The Company has a stock-based compensation plan as disclosed in Note 8, whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option valuation models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

#### **j) Asset Retirement Obligation**

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period it is incurred with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and amortization of the related asset.

At December 31, 2008 and 2007, the fair value of the mineral properties site restoration costs is not significant.

#### **k) Impairment of Long-lived Assets**

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized.

#### **l) Financial Instruments**

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments and derivatives are measured on the trade date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recorded in net income. Available-for-sale financial assets are measured at fair value, with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in the statement of operations. Transaction costs on the acquisition of financial assets and liabilities that are classified as other than held-for trading are expensed.

## **Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

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### **2. Significant Accounting Policies – (cont'd)**

#### **1) Financial Instruments – (cont'd)**

The Company has made the following designations of its financial instruments: cash and cash equivalents as held-for-trading; marketable securities as available-for-sale; advances and other receivables and due from related parties as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

Effective January 1, 2008, the Company implemented the new Canadian Institute of Chartered Accountants (“CICA”) accounting sections: 3862 (Financial Instruments – Disclosure), 3863 (Financial Instruments – Presentation), which replaced section 3861 Financial Instruments – Disclosures and Presentation.

These new standards revise and enhance the disclosure requirements, and carry forward, substantially unchanged, the presentation requirements. Sections 3862 and 3863 emphasize the significance of financial instruments for the entity’s financial position and performance, the nature and extent of the risks arising from financial instruments, and how these risks are managed. These new standards are applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007. These new Sections relate to disclosure and presentation only and there was no impact on the Company’s financial results for the current fiscal year.

As at December 31, 2008, the Company’s financial instruments are comprised of cash and cash equivalents, marketable securities, advances and other receivables, amounts due from related parties and accounts payable and accrued liabilities. The fair value of cash and cash equivalents, marketable securities, advances and other receivables, amounts due from related parties and accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity. The Company’s financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to fluctuations in foreign currencies through its operations in foreign countries. The Company monitors this exposure, but has no hedge positions. As at December 31, 2008, cash totalling \$270,878 (2007 - \$1,118,436) was held in US dollars, \$43,630 (2007 - \$8,506) in Nicaragua Cordoba, \$14,268 (2007 - \$9,474) in Guatemala Quetzal, \$7,527 (2007 - \$2,550) in Mexican Pesos and \$1,168 (2007 - \$nil) in Peruvian Sols.

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company’s credit risk is primarily attributable to its cash and cash equivalents, marketable securities and advances and other receivables. The Company limits exposure to credit risk by maintaining its cash and cash equivalents with large financial institutions. The Company does not have cash and cash equivalents or marketable securities that are invested in asset based commercial paper. For advances and other receivables, the Company estimates, on a continuing basis, the probable losses and provides a provision for losses based on the estimated realizable value.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company’s holdings of cash and cash equivalents and marketable securities. The Company believes that these sources will be sufficient to cover the likely short and long-term requirements.

## **Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies – (cont'd)**

#### **l) Financial Instruments – (cont'd)**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash and cash equivalents are currently held in short-term interest bearing accounts, management considers the interest rate risk to be limited.

#### **Derivatives and Hedge Accounting**

The Company currently does not have derivative instruments and accordingly is not impacted by CICA Handbook Section 3865, Hedges.

#### **Comprehensive Income**

Comprehensive income is composed of the Company's earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities, all net of income taxes. Cumulative changes in other comprehensive loss will be included in accumulated other comprehensive loss which will be presented as a new category in shareholders' equity.

#### **m) Capital Management**

Effective January 1, 2008, the Company implemented the new CICA accounting section 1535 (Capital Disclosures). Section 1535 specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new Section relates to disclosure and there was no impact on the Company's financial results for the current fiscal year.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to advance its mineral properties. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company is not subject to any external capital requirements.

## **Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies – (cont'd)**

#### m) Capital Management – (cont'd)

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2008. The Company's investment policy is to hold cash in interest bearing bank accounts, which pay comparable interest rates to highly liquid short-term interest bearing investments with maturities of one year or less and which can be liquidated at any time without penalties and in marketable securities consisting of short term notes, Government of Canada bonds, Canadian provincial government bonds, corporate bonds, pool fund bonds and preferred equities. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements and do not have exposure to asset-backed commercial paper or similar products. The Company expects its current capital resources will be sufficient to carry out its exploration programs and operating costs for the next twelve months. However, in response to current global financial market crisis, the Company has taken steps to reduce operating and exploration expenditures to preserve its capital resources as much as possible until such time that conditions improve.

#### n) Going Concern

The Accounting Standards Board amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this new standard did not have a material impact on the financial statements for the periods presented.

#### o) Value-added Taxes Recoverable

The Company incurred value-added taxes ("VAT") in Mexico during the years ended December 31, 2008 and 2007 which relates to mineral property expenditures and other expenses. Due to the uncertainty surrounding the collection, the Company has classified the amounts as long-term asset.

### **3. Future Accounting Changes**

Effective for interim and annual financial statements for years beginning on or after October 1, 2008, CICA Handbook Section 3064, Goodwill and Intangible Assets, will replace CICA Handbook Section 3062, "Goodwill and Other Intangible Assets", and results in withdrawal of CICA Handbook Section 3450, Research and Development Costs, EIC-27, Revenues and Expenditures during the Pre-Operating Period and amendments to Accounting Guideline (AcG) 11, Enterprises in the Development Stage and CICA Handbook Section 1000, Financial Statement Concepts. The Company is currently evaluating the impact of the adoption of this new Section on its financial statements.

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

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### 3. Future Accounting Changes – (cont'd)

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 International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for the 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, 2011. 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.

In January 2009, the CICA issued Section 1582, “Business Combinations”, Sections 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests”, which replaces existing guidance. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier adoption permitted. If the Company chooses to adopt any one of these Sections, the other sections must also be adopted at the same time. The Company is currently evaluating the impact of the adoption of these new sections on its financial statements.

### 4. Marketable Securities and Investments

Marketable securities are recorded at market value as they are considered available-for-sale. Included in marketable securities are 7,406 common shares of a company with directors in common. The portfolio of marketable securities consists of short term notes with a yield range of 1.62% - 3.71% (2007: 4.02% - 4.38%), Government of Canada bonds with a yield range of 0.98% - 3.54% (2007: 3.82% - 4.75%), Canadian provincial government bonds with a yield range of 0.83% - 4.41% (2007: 4.07% - 6.13%), corporate bonds with a yield range of 3.47% - 8.27% (2007: 4.33% - 6.17%), pool fund bonds with a yield range of 4.64% - 5.04% (2007: 4.62% - 4.87%), and preferred equities with a yield range of 4.48% - 7.97% (2007: 4.38% - 5.69%). Unrealized loss of \$8,692 (2007- \$71,475) were recorded in other comprehensive income.

### 5. Property and Equipment

	2008		
	Cost	Accumulated Amortization	Net
Leasehold improvements	\$ 17,730	\$ 15,563	\$ 2,167
Trucks	367,672	226,637	141,035
Computer equipment	166,240	97,797	68,443
Furniture and equipment	23,067	9,353	13,714
Geophysical equipment	36,178	19,716	16,462
Website	8,433	4,695	3,738
	<u>\$ 619,320</u>	<u>\$ 373,761</u>	<u>\$ 245,559</u>

## Radius Gold Inc.

(An Exploration Stage Company)

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### 5. Property and Equipment (cont'd)

	2007		
	Cost	Accumulated Amortization	Net
Land	\$ 44,838	\$ -	\$ 44,838
Leasehold improvements	15,322	15,322	-
Trucks	361,521	201,849	159,672
Computer equipment	131,412	76,136	55,276
Furniture and equipment	39,756	31,377	8,379
Geophysical equipment	36,447	15,652	20,795
Website	4,800	3,872	928
	<u>\$ 634,096</u>	<u>\$ 344,208</u>	<u>\$ 289,888</u>

### 6. Mineral Properties

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.

#### A) Guatemala

##### i) El Tambor

The El Tambor Property consists of seven concessions located in south-central Guatemala covering a total of 6,162 hectares, as follows:

- La Laguna – granted exploration licence; 100% owned.
- El Injerto and Carlos Antonio – granted exploration licences; 100% owned, subject to a 2.5% net smelter returns royalty.
- Santa Margarita Derivada – exploration licence application for title pending; 100% owned, subject to a 2.5% net smelter returns royalty.
- Progreso VII Derivada – exploration licence application for title pending; 100% owned, subject to a 4.0% net smelter returns royalty which one-half of the 4% royalty may be purchased by the Company for US\$2.0 million.
- Marga and Las Navajas – exploration licence applications for title pending; 100% owned.

In June 2008, the Company signed a binding Letter of Intent with Kappes, Cassiday & Associates (“KCA”) whereby KCA can earn a 51% interest in the Tambor Project by incurring exploration expenditures on the property totaling US\$6,500,000 over 4 years, or by putting the property into commercial production within 4 years. If KCA earns its 51% interest, a joint venture will be formed between KCA and the Company. Once commercial production has been achieved, KCA will receive preferential payback of 75% (the Company 25%) of after-tax cash flow from initial production until KCA receives an amount equal to its investment, less US\$2,000,000. At that point, the Company will receive 75% of the after-tax cash flow (KCA 25%) until the Company receives the amount of preferential cash flow received by KCA, after which revenues will be split 51% KCA / 49% the Company. A schedule of minimum annual expenditures by KCA is as follows, with KCA having a commitment to expend US\$1,000,000 in the first year:

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 6. Mineral Properties – (cont'd)

#### A) Guatemala – (cont'd)

##### i) El Tambor – (cont'd)

- i) US\$1,000,000 by June 2, 2009;
- ii) US\$1,500,000 by June 2, 2010;
- iii) US\$1,500,000 by June 2, 2011; and
- iv) US\$2,500,000 by June 2, 2012

##### ii) Banderas

The Company holds a 100% interest in the Banderas Project which consists of two exploration concessions (one granted and one application for title pending) covering a total of 11,450 hectares. During the year ended December 31, 2008, the Company wrote-off \$1,497,038 (2007: \$Nil; 2006: \$Nil) in deferred exploration costs.

##### iii) Regional exploration

During the year ended December 31, 2008 deferred exploration costs incurred by the Company on prospective properties in Guatemala totalling \$14,034 (2007: \$Nil; 2006: \$Nil) were written-off to operations.

#### B) Nicaragua

##### i) Natividad (El Pavon)

The Company owns a 100% interest in the Natividad Project which consists of one granted exploration concession covering 1,301 hectares.

The Company entered into a joint venture agreement with Meridian Gold Inc. (“Meridian”) effective May 25, 2005, giving Meridian the option to acquire a 60% interest in the Natividad Project. Meridian spent US\$5.3 million in exploration expenditures within the first two years of the agreement towards earning an interest, before terminating its option in 2006.

All amounts owing by Meridian to the Company were repaid in 2007, and during the year ended December 31, 2007, \$1,202 in costs incurred by the Company on certain of the joint venture concessions were written-off to operations.

##### ii) Trebol

The Company owns a 100% interest in the Trebol Project which consists of two granted exploration concessions covering a total of 42,193 hectares.

##### iii) La Flor

The Company owns a 100% interest in the La Flor Project which consists of one granted exploration concession covering 15,605 hectares. During the year ended December 31, 2008, the Company wrote-off \$247,950 (2007: \$Nil; 2006: \$Nil) in deferred exploration costs in order to better reflect the carrying costs of the Project.

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

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### 6. Mineral Properties – (cont'd)

#### B) Nicaragua – (cont'd)

##### iv) Regional Exploration and Other Properties Including San Pedro, India Norte and Estrella de Oro

During 2007 and 2008, the Company conducted exploration work on various other concessions in Nicaragua, all of which had been relinquished as at December 31, 2008 as management is not planning any further work thereon. During the year ended December 31, 2008, \$2,485,695 (2007: \$427,260; 2006: \$1,650,886) in deferred exploration costs incurred on these properties and other prospective properties were written-off to operations.

#### C) Mexico

##### i) Tlacolula Property

The Company owns a 100% interest in the Tlacolula Property which consists of one granted exploration concession covering 12,642 hectares. During the year ended December 31, 2008, the Company wrote-off \$203,977 (2007: \$Nil; 2006: \$Nil) in deferred exploration costs in order to better reflect its carrying costs.

##### ii) Regional Exploration and Other Properties Including Amatista, La Fruita and El Mole

During 2007 and 2008, the Company conducted exploration work on various other concessions in Mexico, all of which had been relinquished as at December 31, 2008 as management is not planning any further work thereon. During the year ended December 31, 2008, the Company wrote-off \$485,966 (2007: \$357,619; 2006: \$1,348,844) in deferred exploration costs to operations.

#### D) Peru

##### i) Rubi Property

In August 2007, the Company was granted an option to acquire a 100% interest in the Rubi Property, Peru, which currently consists of two concessions covering a total of 2,200 hectares. In this connection, the Company paid \$100,000 and issued 50,000 common shares to the property owner, and paid finder's fees of \$10,000 and 25,000 shares each to two individuals.

After conducting some exploration work on the Property, the Company entered into an agreement in October 2008 with International Minerals Corporation ("IMC") to continue exploration on the Property as joint venture partners in a newly formed Peruvian company ("JVCO"). The original August 2007 option agreement held by the Company was replaced by an October 2008 option agreement whereby JVCO can earn a 100% interest in the Rubi Property by making a series of payments and exploration expenditures over four years, as follows:

##### a) Cash payments to the property owner:

- i) US\$75,000 on signing of the revised option agreement ("Agreement Date") (paid by IMC);
- ii) US\$150,000 on or before October 2, 2009;
- iii) US\$300,000 on or before October 2, 2010;
- iv) US\$600,000 on or before October 2, 2011; and
- v) US\$1,875,000 on or before October 2, 2012.

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(An Exploration Stage Company)

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(Expressed in Canadian Dollars)

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### 6. Mineral Properties – (cont'd)

#### D) Peru – (cont'd)

##### i) Rubi Property – (cont'd)

##### b) Exploration expenditures on the Rubi Property:

- i) US\$400,000 on or before October 2, 2009;
- ii) an additional US\$600,000 on or before October 2, 2010;
- iii) an additional US\$1,000,000 on or before October 2, 2011; and
- iv) an additional US\$1,000,000 on or before October 2, 2012.

The property owner will retain a 2% net smelter returns royalty, with JVCO having a right of first offer to purchase such royalty.

Under its agreement with the Company, IMC can earn its 60% interest in JVCO by paying the initial signing fee of US\$75,000 (paid) and by funding the first year's exploration expenditures on the Rubi Property, for a total of US\$475,000. The remaining cash payments and exploration expenditures will be funded by JVCO (60% IMC, 40% the Company) with each party subject to standard dilution requirements in the event of non-contribution of funds.

##### ii) Artemisas Property

In November 2007, the Company was granted an option to acquire a 70% interest in the Artemisas Property, Peru. After conducting exploration work on the Property in 2008, management of the Company decided no further work was warranted, and the Company relinquished the option. During the year ended December 31, 2008, the Company wrote-off \$48,797 (2007: \$Nil; 2006: \$Nil) in deferred exploration costs to operations.

##### iii) Charpal Property

In January 2008, the Company was granted an option to acquire a 100% interest in the Charpal Property, Peru. After conducting exploration work on the Property, management of the Company decided no further work was warranted, and the Company relinquished the option prior to year end. During the year ended December 31, 2008, the Company wrote-off \$8,376 and \$36,817 (2007: \$Nil; 2006: \$Nil) in deferred exploration costs and acquisition costs respectively to operations.

##### iv) Apurimac Property

In 2008, the Company acquired a 100% interest in the Apurimac Property, Peru. After conducting exploration work on the Property, management of the Company decided no further work was warranted, and the Company relinquished the property prior to year end. During the year ended December 31, 2008, the Company wrote-off \$5,121 (2007: \$Nil; 2006: \$Nil) in deferred exploration costs to operations.

##### v) Regional exploration

During the year ended December 31, 2008 deferred exploration costs incurred by the Company on prospective properties in Peru totalling \$523,553 (2007: \$Nil; 2006: \$Nil) were written-off to operations.

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

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### 6. Mineral Properties – (cont'd)

#### E) Ecuador

On November 7, 2006, the Company was granted the option to acquire a 70% interest in the Cerro Colorado Property which consists of two concessions located in Southern Ecuador.

In order to earn the interest the Company is required to:

- a) Make the following cash payments:
  - i) US\$100,000 on signing of the agreement (paid);
  - ii) US\$125,000 upon commencement of drilling on the project (the “Drill Date”);
  - iii) US\$150,000 by the first anniversary of the Drill Date;
  - iv) US\$300,000 by the second anniversary of the Drill Date; and
  - v) US\$325,000 by the third anniversary of the Drill Date.
- b) Incur exploration expenditures of US\$3,000,000 on or prior to the third anniversary of the commencement of the Drill Date.
- c) Fund and deliver a feasibility study on or before the fifth anniversary of the Drill Date.

As at December 31, 2008, the Drill Date had not occurred. The Company has the right to terminate the option at any time upon 90 days written notice, and if the Drill Date has not occurred by November 7, 2009, the option will automatically terminate.

Due to current uncertainties in Ecuador and the global economy, management does not expect to proceed with the Company’s option on the Cerro Colorado Property. Accordingly, during the year ended December 31, 2008, acquisition costs and deferred exploration costs incurred by the Company totalling \$113,130 and \$65,938 respectively were written-off to operations.

#### F) Canada, Argentina, Colombia and Tanzania

In 2007, the Company incurred data acquisition and geological consulting costs in connection with property investigations in Canada. During the year ended December 31, 2008, these deferred exploration costs totalling \$4,683 (2007: \$Nil ; 2006: \$Nil) were written-off to operations. Deferred exploration costs totalling \$Nil (2007: \$Nil ; 2006: \$53,072) relating to Argentina, Columbia and Tanzania were written-off to operations.

### 7. Related Party Transactions

The Company incurred the following expenditures charged by officers and companies which have common directors with the Company:

	2008	2007	2006
Expenses:			
Management fees	\$ 60,000	\$ 60,000	\$ 60,000
Consulting	38,372	46,590	18,301
Salaries and benefits	67,176	100,930	91,850
Mineral property costs:			
Geological consulting fees	199,200	176,650	160,581
Salaries and benefits	87,908	65,873	58,467
	<u>\$ 452,656</u>	<u>\$ 450,043</u>	<u>\$ 389,199</u>

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 7. Related Party Transactions – (cont'd)

These expenditures were measured by the exchange amount which is the amount agreed upon by the transacting parties.

Advances and other receivables include \$8,401 (2007: \$26,665) due from directors and officers of the Company. These were funds advanced for Company expenses and any balance owed will be repaid in the normal course of business.

Due from related parties of \$168,877 (2007: \$50,498) are amounts due from companies which have a common director with the Company and arose from shared administrative costs. The balance owing is repayable in the normal course of business.

Accounts payable and accrued liabilities include \$10,082 (2007: \$15,778) payable to an officer of the Company.

### 8. Share Capital

a) Authorized: Unlimited common shares without par value

b) Issued:

	Number of Shares	Price Per Share	Amount
Balance December 31, 2006	53,385,988	\$	42,486,069
Exercise of stock options	12,500	\$0.56	7,000
Acquisition of property	50,000	\$0.58	29,000
Acquisition of property	100,000	\$0.64	64,000
Transfer of contributed surplus on exercise of options	-		1,125
Balance December 31, 2007 and 2008	53,548,488	\$	42,587,194

#### Escrow Shares

As at June 25, 2007, all of the 375,000 common shares held in escrow were released.

#### Stock Options

The Company has established a formal stock option plan in accordance with the policies of the TSX Venture Exchange ("TSX-V") under which it is authorized to grant options up to 10% of its outstanding shares to officers, directors, employees and consultants. The exercise price of each option is not less than the market price of the Company's stock as calculated on the date of grant. Options vest ranging from a four month period to one year from the date of grant. Options granted to Investor relations vest in accordance with TSX-V regulation. The options are for a maximum term of five years.

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 8. Share Capital – (cont'd)

#### Stock Options – (cont'd)

Stock option transactions and the number of stock options outstanding are summarized as follows:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	5,150,000	\$0.63	3,475,000	\$0.70
Forfeited / Expired	(870,000)	0.65	(587,500)	0.67
Granted	745,000	0.26	2,275,000	0.54
Exercised	-	-	(12,500)	0.56
Outstanding, end of year	<u>5,025,000</u>	<u>\$0.58</u>	<u>5,150,000</u>	<u>\$0.63</u>
Exercisable, end of year	<u>5,010,000</u>		<u>4,775,000</u>	

At December 31, 2008, there were 5,025,000 stock options outstanding entitling the holders thereof the right to purchase one common share for each purchase option held:

Number	Exercise Price	Expiry Date	Average Remaining Contractual Life in Years
50,000	\$0.48	Aug 29, 2009	0.66
2,305,000	\$0.70	Feb 21, 2011	2.14
875,000	\$0.52	Apr 16, 2012	3.29
50,000	\$0.62	May 31, 2012	3.42
1,050,000	\$0.56	Sept 5, 2012	3.68
695,000	\$0.26	May 5, 2013	4.35
<u>5,025,000</u>			<u>2.97</u>

#### Stock-Based Compensation

The Company uses the fair value based method of accounting for stock options granted to consultants, directors, officers and employees. The non-cash compensation charge for the year ending December 31, 2008 of \$165,219 (2007: \$722,225; 2006: \$1,230,750) is associated with the granting of options to consultants and employees.

The weighted fair value of the share purchase options granted during the year ended December 31, 2008 of \$0.22 (2007: \$0.32; 2006: \$0.45) per option is estimated on the grant date using the Black Scholes option valuation model. Volatility is based on the Company's historical prices. The assumptions used in calculating fair value for the years ended December 31, are as follows:

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 8. Share Capital (cont'd)

	2008	2007	2006
Expected dividend yield	0%	0%	0%
Expected volatility based on historical share price	74%	72% - 73%	76%
Risk-free interest rate	3.13%	3.69% - 4.58%	4.02%
Expected term in years	5 years	5 years	5 years

The following table reconciles the Company's contributed surplus:

	2008	2007
Balance, beginning of year	\$ 4,164,587	\$ 3,443,487
Options vested	165,219	722,225
Options exercised	-	(1,125)
Balance, end of year	\$ 4,329,806	\$ 4,164,587

### 9. Supplemental Cash Flow Information

	2008	2007	2006
Supplementary disclosure of cash flow information:			
Cash paid for interest	\$ -	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -	\$ -
Cash and cash equivalents is comprised of:			
Cash	\$ 772,989	\$ 2,378,514	\$ 933,697

#### Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows during the year ending December 31, 2008, the following transactions were excluded:

- i) Included in accounts payable was \$52,430 in exploration costs which was included in deferred exploration costs..

During the year ending December 31, 2007, the following transactions were excluded:

- i) Issued 50,000 common shares with a fair value of \$29,000 for the acquisition of the La Flor Property.
- ii) Issued 50,000 common shares with a fair value of \$32,000 for the acquisition of the Rubi Property.
- iii) Issued 50,000 common shares with a fair value of \$32,000 for the finder's fee on the Rubi Property.
- iv) Included in accounts payable was \$48,783 in exploration costs which was included in deferred exploration costs.

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 10. Segmented Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mining sector relating to gold exploration. Due to the geographic and political diversity, the Company's exploration operations are decentralized whereby exploration managers are responsible for business results and regional corporate offices provide support to the exploration programs in addressing local and regional issues. The Company's operations are therefore segmented on a district basis. The Company's assets are located in Canada, Caymans, Guatemala, Nicaragua, Peru, Ecuador, and Mexico.

Details of identifiable assets by geographic segments are as follows:

	2008	2007
<hr/>		
Total Assets		
Canada	\$ 2,358,268	\$ 6,325,881
Caymans	48,919	714,405
Ecuador	-	137,246
Guatemala	9,381,966	10,724,984
Nicaragua	4,177,495	4,547,829
Mexico	273,329	400,506
Peru	535,539	628,109
Other	1,838	1,568
	<hr/>	<hr/>
	\$ 16,777,354	\$ 23,480,528
<hr/>		
Property & Equipment		
Canada	\$ 69,679	\$ 43,650
Guatemala	1,941	33,606
Nicaragua	164,165	188,273
Mexico	3,620	15,757
Peru	6,154	8,602
	<hr/>	<hr/>
	\$ 245,559	\$ 289,888
<hr/>		
Resource Properties Acquisition		
Ecuador	\$ -	\$ 113,130
Guatemala	4,142,864	4,142,864
Peru	210,566	210,566
Nicaragua	82,482	82,482
	<hr/>	<hr/>
	\$ 4,435,912	\$ 4,549,042
<hr/>		

**Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

**10. Segmented Information – (cont'd)**

	<b>2008</b>	<b>2007</b>
Deferred Exploration Costs		
Canada	\$ -	\$ 4,683
Ecuador	-	24,116
Guatemala	5,133,547	6,496,840
Peru	286,099	404,066
Mexico	203,977	299,639
Nicaragua	3,814,468	4,144,644
	<u>\$ 9,438,091</u>	<u>\$ 11,373,988</u>

**11. Accumulated Other Comprehensive Income**

Balance at December 31, 2006	\$ -
Cumulative impact of accounting changes	36,436
Adjusted balance January 1, 2007	36,436
Unrealized loss on available for sale marketable securities	(71,475)
Balance at December 31, 2007	(35,039)
Unrealized loss on available for sale marketable securities	(8,692)
Balance at December 31, 2008	<u>\$ (43,731)</u>

**12. Commitments**

The Company has entered into operating lease agreements for its office premises. The Company also sub leases rental space to other companies on a month to month basis which are netted against rental expense. The annual lease commitment under the lease is as follows:

2009	\$ 142,724
2010	146,682
2011	134,459
	<u>\$ 423,865</u>

## Radius Gold Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 13. Income Taxes

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 31.30% (2007: 34.12% 2006: 34.12%) to the income for the year and is reconciled as follows:

	2008	2007	2006
Benefit at Canadian statutory rate	\$ (2,082,000)	\$ (769,000)	\$ (2,017,000)
Foreign income taxed at other than CDN statutory rate	1,332,000	268,000	-
Permanent differences	146,000	152,000	415,000
Effect of a reduction in statutory rate	31,000	815,000	-
Share issuance costs	(5,000)	(69,000)	-
Expiry of loss carryforward	356,000	203,000	-
Increase/(decrease) in valuation allowance	(329,000)	(53,000)	1,354,000
	\$ (551,000)	\$ 547,000	\$ (248,000)

The tax effects on the temporary differences that give rise to the Company's future tax assets and liabilities are as follows:

	2008	2007
Net operating and capital losses	\$ 1,847,000	\$ 2,175,000
Property and equipment	52,000	47,000
Resource related costs – Canada	98,000	99,000
Resource related costs – Foreign	(886,000)	(1,437,000)
Undeducted financing costs	-	5,000
	1,111,000	889,000
Less: Valuation allowance	(1,997,000)	(2,326,000)
	\$ (886,000)	\$ (1,437,000)

At December 31, 2008, the Company had estimated net operating losses carried forward of approximately \$7,802,000 (2007: \$8,200,000) (expiring in various amounts over the period from 2009 to 2028) available to reduce future taxable income.

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of future tax assets, the impact of the change on valuation allowance is reflected in current income.

## **Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### **14. Subsequent Event**

Subsequent to the year end, the Company has been granted an option (the "Option") to acquire a 100% interest in the Nueva California gold property located in north-central Peru. To earn the 100% interest, the Company must spend US\$3 million in exploration, and make a series of payments to the property owner (a private Peruvian company) totaling US\$3 million, over a period of 4 years. In the first year, the Company must make payments of US\$150,000 to the owner (of which US\$50,000 was paid on signing) and exploration expenditures of US\$200,000. If the Option is exercised, the Company must pay to the owner US\$4 per ounce of gold defined in the reserve category as determined by a bankable feasibility study, and US\$4 per ounce of gold produced during a 6-year period thereafter that is over and above the number of ounces defined in such a study, up to a maximum of 2.5 million ounces, or US\$10 million.

The Company has also agreed to assign the Option to Focus Ventures Ltd. ("Focus"). Focus will have up to 180 days to conduct due diligence work on the Property, and if it decides to proceed, Focus will assume all of the Company's obligations under the Option, will issue to the Company 1,000,000 common shares in the capital of Focus at a deemed price of \$0.20 per share, pay to the Company \$50,000 cash, and grant to the Company a 1.5% net smelter return royalty on the Property. The Company and Focus have common directors and officers, and the agreement between the two companies is subject to TSX Venture Exchange approval.

### **15. Comparative figures**

Certain comparative figures for the years ended December 31, 2007 and 2006 have been reclassified to conform with the presentation adopted for the current year.

### **16. Reconciliation to United States of America Generally Accepted Accounting Principles**

Accounting practices under Canadian ("CDN GAAP") and of United States of America generally accepted accounting principles ("US GAAP"), as they affect the Company, are substantially the same, except for the following:

#### **a) Marketable Securities**

Prior to January 1, 2007, the Company's marketable securities were presented at lower of cost or market value under CDN GAAP. Under US GAAP the Company classifies its marketable securities as "available-for-sale" and they are carried in the financial statements at their fair value equal to their quoted market price at year end. Marketable securities are classified as long-term if management does not intend to dispose of them within the subsequent year. Realized gains and losses are reported in earnings for the year while unrealized holding gains and losses are excluded from income and reported as other comprehensive income. Upon adoption of CICA Handbook Section 3855 on January 1, 2007 (note 2), there are no ongoing differences between Canadian and US GAAP in the accounting for marketable securities.

#### **b) Mineral Properties**

Under Canadian GAAP mineral property acquisition costs and exploration costs may be deferred and amortized to the extent they meet certain criteria. Under US GAAP, mineral property acquisition costs are considered tangible assets and must be initially capitalized and evaluated periodically for impairment. The Company has expensed mineral property cost as incurred and will capitalize mineral property acquisition costs when it has been determined that a mineral property can be economically developed as a result of a final feasibility study establishing proven and probable reserves. Costs incurred prospectively to develop the property are capitalized as incurred and are amortized using the units of production method over the estimated life of the ore body based on estimated recoverable ounces mined from proven and probable reserves. Therefore, additional expenses are required under US GAAP for the years ended December 31, 2008, 2007 and 2006.

## **Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### **16. Reconciliation to United States of America Generally Accepted Accounting Principles – (cont'd)**

#### c) Comprehensive Loss

US GAAP requires disclosure of comprehensive loss which, for the Company, is net loss under US GAAP adjusted for the change in items excluded from net loss under US GAAP. Upon adoption of CICA Handbook Section 1530 on January 1, 2007 (note 2), there are no ongoing differences between Canadian and US GAAP in reporting and displaying comprehensive loss.

#### d) Newly Adopted Accounting Pronouncements

The FASB has issued Statement of Financial Accounting Standards (“SFAS”) 157, “Fair Value Measurements”, which defines fair value, establishes a framework for consistently measuring fair value under GAAP and expands disclosures about fair value measurements. SFAS 157 is to be effective as of the first fiscal year that begins after November 15, 2007. In February 2008, the FASB deferred the effective date for one year for certain non financial assets and non financial liabilities and removed certain leasing transactions from its scope. (i.e. for the Company’s fiscal year beginning January 1, 2009). The adoption of SFAS 157 is not expected to have a material effect on the Company’s financial position.

In February, 2007, the FASB issued SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities”. This Statement permits all entities to choose, at specified election dates, to measure eligible items at fair value (the “fair value option”). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. If an entity elects the fair value option for a held-to-maturity or available-for sale- security in conjunction with the adoption of this Statement, that security shall be reported as a trading security under Statement 115, but the accounting for a transfer to the trading category under paragraph 15 (b) of Statement 115 does not apply. Electing the fair value option for an existing held-to-maturity security will not call into question the intent of an entity to hold other debt securities to maturity in the future. This statement is effective as of the first fiscal year that begins after November 15, 2007 (i.e. for the Company’s fiscal year beginning January 1, 2008). The effects of SFAS 159 did not have a significant impact on the Company’s financial condition or results of operations.

In December 2007, the SEC issued Staff Accounting Bulletin (“SAB”) No. 110 which amends SAB 107 to allow for the continued use, under certain circumstances, of the “simplified” method in developing an estimate of the expected term of so-called “plain vanilla” stock options accounted for under FAS 123R, “Share-Based Payment.” When SAB 107 was published, the staff believed that more information about employee exercise behavior (e.g., employee exercise patterns by industry or other categories of companies) would become available. Therefore, the staff stated in SAB 107 that it would not expect the simplified method to be used for stock option grants after December 31, 2007. The staff now understands that such information will not be widely available by December 31, 2007. Accordingly, the SEC staff will accept, under certain circumstances, the use of the simplified method beyond December 31, 2007 for “plain vanilla” options (as described in SAB 110). The Company does not believe that SAB 110 will have a significant impact on its financial statements.

## **Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### **16. Reconciliation to United States of America Generally Accepted Accounting Principles – (cont'd)**

#### e) New Accounting Standards

In 2008 and 2007, the FASB issued new and revised standards, all of which were assessed by Management to be not applicable to the Company with the exception of the following:

- In December 2007, the FASB issued SFAS 141R “Business Combinations” which is effective for fiscal years beginning after December 15, 2008. SFAS 141R, which will replace FAS 141, is applicable to business combinations consummated after the effective date of December 15, 2008. The Company is currently evaluating the impact that the adoption of SFAS No. 141R might have on its financial position or results of operations.
- In December 2007, the FASB also issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB 51”. SFAS No. 160 will change the accounting and reporting for minority interests, which will be re-characterized as non-controlling interests and classified as a component of equity. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of SFAS 160 might have on its financial positions or results of operations.
- In March 2008, the FASB issued SFAS 161 “Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS 133. This Statement requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the impact that the adoption of SFAS 161 might have on its financial position or results of operations.
- In May 2008, the FASB issued SFAS 162 “The Hierarchy of Generally Accepted Accounting Principles”. The objective of SFAS 162 is to identify the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with US GAAP (the GAAP hierarchy). SFAS 162 will go into effect 60 days following the SEC’s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The Company is currently evaluating the impact that the adoption of SFAS 162 might have on its financial position or results of operations.

**Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

**16. Reconciliation to United States of America Generally Accepted Accounting Principles** – (cont'd)

- f) Reconciliation of net loss determined in accordance with CDN GAAP to net loss determined under US GAAP is as follows:

	<b>Years ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net loss for the year as reported using CDN GAAP	\$ (6,164,219)	\$ (2,824,659)	\$ (4,315,806)
Adjustments to mineral properties	(3,831,189)	(3,269,661)	(2,759,185)
Write-down of marketable securities	-	-	71,561
Write-off of exploration costs	5,741,075	784,879	3,052,802
Net loss for the year per US GAAP	(4,254,333)	(5,309,441)	(3,950,628)
Unrealized loss from marketable securities	(8,692)	(71,475)	(71,561)
<b>Comprehensive loss for the year per US GAAP</b>	<b>\$ (4,263,025)</b>	<b>\$ (5,380,916)</b>	<b>\$ (4,022,189)</b>
<b>Basic and diluted loss per share per US GAAP</b>	<b>\$(0.08)</b>	<b>\$(0.10)</b>	<b>\$(0.08)</b>
Weighted average number of shares outstanding per US GAAP	53,548,488	53,425,577	52,991,262

- g) The effects of the differences in accounting under CDN GAAP and US GAAP on the balance sheets and statements of cash flows are as follows:

<b>Balance Sheets</b>	<b>2008</b>	<b>2007</b>
Total assets per CDN GAAP	\$ 16,777,354	\$ 23,480,528
Adjustments for mineral properties	(13,874,003)	(15,923,030)
<b>Total assets per US GAAP</b>	<b>\$ 2,903,351</b>	<b>\$ 7,557,498</b>
Total liabilities per CDN and US GAAP	\$ 1,113,480	\$ 1,808,962
Deficit, per CDN GAAP	\$ (31,209,395)	\$ (25,045,176)
Adjustments for mineral properties	(13,874,003)	(15,923,030)
Deficit, per US GAAP	(45,083,398)	(40,968,206)
Contributed surplus per CDN and US GAAP	4,329,806	4,164,587
Accumulated other comprehensive income CDN and US GAAP	(43,731)	(35,039)
Share capital per CDN and US GAAP	42,587,194	42,587,194
<b>Total shareholders' equity per US GAAP</b>	<b>1,789,871</b>	<b>5,748,536</b>
<b>Total liabilities and shareholders' equity per US GAAP</b>	<b>\$ 2,903,351</b>	<b>\$ 7,557,498</b>

\* See Note 17

**Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

**16. Reconciliation to United States of America Generally Accepted Accounting Principles – (cont'd)**

g) (cont'd)

	Years ended December 31,		
	2008	2007	2006
		Restated *	Restated *
Cash flows used in operating activities per CDN GAAP	\$ (678,724)	\$ 170,153	\$ (770,030)
Adjustments for mineral properties	(3,778,759)	(3,127,878)	(2,759,185)
Cash flows used in operating activities per US GAAP	(4,457,483)	(2,957,725)	(3,529,215)
Cash flows provided by (used in) investing activities per CDN GAAP	(955,960)	1,304,044	256,959
Adjustments for mineral properties	3,778,759	3,127,878	2,759,185
Cash flows provided by (used in) investing activities per US GAAP	2,822,799	4,431,922	3,016,144
Cash flows from financing activities per CDN and US GAAP	-	(3,510)	26,381
Foreign exchange on opening cash and cash equivalents	29,159	(25,870)	(3,167)
Increase (decrease) in cash per US GAAP	\$ (1,605,525)	\$ 1,444,817	\$ (489,857)

\* See Note 17

**17. Prior Period Correction**

The financial statements for the years ended December 31, 2007 and 2006 have been restated to adjust for future income tax liabilities. This adjustment was noted in the current year and resulted in a restatement to reduce deficit by \$1,437,000 and increase (decrease) the net loss by \$547,000 and (\$248,000) for the years ended December 31, 2007 and 2006 respectively. The resulting restatements to amounts for the years ended December 31, 2007 and 2006 are as follows:

	As Previously reported December 31, 2007	Adjustment	As Restated December 31, 2007
Future Income Tax Liability	\$ -	\$ 1,437,000	\$ 1,437,000
Deficit, end of year	(23,608,176)	(1,437,000)	(25,045,176)
Income Tax Recovery (loss)	-	(547,000)	(547,000)
Basic and diluted loss per share	(0.04)	(0.01)	(0.05)

**Radius Gold Inc.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

**17. Prior Period Correction** – (cont'd)

	<b>As Previously reported December 31, 2006</b>	<b>Adjustment</b>	<b>As Restated December 31, 2006</b>
Future Income Tax Liability	\$ -	\$ 890,000	\$ 890,000
Deficit, end of year	(21,330,517)	(890,000)	(22,220,517)
Income Tax Recovery (loss)	-	248,000	248,000
Basic and diluted loss per share	(0.09)	0.01	(0.08)



(the “Company”)

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
Year End Report – December 31, 2008**

**General**

This Management’s Discussion and Analysis (“MD&A”) supplements, but does not form part of, the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2008. The following information, prepared as of April 24, 2009, should be read in conjunction with the December 31, 2008 financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated.

**Business of the Company**

Radius is in the business of acquiring, exploring and developing mineral properties, primarily gold targets, with a regional focus on Latin America. It currently has a portfolio of projects in Guatemala, Nicaragua, Peru, Mexico and Ecuador. In June, 2008 the Company signed an agreement with Kappes, Cassidy & Associates (“KCA”) to develop its 100% owned high-grade Tambor gold deposit located in central Guatemala. Tambor is an advanced high-grade gold deposit with a NI 43-101 compliant resource and favourable results from preliminary metallurgical testwork.

The current global economic crisis has prompted the Company to implement cut-backs in all grass-roots exploration programs and refocus the Company on the generation of targets that can attract joint venture partners upon acquisition. Management is now reviewing prospective, advanced-staged gold projects and strategic opportunities brought about by the current market, and looks forward to developing the Tambor gold deposit with partner KCA, from which the Company expects to receive cash flow from the operations.

The status of the Company’s properties is described below:

***Guatemala***

**Tambor**

The Tambor Project host an orogenic lode gold belt, discovered by Radius in 2000 and explored by Gold Fields under joint venture until 2004. Drill testing by Gold Fields outlined a 43-101 compliant resource of 216,000 ounces of gold in inferred resources (2.55 million tonnes @ 2.64 g/t Au) and 57,800 ounces in indicated resources (456,000 tonnes @ 3.94 g/t Au) prepared by Chlumsky, Armbrust and Meyer LLC of Lakewood Colorado. The majority of this resource is contained within high grade quartz vein bodies.

Underground work was conducted in 2007 to provide information on the structural controls, continuity and grade of the high grade gold mineralization and hence the potential to develop additional resources. The exploration adit intersected the target vein as planned 202.1m into the hill. The width of the vein exposure in

the main tunnel was 3.2m, with a dip of 75° for a true width of 3.09m. Diamond drill hole PDD-03-033, first reported in Radius's news release dated August 13, 2003, returned 80.5g/t Au over 5.3m from a quartz vein. The vein was sampled on both sidewalls of the adit and gave results of:

- 74.5 g/t Au over 3.40m (includes 0.2m of quartz veining on HW) from the vein on the east tunnel wall (est. true width 3.28m)
- 77.7 g/t Au over 2.40m from the vein on the west tunnel wall (est. true width 2.32m)

In order to understand the continuity of the mineralized structure and plunge of the vein, four crosscuts were excavated underground: 2 parallel and to the west of the main drift (CW-1 & 2), and 2 parallel and to the east of the main drift (CE1 & 2). All four cross cuts intercepted the zone and confirmed the continuity of the shoot and demonstrated the assumed easterly-dipping plunge to the high grade mineralized.

In early 2008, metallurgical testwork performed on a 90kg sample collected from underground workings returned very encouraging results and confirmed the free milling, coarse grained nature of the gold at Tambor and its amenability to gravity pre-concentration as the principal method of recovery, followed by either cyanidation or flotation. The sample head grade ranged from 36 g/t to 40.7 g/t Au.

In June 2008, the Company signed a binding Letter of Intent with Kappes, Cassidy & Associates ("KCA") to develop the deposit. The agreement envisages an initial 150 tonne per day operation from both underground and surface pits, exploiting gold mineralization hosted by a series of high-grade mesothermal quartz veins and stockworks. KCA is an established Reno-based firm that specializes in development, engineering and metallurgical plants for mining projects. It is currently designing three large projects in Mexico and one in Bolivia. It recently successfully completed the US\$104 million Ocampo project in Mexico for Gammon Lake Resources.

KCA has begun the permitting process for a small gold operation at Tambor, with plant construction and production planned for 2009.

#### *Terms of the Agreement*

Radius owns 100 percent of the Tambor project. KCA can earn a 51 percent interest in Tambor by spending a total of US\$6.5M on the property within 4 years through staged annual expenditure commitments, or by putting the property into commercial production within 4 years. When KCA has earned its 51 percent, a joint venture will be formed between KCA and Radius.

Once commercial production has been achieved, KCA will receive preferential payback of 75 percent (Radius 25 percent) of after-tax cash flow from initial production until it receives an amount equal to its investment, less US\$2 million. At that point, Radius will receive 75 percent of the after-tax cash flow (KCA 25 percent) until it too receives the amount of preferential cash flow received by KCA, after which revenues will be split on a 51:49 basis (KCA:Radius).

#### *Nicaragua*

Reconnaissance work comprising stream sediment sampling and prospecting programs undertaken in the first quarter of 2007 identified several areas of interest in the Region Autonoma Atlantico Norte ("RAAN") where notable amounts of free gold in sediment and gold in quartz float were identified. Exploration work was conducted on these areas, but as part of the Company's current strategy to cease its early-stage exploration activities, several of the concessions were relinquished by year end. Radius currently has an interest in three contiguous concessions, El Trébol and Amapola (forming the El Trébol Project) and La Flor, plus the Natividad concession located in north central Nicaragua.

### El Trébol

El Trébol is an early-stage epithermal gold property where the mineralization is associated with a trend of anastomosing low-lying ridges that can be traced over 6 kilometers in strike length, which form part of a larger prospective terrain of topographic anomalies. Mineralization is also associated with a range of silicification textures including chalcedonic banded/colloform quartz veining, breccias and stockworks, typical of low sulphidation epithermal systems. Rock exposures at Trébol are severely restricted due to dense vegetation and soil cover. Trench sampling results from an initial 4 trenches were reported in May 2007 and included assays of 18.0m @ 1.34 g/t Au (TRSD-03), and 10.5m @ 9.1 g/t Au (TRSD-04) which included 0.75m @ 13.1 g/t Au and 0.75m @ 66.2 g/t Au with abundant visible gold observed associated with manganese and iron oxides.

After Radius's work was cut short by the widespread devastation caused throughout the region by Hurricane Felix in September 2007, exploration work resumed in January 2008. New access routes were installed, a new camp was constructed, and further trenching and soil geochemical surveys were completed. Reconnaissance sampling of sub-crop and float associated with adjacent ridges up to several kilometres away from the main zone at Trébol have assayed from trace to 12.8 g/t Au.

A diamond drill program consisting of 963 metres in nine holes collared in the southwest part of the property was completed in August 2008. Gold mineralization is associated with shallow, tabular silicified zones, with several holes drilling mineralized intercepts exceeding 50m in true thickness (TRDH-08-05 - 53.4m @ 1.35 g/t Au, TRDH-08-08 - 50.5m @ 0.61 g/t Au). Further evaluation by drilling is required to test for the property's shallow, pitable resource potential as well potential for high grade gold mineralization at depths in areas to date untested, and the Company has received expressions of interest from third parties regarding El Trébol.

### La Flor

The La Flor concession is located to the south and contiguous with the El Trébol Project in the RAAN. Work conducted by Radius during 2007 and 2008 included trenching and mapping of known veins focused around the historic Linda Ventura vein, and prospecting and trenching of known mineralized areas elsewhere on the property.

La Flor contains several trends of low sulphidation, quartz-adularia veins hosted within Tertiary-aged volcanic andesites and pyroclastic rocks. The eastern-most trend, Linda Ventura, is approximately 6m wide and comprises central banded chalcedony-adularia in a surrounding quartz-stockwork envelope. The main vein was traced for 1.1km, and additional veins were exposed by trenching. Although the best trench sampled averaged 6m @ 4.82 g/t Au, a detailed soil survey indicated that the strike length of the vein system is limited. Several gold-in-soil anomalies defined in the south of the property were followed up by trenching and sampling; however results were somewhat disappointing and the Company is considering various possible strategies for this property.

### Estrella de Oro

The Estrella de Oro property, located 17 km west of the town of Siuna within Nicaragua's "Golden Triangle" region, was acquired by Radius in 2007. An all-weather dirt road transects the central part of the property.

Trench results obtained by Radius in early 2008 confirmed that the gold mineralization is associated with a system of steeply-dipping to sub-vertical gold-bearing quartz veins showing variable widths, and hosted within strongly altered volcanic tuffs. During the exploration work, the remains of old mine machinery were recovered from the adits, indicating that the historical operations at Estrella were on a larger scale than previously thought.

In August 2008, four holes totalling 462 metres were drilled to test the continuity of high grade gold values sampled in trenches from a series of at least three parallel, quartz veins/shoots exposed along the Cerro Estrella ridge. All of the holes intercepted a sequence of altered tuffaceous and volcanic rocks. Low grade mineralization was intercepted in all holes with the exception of EODH-08-04, associated with zones of quartz-carbonate veins, stockworks and breccias with up to 5% pyrite and trace galena and sphalerite. The veins are considered too low grade at depth and discontinuous along strike to warrant any further work.

### Natividad

In January 2007, Meridian Gold Inc. withdrew from the Natividad joint venture and has now completed rehabilitation of the camp and drill pads. The property and all data acquired by Meridian have been returned to the Company. Meridian expended approximately US\$5.3 million on the property, having completed a total of 12,012m of drilling in 70 holes. Overall the results of three drill campaigns were disappointing and failed to extend the mineralized shoots intersected. Strong veining with highly favourable textures were intersected at depth but results generally failed to exceed 2 g/t gold. The Company consequently has reduced the size of the property to 1,301 hectares, to cover the main area of mineralization. Drilling by Meridian showed that the best values and wider vein zones start from surface and extend to approximately 100m depth. The Company believes that further infill drilling at Natividad could define a shallow, open-pittable gold resource and management is actively looking to joint venture the Project.

### ***Peru***

In 2007, the Company commenced an investigation of opportunities and properties in Peru for potential acquisition and exploration.

### Rubi

The Rubi Project is located approximately 400 km south-east of Lima and covers a 9km long north-south corridor where gold and silver-bearing veins outcrop within three broad areas called the San Andres, Virgen de Chapi and Minas Rubi areas.

Pursuant to its option agreement with the property owner, Radius conducted its initial exploration on the property in late 2007, incorporating regional scale mapping over the property, and prospect-scale mapping in the Minas Rubi, San Andres, Minas Chapi and San Sebastien areas, including rehabilitation of underground tunnels at Rubi and underground channel sampling. A total of 594 rock channel samples were taken for assay.

In the Minas Rubi area, the main target area, a more robust series of quartz-calcite veins shows a deep oxidation profile to approximately 80m depth, undoubtedly controlled by regional north-south faulting.

Secondary mineralization, occurring as hydrothermal breccia bodies, was mapped south-east of Minas Chapi and San Sebastien Areas, and as isolated areas of silicification and oxidation north and east of San Andres. A total of 222 surface rock chip channel samples were taken and 49 underground samples. Best results in Au and Ag are concentrated in the northern part of the property along the Chorla Rica vein and associated structures. Gold grades from trace up to 12.4 g/t Au and 663 g/t Ag were received and average around 1 to 2 metres in width. Samples taken underground in old re-habilitated adits showed a continuation of gold and silver mineralization from surface. In the past, the near-surface strongly oxidized parts of the Chirulin and Rio Azul veins were exploited by Banco Minero and more recently by informal miners.

On October 7, 2008, the Company entered into an agreement with International Minerals Corporation (“IMC”) for further exploration of the Rubi Project. Under a revised agreement with the property owner, the Company and IMC, as joint venture partners in a newly formed Peruvian company (“JVCO”), can earn 100% of the Project, which currently covers 1,918 hectares, by making a series of payments and exploration expenditure commitments, comprising:

- US\$75,000 on signing of the revised agreement (paid)
- Investing US\$400,000 in exploration and paying US\$150,000 on the first anniversary
- Investing US\$600,000 in exploration and paying US\$300,000 on the 2<sup>nd</sup> Anniversary
- Investing US\$1,000,000 in exploration and paying US\$600,000 on the 3<sup>rd</sup> Anniversary
- Investing US\$1,000,000 in exploration and paying US\$1,875,000 on the 4<sup>th</sup> anniversary

The property owner will also retain a 2 percent Net Smelter Return royalty, with JVCO having a right of first offer to purchase such royalty.

IMC can earn its 60% interest in JVCO by paying the initial signing fee (paid) and by funding the first year’s exploration expenditures on the Rubi project, for a total of US\$475,000. The exploration and cash payments over the remainder of the term will be funded by JVCO (60% IMC, 40% Radius) with each party subject to standard dilution requirements for non-contribution of funds.

Geological mapping and surface sampling has been completed by IMC, and a preliminary drill program commenced in April 2009.

#### Artemisas

In 2007, Radius was granted the option to acquire a 70% interest in the Artemisas gold project, located in the District of Chuquibambilla, Department of Apurimac. Since then, the Company has been conducting talks with local communities to permit access to the claims in order to commence work; however, no official access has yet been granted and Radius has decided to discontinue its option on the property.

#### Charpal

In January 2008, the Company was granted an option to acquire a 100% interest in the Charpal concessions covering 256 hectares in the District of Pachaconas, in the Department of Apurimac, Peru. Results from initial exploration work conducted by the Company, however, did not warrant further work and the option was relinquished.

#### Nueva California

Subsequent to the year end, the Company was granted an option (the “Option”) to acquire a 100% interest in the Nueva California gold property located in north-central Peru. To earn the 100% interest, the Company must spend US\$3 million in exploration, and make a series of payments to the property owner (a private

Peruvian company) totaling US\$3 million, over a period of 4 years. In the first year, the Company must make payments of US\$150,000 to the owner (of which US\$50,000 was paid on signing) and exploration expenditures of US\$200,000. If the Option is exercised, the Company must pay to the owner US\$4 per ounce of gold defined in the reserve category as determined by a bankable feasibility study, and US\$4 per ounce of gold produced during a 6-year period thereafter that is over and above the number of ounces defined in such a study, up to a maximum of 2.5 million ounces, or US\$10 million.

The Company has also agreed to assign the Option to Focus Ventures Ltd. ("Focus"). Focus will have up to 180 days to conduct due diligence work on the Property, and if it decides to proceed, Focus will assume all of Radius's obligations under the Option, will issue to Radius 1,000,000 common shares in the capital of Focus at a deemed price of \$0.20 per share, pay to Radius \$50,000 cash, and grant to Radius a 1.5% net smelter return royalty on the Property. Radius and Focus have common directors and officers, and the agreement between the two companies is subject to TSX Venture Exchange approval.

### ***Mexico***

The Company commenced exploring the states of Chiapas and Oaxaca in late 2006. Target identification and compilation work has consisted of structural and clay-iron alteration analysis of remote sensing imagery, compilation of available geochemical databases and mineral occurrences, with emphasis on follow-up of targets by prospecting and stream sediment geochemistry. Generative work resulted in five areas assessed in 2007 and eight concessions were staked in Oaxaca and Chiapas. After conducting exploration work on these concessions, management of Radius decided in late 2008 to continue with only the Tlacolula Project.

### ***Tlacolula***

The Tlacolula Project consists of one concession covering 12,642 hectares. Initial work on the property in 2007 included stream sediments sampling and prospecting, from which several stream sediment anomalies resulted with values ranging up to 819 ppb Ag and up to 53 ppb Au. Follow-up work of one of these anomalies, 43km E-SE of the city of Oaxaca and northeast of the Taviche district, identified a >1km long north-northwest trending zone, called San Pablo Güila, of argillic alteration in andesites some 30 to 40m wide, with veins and breccia zones composed of mainly calcite and lesser quartz. Disseminated pyrargyrite, acanthite, and pyrite are observed in the veins and in the breccias. Twelve trenches were dug and sampled along a 670m strike length, confirming the presence of high grade silver mineralization, with results including a high of 1.3kg Ag / 0.3m in a small adit, and 199g/t Ag / 12.4m (incl. 366g/t Ag / 4.8m). It is interpreted that the upper levels of an epithermal vein system are exposed, with significant down dip potential.

The San Pablo Güila mineralization is high priority for drilling. Several other areas require follow-up, including at Teotitlan del Valle, an area of gold-bearing quartz veins ranging from 0.35 to 1.3m wide, with local vein zones up to 5.15m wide, which were identified by follow-up of regional drainage geochemical anomalies. The best gold values exceed +10 g/t Au ppm Au with 29 ppm Ag/0.8m, while the best Ag value is 53.1ppm Ag with 0.33 ppm Au/5.15m. There are several veins, up to 800m in strike length, which due to poor exposure, are evident mainly in the numerous small pits and collapsed adits. This suggests the possibility of additional veins in the area.

As the district is mainly silver, a joint venture partner is being sought to advance this property.

### ***Ecuador***

In 2006, the Company was granted an option to acquire a 70% interest in the Cerro Colorado high sulphidation gold project in Azuay Province, southern Peru. Due to recent political uncertainty over the

Ecuadorian government's future intentions towards international mining investment, management adopted a low key approach towards progressing Cerro Colorado. Throughout 2007 and 2008, work at Cerro Colorado focused on community relations to try securing permission from the local community to drill the Project, however little progress was made. In April 2008, Ecuador's Constituent Assembly adopted a Mining Mandate that invoked an immediate 180-day suspension of activities on virtually all mining concessions in Ecuador. The mandate also declared that any concessions that have not received investment in exploration or which have not submitted a Environment Impact Assessment or conducted the prior consultation process, including those pending an administrative resolution, will be deemed cancelled. As a result of this political uncertainty, along with the current global economic conditions, the Company does not expect to proceed with the Cerro Colorado Project before the option expires in November 2009.

### **Selected Annual Information**

The following table provides information for each of the three most recently completed financial years:

	<b>2008 (\$)</b>	<b>2007 (\$)</b>	<b>2006 (\$)</b>
<b>Total investment and other income</b>	179,789	458,584	344,913
<b>Loss before income taxes</b>			
<b>Total</b>	6,715,219	2,277,659	4,563,806
<b>Basic &amp; Fully diluted per share *</b>	0.13	0.04	0.09
<b>Net loss for the year</b>			
<b>Total</b>	6,164,219	2,824,659	4,315,806
<b>Basic &amp; Fully diluted per share *</b>	0.12	0.05	0.08
<b>Total assets</b>	16,777,354	23,480,528	24,823,238
<b>Total long-term liabilities</b>	-	-	-
<b>Total future income tax liability</b>	886,000	1,437,000	890,000
<b>Cash dividends</b>	-	-	-

\* Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earning per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented.

### **Results of Operations**

For the fiscal year ended December 31, 2008, the Company had a consolidated net loss before income taxes of \$6,715,219 compared to \$2,277,659 for the fiscal year ended December 31, 2007. The primary reason for the increase is mineral property write-offs of \$5,741,075. The Company had dropped numerous properties that it was no longer interested in and wrote down three of its existing properties to better reflect their carrying cost. All regional exploration expenditures not attributable to a specific property were also written off in 2008. The Company experienced a loss on the sale of marketable securities in 2008 totalling \$86,145(\$130,389 in 2007) which was due in part to the global economic crisis. The total investment and other income earned in 2008 was \$179,789 compared to \$458,584 for 2007, a decrease of approximately 60%. The decrease was mostly due to investments continually being liquidated to provide operating cash flow.

The Company recorded a future income tax recovery of \$551,000 in 2008 compared to a future income tax expense of \$547,000 in 2007, due to the significantly higher mineral property write-offs in 2008 compared to 2007.

Corporate expenses (not including amortization, stock-based compensation and Other Income/Expenses) in 2008 were \$870,110 compared to \$695,157 in 2007, an increase of \$174,953. Categories of corporate expenses which were significantly greater in 2008 are salaries and wages, legal and accounting fees, rent and utilities and travel and accommodation. The Company had experienced an increase in personnel since the prior year and the Company's portion of shared general and administrative costs had increased as well.

### Quarterly Information

The following table provides information for the eight fiscal quarters ended December 31, 2008:

	Fourth Quarter Ended Dec. 31, 2008 (\$)	Third Quarter Ended Sept. 30, 2008 (\$)	Second Quarter Ended June 30, 2008 (\$)	First Quarter Ended March 31, 2008 (\$)	Fourth Quarter Ended Dec. 31, 2007 (\$)	Third Quarter Ended Sept. 30, 2007 (\$)	Second Quarter Ended June 30, 2007 (\$)	First Quarter Ended March 31, 2007 (\$)
<b>Total investment and other income</b>	92,736	21,754	27,501	37,798	182,371	186,513	14,278	75,422
<b>Net loss before income taxes</b>	5,841,149	247,016	365,414	261,640	1,116,497	140,389	905,078	115,695
<b>Net loss per share</b>	0.12	0.00	0.01	0.00	0.02	0.00	0.02	0.00

During the fourth quarter ended December 31, 2008, the Company had a net loss before income taxes of \$5,841,149 which included property write-offs of \$5,717,387 and this was the highest loss recorded in the eight most recent quarters. The fourth quarter ended December 31, 2007 also shows a significantly higher loss than the other quarters which was \$1,116,497, and once again property write-offs of \$784,879 were the primary reason. The quarter ended June 30, 2007 was significantly higher than the other non-yearend quarters due to a larger foreign exchange loss.

Corporate expenses in the fourth quarter (not including amortization, stock-based compensation and Other Income/Expenses) were \$205,590 compared to \$224,371 in the 2007 fourth quarter, a decrease of \$18,781. During the last two quarters of 2008, the Company began implementing cost cutting measures in response to the global economic crisis. The expense categories that increased in the fourth quarter however were legal and accounting fees, salaries and wages, rent and utilities, telephone and fax charges, and transfer agent and regulatory fees.

### Liquidity and Capital Resources

The Company's cash and marketable securities decreased from approximately \$7.0 million at December 31, 2007 to \$2.26 million at December 31, 2008. Substantial marketable securities have been sold to provide cash for operations. The Company has incurred a total of \$184,388 in losses on these sales in the past three fiscal years. However, the Company's marketable securities portfolio also provides for dividends, interest and pooled fund distributions which has more than offset the capital losses. During the year ended December 31, 2008, the Company received interest and other income totalling \$179,789, and spent approximately \$3.93 million in exploration and equipment costs and \$870,110 on corporate expenses. Working capital at December 31, 2008 was \$2.37 million compared to \$6.85 million at December 31, 2007.

Management expects that the Company will have sufficient working capital to meet its corporate and exploration commitments for a minimum of 12 months. Actual funding requirements may vary from those

planned due to a number of factors, including the progress of exploration and development activity. The Company has taken steps in the latter half of 2008 to reduce operating and exploration expenditures to preserve its capital resources as much as possible until such time that market conditions improve. Management believes it will be able to raise equity capital as required in the long term, but recognizes the uncertainty attached thereto. The Company continues to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

### **Mineral Properties Expenditures**

During the year ended December 31, 2008, the Company incurred the following expenditures on its mineral properties:

Nicaragua - \$2,403,470 on exploration, including \$476,129 for geological consulting, \$416,555 for drilling, \$270,304 for salaries, \$211,438 for geochemistry, \$152,729 for public and community relations, \$123,157 for automobile, \$119,655 for camp, food and supplies and \$109,708 for licences, rights and taxes. Deferred exploration costs totalling \$2,733,645 were written-off during the year for properties that were dropped, properties that were written down to better reflect their carrying cost, and general regional exploration.

Mexico - \$594,281 on exploration, including \$217,832 for geological consulting, \$119,862 for licences, rights and taxes, \$45,747 for other consulting, \$41,233 for geochemistry, \$36,777 for travel and accommodation, and \$34,908 for legal and accounting. Deferred exploration costs totalling \$689,943 were written-off during the year for properties that were dropped, the one remaining property that was written down to better reflect its carrying cost, and general regional exploration.

Guatemala - \$147,780 on exploration, including \$34,581 for geological consulting, \$28,232 for salaries, \$22,043 for licences, rights and taxes, and \$20,468 for rent and utilities. Deferred exploration costs totalling \$1,511,072 were written-off during the year for properties that were dropped, properties that were written down to better reflect their carrying cost, and general regional exploration.

Peru - \$36,817 on acquisition costs and \$467,878 on exploration, including \$148,062 for geological consulting, \$74,282 for other consulting, \$54,578 for licences, rights and taxes, \$42,205 for legal and accounting, and \$38,068 for salaries. Acquisition costs of \$36,817 and deferred exploration costs totalling \$585,847 were written-off during the year for properties that were dropped and general regional exploration.

Ecuador - \$41,822 on exploration, including \$25,093 for public relations and \$16,729 for licences, rights and taxes. Acquisition costs of \$113,130 and deferred exploration costs totalling \$65,938 were written-off during the year for the Cerro Colorado property.

**Related Party Transactions**

During the year ended December 31, 2008, the Company incurred the following expenditures charged by officers and companies which have common directors with the Company:

	<b>2008</b>	<b>2007</b>
Expenses:		
Management fees	\$ 60,000	\$ 60,000
Consulting	38,372	46,590
Salaries and benefits	67,176	100,930
Mineral property costs:		
Geological consulting fees	199,200	176,650
Salaries and benefits	87,908	65,873
	<u>\$ 452,656</u>	<u>\$ 450,043</u>

These expenditures were measured by the exchange amount which is the amount agreed upon by the transacting parties.

Advances and other receivables include \$8,401 (2007: \$26,665) due from directors and officers of the Company. These were funds advanced for Company expenses and any balance owed will be repaid in the normal course of business.

Due from related parties of \$168,877 (2007: \$50,498) are amounts due from companies which have a common director with the Company and arose from shared administrative costs. The balance owing is repayable in the normal course of business.

Accounts payable and accrued liabilities include \$10,082 (2007: \$15,778) payable to an officer of the Company. The balance owing is in regards to reimbursement of Company expenses.

**Other Data**

Additional information related to the Company is available for viewing at [www.sedar.com](http://www.sedar.com).

***Share Position, Outstanding Warrants and Options***

The Company's outstanding share position as at April 24, 2009 is 53,548,488 common shares, and the following share purchase warrants and incentive stock options are currently outstanding:

	<b><u>WARRANTS</u></b>		
<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	
Nil			

<b><u>STOCK OPTIONS</u></b>		
<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
50,000	\$0.48	Aug 29, 2009
2,305,000	\$0.70	Feb 21, 2011
875,000	\$0.52	Apr 16, 2012
50,000	\$0.62	May 31, 2012
1,050,000	\$0.56	Sept 5, 2012
695,000	\$0.26	May 5, 2013
<hr/>		
5,025,000		
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### **Critical Accounting Estimates**

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in preparation of the financial statements are consistent with those set forth in note 2 of the consolidated financial statements for the year ended December 31, 2008, except as described in "Changes in Accounting Policies" below. They are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

### **Changes In Accounting Policies**

#### *Financial Instruments*

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments and derivatives are measured on the trade date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recorded in net income. Available for-sale financial assets are measured at fair value, with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in the statement of operations. Transaction costs on the acquisition of financial assets and liabilities that are classified as other than held-for trading are expensed.

The Company has made the following designations of its financial instruments: cash and cash equivalents as held-for-trading; marketable securities as available-for-sale; advances and other receivables and due from related parties as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

Effective January 1, 2008, the Company implemented the new Canadian Institute of Chartered Accountants ("CICA") accounting sections: 3862 (Financial Instruments – Disclosure), 3863 (Financial Instruments – Presentation), which replaced section 3861 Financial Instruments – Disclosures and Presentation.

These new standards revise and enhance the disclosure requirements, and carry forward, substantially unchanged, the presentation requirements. Sections 3862 and 3863 emphasize the significance of financial instruments for the entity's financial position and performance, the nature and extent of the risks arising from financial instruments, and how these risks are managed. These new standards are applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007. These new Sections relate to disclosure and presentation only and there was no impact on the Company's financial results for the current fiscal year.

As at December 31, 2008, the Company's financial instruments are comprised of cash and cash equivalents, marketable securities, advances and other receivables, amounts due from related parties and accounts payable and accrued liabilities. The fair value of cash and cash equivalents, marketable securities, advances and other receivables, amounts due from related parties and accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity. The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to fluctuations in foreign currencies through its operations in foreign countries. The Company monitors this exposure, but has no hedge positions. As at December 31, 2008, cash totalling \$270,878 (2007 - \$1,118,436) was held in US dollars, \$43,630 (2007 - \$8,506) in Nicaragua Cordoba, \$14,268 (2007 - \$9,474) in Guatemala Quetzal, \$7,527 (2007 - \$2,550) in Mexican Pesos and \$1,168 (2007 - \$nil) in Peruvian Sols.

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents, marketable securities and advances and other receivables. The Company limits exposure to credit risk by maintaining its cash and cash equivalents with large financial institutions. The Company does not have cash and cash equivalents or marketable securities that are invested in asset based commercial paper. For advances and other receivables, the Company estimates, on a continuing basis, the probable losses and provides a provision for losses based on the estimated realizable value.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and marketable securities. The Company believes that these sources will be sufficient to cover the likely short and long-term requirements.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash and cash equivalents are currently held in short-term interest bearing accounts, management considers the interest rate risk to be limited.

#### *Comprehensive Income*

Comprehensive income is composed of the Company's earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities, all net of income taxes. Cumulative changes in other comprehensive loss will be included in accumulated other comprehensive loss which will be presented as a new category in shareholders' equity.

#### *Derivatives and Hedge Accounting*

The Company currently does not have derivative instruments and accordingly is not impacted by CICA Handbook Section 3865, Hedges.

### *Capital Management*

Effective January 1, 2008, the Company implemented the new CICA accounting section 1535 (Capital Disclosures). Section 1535 specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new Section relates to disclosure and there was no impact on the Company's financial results for the current fiscal year.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to advance its mineral properties. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2008. The Company's investment policy is to hold cash in interest bearing bank accounts, which pay comparable interest rates to highly liquid short-term interest bearing investments with maturities of one year or less and which can be liquidated at any time without penalties and in marketable securities consisting of short term notes, Government of Canada bonds, Canadian provincial government bonds, corporate bonds, pool fund bonds and preferred equities. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements and do not have exposure to asset-backed commercial paper or similar products. The Company expects its current capital resources will be sufficient to carry out its exploration programs and operating costs for the next twelve months. However, in response to current global financial market crisis, the Company has taken steps to reduce operating and exploration expenditures to preserve its capital resources as much as possible until such time that conditions improve.

### *Going Concern*

The Accounting Standards Board amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this new standard did not have a material impact on the financial statements for the periods presented.

### **Future Accounting and Reporting Changes**

Effective for interim and annual financial statements for years beginning on or after October 1, 2008, CICA Handbook Section 3064, Goodwill and Intangible Assets, will replace CICA Handbook Section 3062, "Goodwill and Other Intangible Assets", and results in withdrawal of CICA Handbook Section 3450, Research and Development Costs, EIC-27, Revenues and Expenditures during the Pre-Operating Period and

amendments to Accounting Guideline (AcG) 11, Enterprises in the Development Stage and CICA Handbook Section 1000, Financial Statement Concepts. The Company is currently evaluating the impact of the adoption of this new Section on its financial statements.

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 International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for the 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, 2011. 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.

### **Prior Period Correction**

The financial statements for the years ended December 31, 2007 and 2006 have been restated to adjust for future income tax liabilities. This adjustment was noted in the current year and resulted in a restatement to increase the deficit by \$1,437,000 and increase (decrease) the net loss by \$547,000 and (\$248,000) for the years ended December 31, 2007 and 2006 respectively.

### **Forward Looking Information**

Certain statements contained in this MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

### **Risks and Uncertainties**

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company’s properties has a known commercial ore deposit. The Company’s mineral properties are also located in emerging nations and consequently may be subject to a higher level of risk compared to developed countries. Operations, the status of mineral property rights, title to the properties and the recoverability of amounts shown for mineral properties in emerging nations can be affected by changing economic, regulatory and political situations. Other risks facing the Company include competition, environmental and insurance risks, fluctuations in metal prices, share price volatility, and uncertainty of additional financing.