

Sage Gold Inc.
(A Development Stage Company)

Consolidated Financial Statements
For the years ended September 30, 2009 and 2008

(Expressed in Canadian Dollars)

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and all of the data included in this report have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information. The Company has developed and maintains systems of internal accounting controls in order to assure, on a reasonable and cost-effective basis, the reliability of its financial information, and that the assets are safeguarded from loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board which meets to satisfy itself that management's responsibilities are properly discharged and with the external auditors to review the financial statements before they are presented to the Board of Directors for approval.

The consolidated financial statements for the year ended September 30, 2009 and 2008 were audited by PricewaterhouseCoopers LLP Chartered Accountants. Their reports outline the scope of their examination and opinion on the consolidated financial statements.

(signed)
Nigel Lees
President and Chief Executive Officer

(signed)
Art Hampson
Chief Financial Officer

Toronto, Canada
January 7, 2010

January 7, 2010

PricewaterhouseCoopers LLP
Chartered Accountants
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Auditors' Report

To the Shareholders of Sage Gold Inc.

We have audited the consolidated balance sheets of Sage Gold Inc. (the Company) as at September 30, 2009 and 2008 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for each of the years in the two-year period ended September 30, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2009 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

Sage Gold Inc.
(A Development Stage Company)
Consolidated Balance Sheets
(Expressed in Canadian Dollars)

September 30	2009	2008
Assets		
Current		
Cash and cash equivalents	\$ 545,065	\$ 356,186
Short-term investments(note 2)	1,520,000	20,167
Other assets	172,318	501,617
	2,237,383	877,970
Other assets	170,753	-
Investment in mineral exploration company (Note 6(ii))	67,252	100,877
Mineral properties (Note 6)	15,173,600	15,197,127
Property held for sale (Note 6(viii))	780,000	-
Equipment, net of accumulated amortization (Note 7)	81,917	48,886
	\$ 18,510,905	\$ 16,224,860

Liabilities and Shareholders' Equity

Current		
Accounts payable and accrued liabilities	\$ 713,001	\$ 517,300
Future income tax liability (Note 12)	1,373,620	1,601,000
	2,086,621	2,118,300
Shareholders' equity		
Share capital (Note 8(b))	21,696,268	15,376,872
Warrants (Note 9)	2,401,622	2,224,550
Contributed surplus	4,204,245	3,202,117
Deficit	(11,819,103)	(6,671,856)
Accumulated other comprehensive loss	(58,748)	(25,123)
	16,424,284	14,106,560
	\$ 18,510,905	\$ 16,224,860

Going concern (Note 1(b))
Subsequent events (Note 18)

Approved on behalf of the Board:

(signed) Patrick J. Mars Director

(signed) C.Nigel Lees Director



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

Sage Gold Inc.
(A Development Stage Company)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended September 30	2009	2008	Cumulative from inception September 15, 2003
Expenses			
General and administrative (Note 16)	\$ 1,964,794	\$ 3,059,475	\$ 9,486,231
Amortization	21,724	9,608	41,255
Write off of mineral properties (Note 6)	2,550,119	527,216	3,220,466
Net loss before the following	4,536,637	3,596,299	12,747,952
Interest received	11,761	121,482	153,280
Deficit on acquisition (Note 5)	(1,750,751)	-	(1,750,751)
Net loss before the income taxes	(6,275,627)	(3,474,817)	(14,345,423)
Future income tax recovery (Note 12)	1,128,380	671,000	2,595,321
Net loss for the year	(5,147,247)	(2,803,817)	(11,750,102)
Other comprehensive loss	(33,625)	(25,123)	(58,748)
Net loss and comprehensive loss for the year	\$ (5,180,872)	\$ (2,828,940)	\$ (11,808,850)
Loss per common share (Note 13)	\$ (0.03)	\$ (0.02)	



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

Sage Gold Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of Securities	Year Ended September 30, 2009	Number of Securities	Year Ended September 30, 2008	Cumulative from inception September 15, 2003
Share capital					
Authorized					
Unlimited number of common shares					
Issued					
Balance at beginning of period	148,864,983	\$ 15,376,872	111,182,002	\$ 8,773,856	\$ (345,068)
Conversion of special warrants	-	-	-	-	2,190,020
Private placements - Flow-through common shares	27,600,000	3,450,000	10,960,000	5,480,000	14,108,285
Private placements - Common shares	10,018,508	601,110	5,428,570	760,000	5,487,329
Finder's fees	-	-	-	-	30,000
Warrants valuation	-	(698,496)	-	(1,775,355)	(3,908,924)
Mineral properties acquisition	470,138	36,222	1,351,605	333,291	773,679
Exercise of warrants	-	-	16,981,997	3,229,630	3,850,592
Exercise of warrants valuation	-	-	-	828,890	918,402
Exercise of compensation options	-	-	1,415,809	158,617	175,829
Exercise of compensation options valuation	-	-	-	78,704	87,310
Exercise of broker options	-	-	-	-	49,218
Exercise of broker options valuation	-	-	-	-	9,718
Exercise of stock options	-	-	1,545,000	176,900	195,400
Exercise of stock options valuation	-	-	-	105,089	115,180
Acquisition - Consolidated Puma Minerals Corp.	62,299,090	4,205,155	-	-	4,205,155
Cost of issue - Cash	-	(271,617)	-	(420,465)	(1,804,123)
Cost of issue - Finder's fees	-	-	-	-	(30,000)
Cost of issue - Compensation options	-	(101,978)	-	(246,285)	(608,793)
Cost of issue - Flow-through renunciation	-	(901,000)	-	(2,106,000)	(3,802,941)
Balance at end of period	249,252,719	\$ 21,696,268	148,864,983	\$ 15,376,872	\$ 21,696,268



The accompanying notes are integral part of the consolidated financial statements.

Sage Gold Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of Securities	Year Ended September 30, 2009	Number of Securities	Year Ended September 30, 2008	Cumulative from inception September 15, 2003
Warrants					
Balance at beginning of period	25,433,570	\$ 2,224,550	32,772,493	\$ 1,335,307	\$ 190,020
Conversion to common shares	-	-	-	-	(190,020)
Warrants granted	18,809,254	698,496	11,232,569	1,775,355	3,908,924
Warrants exercised	-	-	(16,981,997)	(828,890)	(918,402)
Expired warrants	(14,525,000)	(521,424)	(1,589,495)	(57,222)	(588,900)
Balance at end of period	29,717,824	\$ 2,401,622	25,433,570	\$ 2,224,550	\$ 2,401,622
Contributed surplus					
Balance at beginning of period		\$ 3,202,117		\$ 1,241,578	\$ -
Compensation options granted		101,978		246,285	599,075
Compensation options granted on Puma acquisition		155,781		-	155,781
Compensation options exercised		-		(78,704)	(87,310)
Broker options granted		-		-	9,718
Broker options exercised		-		-	(9,718)
Stock options exercised		-		(105,089)	(115,180)
Stock options vested		222,945		1,840,825	3,062,979
Expired warrants		521,424		57,222	588,900
Balance at end of period		\$ 4,204,245		\$ 3,202,117	\$ 4,204,245



The accompanying notes are integral part of the consolidated financial statements.

Sage Gold Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Year Ended September 30, 2009	Year Ended September 30, 2008	Cumulative from inception September 15, 2003
Deficit			
Balance at beginning of period	\$ (6,671,856)	\$ (3,868,039)	\$ (69,001)
Net loss for the period	(5,147,247)	(2,803,817)	(11,750,102)
Balance at end of period	\$ (11,819,103)	\$ (6,671,856)	\$ (11,819,103)
Accumulated other comprehensive loss			
Balance at beginning of period	\$ (25,123)	\$ -	\$ -
Other comprehensive loss	(33,625)	(25,123)	(58,748)
Balance at end of period	\$ (58,748)	\$ (25,123)	\$ (58,748)
Total Shareholders' equity	\$ 16,424,284	\$ 14,106,560	\$ 16,424,284



The accompanying notes are integral part of the consolidated financial statements.

Sage Gold Inc.
(A Development Stage Company)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

For the years ended September 30	2009	2008	Cumulative from inception September 15, 2003
Cash flows provided by (used in)			
Operating activities			
Net loss for the year	\$ (5,147,247)	\$ (2,803,817)	\$ (11,750,102)
Items not affecting cash:			
Amortization	21,724	9,608	41,255
Future income tax recovery	(1,128,380)	(671,000)	(2,595,321)
Stock-based compensation	197,699	1,389,942	2,433,561
Investment in mineral exploration company	-	-	(126,000)
Deficit on acquisition	1,750,751	-	1,750,751
Write-off of mineral properties	2,550,119	351,512	3,044,762
Changes in non-cash working capital balances:			
Change in other assets	158,546	(339,733)	(338,048)
Change in accounts payable and accrued liabilities	195,701	(90,328)	140,964
	(1,401,087)	(2,153,816)	(7,398,178)
Investing activities			
Purchase of short term investments	(1,500,000)	(10,000)	(1,520,000)
Deferred costs	-	-	(36,657)
Additions to mineral properties	(3,270,370)	(9,132,825)	(17,708,176)
Additions to mineral properties - stock based compensation	25,246	450,883	622,497
Additions to equipment	(54,588)	(47,310)	(123,912)
	(4,799,712)	(8,739,252)	(18,766,248)
Financing activities			
Issuance of shares, net of costs	3,779,493	9,384,682	24,062,530
Cash proceeds from Puma Acquisition, net of costs	2,610,185	-	2,610,185
	6,389,678	9,384,682	26,672,715
Net increase (decrease) in cash and cash equivalents during the year	188,879	(1,508,386)	508,289
Cash and cash equivalents, beginning of the year	356,186	1,864,572	36,776
Cash and cash equivalents, end of the year	\$ 545,065	\$ 356,186	\$ 545,065

Supplemental Cash Flow Information (Note 14)



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

Sage Gold Inc.
(A Development Stage Company)
Consolidated Statements of Mineral Properties
(Expressed in Canadian Dollars)

For the years ended September 30	2009	2008	Cumulative from inception of project
Kerrs Property, Canada (Notes 6(i),(ii) and (viii))			
Opening balance	\$ 1,410,748	\$ 1,479,543	\$ -
Property acquisition costs	37,500	-	261,830
Claim management and other property maintenance costs	5,319	557	71,598
Geological consulting and services	-	41,382	312,613
Geochemistry and geophysics	-	2,230	65,636
Assays and analyses	-	2,851	55,207
Travel and accommodation	19,858	2,404	101,640
Drilling and linecutting	-	4,310	875,079
Other	742	8,334	17,267
Earn-in	-	(100,000)	(255,840)
Management fees	-	(30,863)	(30,863)
Activity during the period	63,419	(68,795)	1,474,167
Written off	1,474,167 (694,167)	1,410,748 -	1,474,167 (694,167)
Closing balance	\$ 780,000	\$ 1,410,748	\$ 780,000
Malartic Property, Canada (Note 6(i))			
Opening balance	\$ 12,511	\$ 12,711	\$ -
Property acquisition costs	-	-	1,778
Claim management and other property maintenance costs	-	14,800	20,129
Geological consulting and services	-	-	26,183
Geochemistry and geophysics	-	-	9,581
Earn-in	-	(15,000)	(45,160)
Activity during the period	-	(200)	12,511
Written off	12,511 (12,511)	12,511 -	12,511 (12,511)
Closing balance	\$ -	\$ 12,511	\$ -

Sage Gold Inc.
(A Development Stage Company)
Consolidated Statements of Mineral Properties
(Expressed in Canadian Dollars)

For the years ended September 30	2009	2008	Cumulative from inception of project
Onaman Property, Canada (Note 6(iii))			
Opening balance	\$ 7,487,566	\$ 1,476,762	\$ -
Property acquisition costs	12,500	452,574	561,397
Claim management and other property maintenance costs	2,049	2,525	6,378
Geological consulting and services	113,672	925,686	1,591,898
Geochemistry and geophysics	36,201	621,777	753,042
Assays and analyses	8,326	303,471	392,918
Travel and accommodation	41,529	255,339	397,928
Drilling and linecutting	(46,094)	2,666,126	2,993,192
Trenching and stripping	10,140	509,331	519,471
Equipment rental	7,875	100,600	152,173
Field expenses	(5,035)	80,896	84,269
Reports	28,606	-	28,606
Other	31,369	92,479	247,432
Activity during the period	241,138	6,010,804	7,728,704
Closing balance	\$ 7,728,704	\$ 7,487,566	\$ 7,728,704
Jacobus Property, Canada (Note 6(iv))			
Opening balance	\$ 3,574,132	\$ 1,521,186	\$ -
Property acquisition costs	25,000	25,000	141,887
Claim management and other property maintenance costs	-	17,349	17,792
Geological consulting and services	267,465	552,738	1,078,375
Geochemistry and geophysics	10,326	198,361	395,515
Assays and analyses	76,208	118,012	251,733
Travel and accommodation	198,890	35,101	278,392
Drilling and linecutting	304,307	759,401	1,694,966
Trenching and stripping	518,828	218,785	883,867
Equipment rental	126,773	27,598	176,505
Field expenses	42,225	44,335	137,855
Other	199,141	56,266	286,408
Activity during the period	1,769,163	2,052,946	5,343,295
Closing balance	\$ 5,343,295	\$ 3,574,132	\$ 5,343,295



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

Sage Gold Inc.
(A Development Stage Company)
Consolidated Statements of Mineral Properties
(Expressed in Canadian Dollars)

For the years ended September 30	2009	2008	Cumulative from inception of project
Nicole Property, Canada (Note 6(v))			
Opening balance	\$ 63,658	\$ 63,658	\$ -
Property acquisition costs	-	-	5,000
Geological consulting and services	-	-	58,658
Activity during the period	-	-	63,658
Written off	63,658 (63,658)	63,658 -	63,658 (63,658)
Closing balance	\$ -	\$ 63,658	\$ -
Hopkins Properties, Canada (Note 6(vi))			
Opening balance	\$ 221,705	\$ -	\$ -
Property acquisition costs	35,000	219,923	254,923
Claim management and other property maintenance costs	2,695	1,782	4,477
Geological consulting and services	2,901	-	2,901
Other	7,725	-	7,725
Activity during the period	48,321	221,705	270,026
Closing balance	\$ 270,026	\$ 221,705	\$ 270,026
Beardmore/Geraldton Properties, Canada (Note 6(vii))			
Opening balance	\$ 611,983	\$ -	\$ -
Property acquisition costs	117,698	239,502	357,200
Claim management and other property maintenance costs	1,265	1,265	2,530
Geological consulting and services	269,816	87,469	357,285
Geochemistry and geophysics	110,765	121,150	231,915
Assays and analyses	64,242	4,267	68,509
Travel and accommodation	49,713	17,893	67,606
Drilling and linecutting	196,269	13,817	210,086
Trenching and stripping	285,353	103,009	388,362
Equipment rental	15,780	17,322	33,102
Other	108,691	6,289	114,980
Activity during the period	1,219,592	611,983	1,831,575
Closing balance	\$ 1,831,575	\$ 611,983	\$ 1,831,575
Total Mineral Properties in Canada	\$ 15,953,600	\$ 13,382,303	\$ 15,953,600



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

Sage Gold Inc.
(A Development Stage Company)
Consolidated Statements of Mineral Properties
(Expressed in Canadian Dollars)

For the years ended September 30	2009	2008	Cumulative from inception of project
Pony Spur, Dike, Corridors and Sugarloaf Properties, United States (Note 6(ix))			
Opening balance	\$ 842,031	\$ 820,467	\$ -
Property acquisition costs	-	132,797	520,313
Claim management and other property maintenance costs	-	28,690	97,370
Geological consulting and services	776	48,795	265,997
Geochemistry and geophysics	-	47,214	244,062
Assays and analyses	-	13,338	13,338
Travel and accommodation	-	6,420	29,590
Drilling and linecutting	-	54,077	54,077
Field expenses	-	18,897	28,282
Other	240	10,465	18,412
Advances	-	-	3,488
Recovery of costs	-	-	(31,059)
Impairment charge - Sugarloaf	-	(26,164)	(87,858)
Activity during the period	1,016	334,529	1,156,012
Written off	843,047 (843,047)	1,154,996 (312,965)	1,156,012 (1,156,012)
Closing balance	\$ -	\$ 842,031	\$ -
Gold Hill Property, United States (Note 6(x))			
Opening balance	\$ 972,793	\$ 135,546	\$ -
Property acquisition costs	-	50,940	109,849
Geological consulting and services	776	91,943	117,018
Assays and analyses	320	24,733	25,053
Travel and accommodation	-	20,988	20,988
Drilling and linecutting	11,441	1,133,298	1,144,739
Other	(509)	16,049	19,621
Road costs	-	-	48,257
Recovery of costs	(48,085)	(500,704)	(548,789)
Activity during the period	(36,057)	837,247	936,736
Written off	936,736 (936,736)	972,793 -	936,736 (936,736)
Closing balance	\$ -	\$ 972,793	\$ -
Total Mineral Properties in United States	\$ -	\$ 1,814,824	\$ -
TOTAL MINERAL PROPERTIES	\$ 15,953,600	\$ 15,197,127	\$ 15,953,600



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

Sage Gold Inc.

(A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in Canadian Dollars)
September 30, 2009 and 2008

1. Nature of Operations and Going Concern

(a) Incorporation, Name Change and Stock Consolidation

Sage Gold Inc. ("Sage" or the "Company") is a public corporation. Since its inception, the business of the Company has consisted of the acquisition, exploration and development of mineral properties. The Company was formed on October 1, 1997 pursuant to the Business Corporations Act (Ontario) by way of Articles of Amalgamation upon the amalgamation of Sahelian Goldfields Ltd. and Sahelian Goldfields Inc. The Company consolidated its shares on a 1:25 basis on March 3, 2005 and changed its name to Sage Gold Inc.

As an exploration and development stage company, the Company's income is limited to interest income and other incidental income. The Company continues to be dependent upon its ability to finance its development and exploration programs through financing activities that may include issuance of additional debt or equity securities. The underlying value of the mineral properties is dependent upon the existence and economic recovery of mineral reserves, confirmation of the Corporation's interest in the underlying mineral claims, the ability to raise long-term financing to complete the development of the properties and upon future profitable production or, alternatively upon the Corporation's ability to dispose of its interest on an advantageous basis, all of which are uncertain.

(b) Going concern assumption

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, as described in the following paragraph. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

As at September 30, 2009, the Company reported a loss after tax of \$4.6 million, an accumulated deficit of \$11.3 million as at that date and has not generated cash flow from operations. The Company is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. These risks include, but are not limited to, dependence on key individuals, successful development and the ability to secure adequate financing to meet the minimum capital required to successfully complete the project and continue as a going concern. There is no assurance that these initiatives will be successful and as a result there is substantial doubt regarding the applicability of the going concern assumption.

Sage Gold Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
September 30, 2009 and 2008

2. Summary of Significant Accounting Policies

Basis of presentation and principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiary, Sage Mining Inc., prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and presented in Canadian dollars.

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are made in the period in which they become known.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and cash held in trust, which may be settled on demand or an original maturity of less than 90 days.

Short-term investments

The short-term investments consist of Guaranteed Investment Certificates bearing interest at a variable rate with original maturity of one year or less. They have been designated as held for trading for financial instruments purposes.

Mineral properties

All direct costs associated with exploration properties are capitalized as incurred. If the property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

The Company's policy is to defer expenditures related to the acquisition, exploration and development of its exploration properties. If an exploration property is abandoned, continued exploration is not planned in the foreseeable future or when other events and changes in circumstances indicate that the carrying amount may not be recovered, the accumulated costs and expenditures are written down to fair value. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects.

Indications that the net carrying amount of the capitalized costs on the exploration properties will not be recovered would include when:

- exploration activities have ceased;
- exploration results are not promising such that exploration will not be planned for the foreseeable future;
- lease ownership rights expire, are cancelled or expropriated;
- sufficient funding is not expected to be available to complete the exploration program; or
- other indications of impairment exist.

Sage Gold Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
September 30, 2009 and 2008

2. Summary of Significant Accounting Policies (Continued)

Mineral properties (continued)

Development projects include those projects where development alternatives are in progress and/or studies have been completed suggesting that the properties are economically viable. The Company reviews the carrying amount of development projects when events or changes in circumstances suggest that the carrying amount may not be recoverable. A development project may no longer be recoverable when:

- determined to not be economically viable;
- ownership rights or other key requirements cannot be met;
- sufficient funding is not expected to be available to complete the project;
- other indications the project is not viable exist.

When the carrying value of a development property is no longer recoverable, it would be written down to fair value.

Mineral properties and related expenditures are recorded at cost. These net costs are deferred until the mineral properties to which they relate are placed into production, sold or abandoned. The costs will be amortized using the unit-of-production method over the estimated useful lives of the mineral properties following the commencement of production or written off, if the mineral properties are sold, impaired or abandoned.

General exploration and development costs not specifically relating to a mineral property are expensed as incurred.

Equipment and related amortization

Office equipment is recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at an annual rate of 20%.

Computer equipment is recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at an annual rate of 30%.

Vehicle is recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at an annual rate of 30%.

Stock-based compensation

The Company has a stock option plan that is described in Note 10. The fair value of stock options granted to directors, officers, consultants and employees is recorded as an expense or capitalized to mineral properties over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 10. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Sage Gold Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
September 30, 2009 and 2008

2. Summary of Significant Accounting Policies (Continued)

Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not likely.

Loss per share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

Flow-through shares

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

If a company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

Foreign currency translation

Assets and liabilities of integrated foreign subsidiary operations and foreign currency denominated assets and liabilities of Canadian operations are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. The revenues and expenses, except amortization, are converted at the average exchange rates for the year. Amortization is converted at the same rate as the related assets. Gains or losses on translation are recorded through earnings.

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2. Summary of Significant Accounting Policies (Continued)

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on October 1, 2007.

Capital Disclosures

Handbook 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. The Company has included disclosures recommended by the new Handbook section in Note 3 to these consolidated financial statements.

Financial Instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in Note 4 to these consolidated financial statements.

New Accounting Policies

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which applies to interim and annual financial statements for periods ending on or after January 20, 2009. The application of this new standard had no impact on the Company's consolidated financial statements as at and for the year ended September 30, 2009.

Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee of the CICA approved an abstract EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The application of this new standard had no impact on the Company's consolidated financial statements as at and for the year ended September 30, 2009.

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2. Summary of Significant Accounting Policies (Continued)

New Accounting Policies (continued)

Goodwill and Intangible Assets

Effective October 1, 2008, the Company adopted Section 3064 – Goodwill and Intangible Assets which replaced the Canadian Institute of Chartered Accountants ("CICA") Handbook sections 3062 and 3450, EIC 27 and part of Accounting Guideline 11. Under previous Canadian standards, more items were recognized as assets than under International Financial Reporting Standards ("IFRS"). The objectives of CICA 3064 are to reinforce the principle based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The portions in the new standard with respect to Goodwill remain unchanged. The provisions relating to the definition and initial recognition of intangible assets intends to reduce the differences with International Financial Reporting Standards in the accounting for intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at September 30, 2009.

Future Accounting Pronouncements

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Sections 1601 and 1602 together replace section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS-27, "Consolidated and Separate Financial Statements". The Company is in the process of evaluating the requirements of the new standards.

Financial Instruments

During 2009, CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862") was amended to require disclosure about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
- Level 3 - Inputs that are not based on observable market data.

This will be effective for the year ending September 30, 2010. The Company is currently assessing the impact of this change.

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3. Capital Management

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to achieve optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of its mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. The Company considers its capital to be equity, which is comprised of share capital, warrants, contributed surplus, deficit and accumulated other comprehensive loss which at September 30, 2009 totaled \$16,424,284 (September 30, 2008 - \$14,106,560).

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 its planned exploration programs and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts when economic conditions permit it to do so.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital in current economic conditions by:

- (i) minimizing discretionary disbursements;
- (ii) focusing financing exploration expenditures on those properties considered to have the best potential; and
- (iii) exploring alternative sources of liquidity.

In light of the above, the Company will continue to assess new properties and seek to acquire an interest in additional properties if the Company thinks there is sufficient 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 appropriate.

The Company is not subject to any capital requirements imposed by a regulator or lending institution. The Company expects that its current capital is sufficient to discharge its liabilities as at September 30, 2009.

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4. Financial Risk Factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign exchange rate and price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, short-term investments and receivables included in other assets. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents and short-term investments are held with a Canadian Chartered Bank, from which management believes the risk of loss to be minimal. Receivables included in other assets consist of goods and services tax due from the Federal Government of Canada and receivables from unrelated companies. Receivables included in other assets are current as of September 30, 2009. Management believes that the credit risk concentration with respect to receivables included in other assets is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities and interest income earned on its short-term investments. The Company has cash and cash equivalents and short-term investments of \$2,065,065 (September 30, 2008 - \$376,353) to settle current liabilities of \$713,001 (September 30, 2008 - \$517,300). The short-term investments are invested in guaranteed investment certificates held by the Royal Bank of Canada. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

The Company is also committed to incurring approximately \$840,000 in Canadian exploration expenditures by December 31, 2009.

Market risk

Interest rate risk

Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. In the normal course of business, the Company is exposed to interest rate fluctuations as a result of short-term investments being invested in interest-bearing instruments. Short-term investments include guaranteed investment certificates at call which have variable interest rates.

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4. Financial Risk Factors (Continued)

Market risk (Continued)

Foreign currency risk

Foreign currency risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting. The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in the United States on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is manageable and therefore does not hedge its foreign exchange risk.

The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

Commodity and equity price risk

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

The Company's investment in a mineral exploration company is subject to fair value fluctuations arising from changes in the equity and commodity markets.

Fair value

The Company has, for accounting purposes, designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair market value. Other assets are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair market value due to their short term nature. Accounts payable and accrued liabilities are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair market value due to its short term nature.

Fair market value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

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4. Financial Risk Factors (Continued)

Sensitivity analysis

Based on management's knowledge of and experience with the financial markets, the Company believes the following movements are "reasonably possible" over a one year period:

(i) The Company's short-term investments are subject to variable interest rates. As at September 30, 2009, if interest rates had decreased/increased by 1% with all other variables held constant, the loss for the year ended September 30, 2009 would have been approximately \$15,200 higher/lower, as a result of lower/higher interest income from short-term investments. Similarly, as at September 30, 2009, reported shareholders' equity would have been approximately \$15,200 lower/higher as a result of lower/higher interest income from short-term investments due to a 1% decrease/increase in interest rates.

(ii) The Company's investment in a mineral exploration company amounting to \$67,252 is subject to fair value fluctuations. As at September 30, 2009, if the fair value of the Company's marketable securities had decreased/increased by 50% with all other variables held constant, comprehensive loss for the year ended September 30, 2009 would have been approximately \$33,600 higher/lower. Similarly, as at September 30, 2009, reported shareholders' equity would have been approximately \$33,600 lower/higher as a result of a 50% decrease/increase in the fair value of the Company's investment in a mineral exploration company.

(iii) Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market for precious metals. As of September 30, 2009, the Company was not a producing entity. As a result, commodity price risk could affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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5. Acquisition of Consolidated Puma Minerals Corp.

On August 6, 2009, Sage completed its acquisition of Consolidated Puma Minerals Corp. ("Puma") pursuant to a Plan of Arrangement ("Arrangement") dated June 23, 2009. Under the terms of the Arrangement Sage acquired 100% of the outstanding shares of Puma.

As consideration for the acquisition, the Company issued 62,299,090 of its common shares to the shareholders of Puma, with Puma shareholders receiving 1.202 common shares of Sage in exchange for each common share of Puma. In addition, Sage granted 3,425,700 common stock purchase options to existing Puma option holders, with Puma option holders receiving 1.202 options exercisable for common shares of Sage for each Puma option.

The acquisition of Puma has been treated for accounting purposes as a purchase of assets with a value of \$4,593,895 including acquisition costs. The value ascribed to each Sage share was determined using the closing market value of the Sage shares on the date of closing of the transaction (Cdn \$0.07).

The following table summarizes the allocation of the acquisition consideration to the estimated fair value of the assets and liabilities acquired.

Calculation of Cost of Acquisition:

Issuance of shares by Sage	\$ 4,360,936
Acquisition costs	<u>232,959</u>
	<u>\$ 4,593,895</u>

Allocation of Cost of Acquisition:

Cash and cash equivalents	\$ 2,980,146
Accounts receivable and prepaids	42,448
Accounts payable and accrued liabilities	(179,450)
Deficit on acquisition	<u>1,750,751</u>
	<u>\$ 4,593,895</u>

6. Mineral Properties

Canadian Properties

(i) Newmont Agreement Property

The Company acquired certain Newmont properties in 2003 located in Kerrs Township, Ontario and in several townships in Quebec upon the issuance of 400,000 treasury shares.

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6. Mineral Properties (Continued)

(i) Newmont Agreement Property (Continued)

The agreement also provided for a one time cash payment to Newmont in the amount of US\$1,000,000 payable within ten business days of a decision by the Company to construct a commercial mining operation on any of the properties forming part of the agreement. In addition, Newmont is entitled to a Net Smelter Return royalty ("NSR") of 1% if the gold price is less than or equal to US\$350 per ounce; 1.5% if the gold price is greater than or equal to US\$350 but less than or equal to US\$400 and 2% if the gold price is greater than US\$400 per ounce.

Sage also earned a 100% interest in a claim adjacent to the Kerrs property, subject to a NSR of 1.5%, by completing a 3 year exploration program involving expenditures totalling \$160,000 in addition to cash payments to the holder of the claim totalling \$35,000. The NSR can be purchased for \$500,000.

(ii) Kerrs - Kidston/Dyment Property

The Company has an option agreement to acquire a 100% interest in a mining claim ("the Property") contiguous to the Company's Kerrs Property, in Kerrs Township, called Larder Lake Mining Division, Ontario. The Company has paid \$30,000 in cash and issued 337,308 shares (valued at \$32,500) on this agreement.

The Vendors will retain a NSR of 1.5% on gold and a 1.5% gross overriding royalty on diamonds. Both royalties can be purchased by the Company for \$300,000 each in cash.

Newmont Agreement Property and Kerrs - Kidston/Dyment Property

Sage subsequently entered into a three year option agreement with Sheltered Oak Resources Inc. (a private Ontario corporation, "OAK" and wholly owned subsidiary of Sheltered Oak Resources Corp., "Sheltered Oak") whereby OAK may earn a 55% interest in the Kerrs property and a 100% interest in the Chibougamau (Barlow) and Malartic properties by making cash payments totalling \$360,000 and incurring \$2,195,500 in exploration expenditures.

In addition, Sheltered Oak issued to Sage 672,516 shares of Sheltered Oak valued at \$67,252 as at September 30, 2009 and 1,868,100 warrants exercisable at \$0.27 per warrant. For financial statement presentation, the investment has been designated as available for sale.

On February 13, 2009, the Company issued 156,250 common shares (valued at \$12,500) in accordance with the terms of an option agreement on the Kidston/Dyment Property.

On September 28, 2009, OAK and Sage jointly announced that OAK had agreed to purchase a 100% interest in Sage's, unpatented claims and interests in the Larder Lake Mining District in Kerrs Township in the Abitibi Greenstone Belt of Ontario (the 'Kerr's Gold Property') pursuant to a Purchase Agreement between the companies (the 'Purchase Agreement').

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6. Mineral Properties (Continued)

Newmont Agreement Property and Kerrs - Kidston/Dyment Property (Continued)

In consideration thereof Sage will receive 2 million common shares of Sheltered Oak (valued at \$280,000) and \$500,000 in cash to be paid to Sage twelve months following the Date of Closing of the Purchase Agreement. Sage will receive a 2% Net Smelter Royalty ("NSR") on the Kerrs Gold Property of which 1% can be purchased from Sage by Sheltered Oak at any time for \$500,000. Sheltered Oak will also pay to Sage an advance royalty payment of \$125,000, payable in five annual installments with the first payment due twenty-four months following the Date of Closing of the Purchase Agreement. This agreement is subject to the registration of the transfer with various government offices.

The Kerrs Property has accordingly been written down to reflect the value of the assets in the agreement.

(iii) Onaman Property

The Onaman property includes the Company's copper/gold/silver Lynx deposit. Sage earned a 100% interest in the property through cash payments of \$75,000, the issuance of 200,000 treasury shares (valued at \$36,000) and work commitments totalling \$325,000. The vendors retain a 2% NSR on base metals and a 3% NSR on precious metals. Upon payment of \$1,000,000 the Company can reduce the NSR to 1% on base metals and 2% on precious metals.

(iv) Jacobus Property

The Jacobus property includes the "Golden Extension" in addition to the Cox copper/nickel deposit. Sage earned a 100% interest in the property through cash payments of \$75,000 and work commitments totalling \$325,000. The vendor retains a 2% NSR on base metals and a 3% NSR on precious metals. . Upon payment of \$1,000,000 the Company can reduce the NSR to 1% on base metals and 2% on precious metals.

(v) Nicole Property

Sage paid \$40,000 in cash for the property, including consulting services, in January 2007. As at March 31, 2009, management decided that further exploration work would not be performed on the property, and therefore all costs have been written off.

(vi) Hopkins Properties

The Hopkins properties were acquired in February, 2008 for a cash cost of \$250,000. The vendor retains a 2% NSR . The Company can repurchase ½ of the NSR for \$1,000,000.

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6. Mineral Properties (Continued)

(vii) Beardmore/Geraldton Properties

On November 26, 2007, Sage acquired options on four additional properties in the Beardmore/Geraldton Gold Belt.

- (a) **Paint Lake Option Agreement:** The property consists of leases encompassing 9 mining claims located in the Townships of Irwin and Walters, Ontario. The consideration for earning a 100% ownership interest in the property includes the issuance of a total of 200,000 treasury common shares of Sage (150,000 shares issued and valued at \$45,000) plus total cash payments of \$75,000 (\$50,000 paid). The cash payments and share issuances are over a three year period.
- (b) **King Solomon's Pillars Option Agreement:** The property consists of leases encompassing 18 mining claims located in the Township of Walters, Ontario. The consideration for earning a 100% ownership interest in the property includes the issuance of a total of 180,000 treasury common shares of Sage (155,000 shares issued and valued at \$38,800) and total cash payments of \$60,000 (\$35,000 paid). The cash payments and share issuances are over a three year period.
- (c) **Missing Link Option Agreement:** The property consists of 12 mining claims located in the Townships of Lapierre and Legault, Ontario. The consideration for earning into a 100% ownership interest in the property includes the issuance of a total of 250,000 treasury common shares of Sage (150,000 shares issued and valued at \$45,000) plus total cash payments of \$78,200 (\$50,000 paid). The cash payments and share issuances are over a three year period.
- (d) **Côté Two Rivers Option Agreement:** The property consists of sixty units comprising five claim blocks located in Coughlan and Castlewood Lake areas north of Beardmore Ontario. Under the option agreement Sage can earn a 100% ownership interest in the property by making a total of \$85,000 in cash payments (\$50,000 paid) and issuing \$65,000 of share consideration over the first four years of the agreement (178,928 shares issued and valued at \$26,138) and by making a final payment of \$75,000 in a mixture of cash and shares in the fifth year.

In the event the Company does not comply with the terms and conditions of the option agreement, and is unable to negotiate a suitable amendment, then the option would cease and the property would revert back to the vendor, and any amounts spent to date on the property would be written off.

(viii) Property held for sale

The Kerrs Property includes unpatented mining claims and interests in the Larder Lake Mining Division in Kerrs Township in the Abitibi Greenstone Belt of Ontario.

On December 23, 2009, the Company sold its interest in the property to OAK for 2,000,000 treasury shares of Sheltered Oak on closing and \$500,000 in cash (secured by a charge on the Kerrs Gold Property), to be paid to Sage twelve months following the date of closing.

The shares of Sheltered Oak were valued at \$280,000 on closing. As Sage had incurred cumulative property costs of \$1,474,167 as at September 30, 2009, a write off of \$674,167 was recorded to reduce the value of the property to the aggregate sale proceeds.

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6. Mineral Properties (Continued)

Unites States Properties

(ix) Pony Spur, Dike, Corridors and Sugarloaf Properties

In October, 2004, the Company signed an agreement to earn a 100% interest over a five year period through a combination of cash and treasury shares. Sage paid a total of US \$115,000 and issued treasury shares valued at US \$187,500 through to September 30, 2008, at which time management determined that no further expenditures were planned on the Dike and Corridors properties, and accordingly the properties were written off. By June 30, 2009, management determined that no further expenditures were planned for the Pony Spur and Sugarloaf properties, and accordingly the properties were written off.

(x) Gold Hill Property

On March 8, 2007, Sage closed an option agreement to earn a 50% undivided interest in the mineral rights of the Gold Hill property, subject to the issuance of 500,000 treasury shares (valued at \$52,500), expending US \$250,000 in exploration and issuing US \$50,000 of treasury shares on the first anniversary (issued 199,608 shares valued at \$50,940).

As at September 30, 2009, management decided that further exploration will not be performed on the property, and therefore all costs have been written off. The Company continues to hold its 50% interest in the property. The vendor is indebted to the Company for \$170,753 representing the vendor's remaining 50% obligation in the shared exploration costs over the initial US \$250,000 incurred.

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7. Equipment

	Cost	Accumulated Amortization	Net Carrying Amount September 30, 2009
Office equipment	\$ 14,947	\$ 7,701	\$ 7,246
Computer equipment	13,030	7,526	5,504
Vehicles	92,069	22,902	69,167
	\$ 120,046	\$ 38,129	\$ 81,917

	Cost	Accumulated Amortization	Net Carrying Amount September 30, 2008
Office equipment	\$ 14,947	\$ 5,890	\$ 9,057
Computer equipment	15,821	6,298	9,523
Vehicles	35,653	5,347	30,306
	\$ 66,421	\$ 17,535	\$ 48,886

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8. Share Capital

(a) Authorized
 Unlimited number of common shares

(b) Issued

Common shares	Number of Shares	Amount
Balance, September 30, 2007	111,182,002	\$ 8,773,856
Private placement - Flow-through common shares (c)(i)	10,960,000	5,480,000
Private placement - Common shares (d)(i)	5,428,570	760,000
Warrant valuation (c)(i) and (d)(i)	-	(1,775,355)
Mineral property acquisitions	1,351,605	333,291
Exercise of warrants	16,981,997	3,229,630
Exercise of warrants valuation	-	828,890
Exercise of compensation options	1,415,809	158,617
Exercise of compensation options valuation	-	78,704
Exercise of stock options	1,545,000	176,900
Exercise of stock options valuation	-	105,089
Cost of issue - Cash	-	(420,465)
Cost of issue - Compensation options	-	(246,285)
Cost of issue - Flow-through renunciation (c)(ii)	-	(2,106,000)
Balance, September 30, 2008	148,864,983	\$ 15,376,872
Private placement - Flow-through common shares (c)(iii)	27,600,000	3,450,000
Warrant valuation (c)(iii)	-	(538,200)
Private placement - Common shares (d)(ii)	10,018,508	601,110
Warrant valuation (d)(ii)	-	(160,296)
Mineral property acquisitions	470,138	36,222
Puma acquisition	62,299,090	4,205,155
Cost of issue - Cash	-	(271,617)
Cost of issue - Compensation options	-	(101,978)
Cost of issue - Flow-through renunciation (c)(iv)	-	(901,000)
Balance, September 30, 2009	249,252,719	\$ 21,696,268

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8. Share Capital (Continued)

(c) Flow-Through Issuances

- (i) On November 16, 2007, the Company completed a non-brokered private placement of 10,960,000 flow through units at \$0.50 per unit for gross proceeds of \$5,480,000. Each unit consisted of one common share plus one half non flow-through common share purchase warrant. Each common share purchase warrant entitles the holder to purchase an additional one common share at the exercise price of \$0.75 for a term of two years. If the Company's shares trade at or above \$0.95 per share for 21 consecutive trading days, the Company may then accelerate the expiration of the warrants upon not less than 30 days written notice by the Company, and thereafter repurchase any unexercised warrants at \$0.001 per underlying common share.

All shares and warrants issued under the offering were subject to a four month hold period, which expired on March 15, 2008.

The Company paid finders' fees of \$311,400 cash together with 830,400 compensation options on the same terms as the subscribers' units.

The fair value of the 5,480,000 warrants and 830,400 compensation options was estimated at \$1,002,840 and \$178,536 respectively using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%, expected volatility - 120.4%, risk-free interest rate - 3.92% and an expected average life of 2 years.

- (ii) The issuance of flow-through common shares in fiscal year 2007 and on November 16, 2007 created a future income tax liability of approximately \$2,106,000 which was allocated as a cost of issuing the flow-through shares at the time of renunciation.
- (iii) In October 2008, the Company completed three tranches of a non-brokered private placement of \$3,450,000 through the sale of 27,600,000 flow-through units, at \$0.125 per unit, to a group of institutional investors. Each unit consists of one flow-through common share plus one-half of one share purchase warrant. Each whole warrant is exercisable at \$0.20 for 24 months from the closing date of the offering.

If the Company's common shares achieve a closing price of \$0.30 or higher for a period of 21 consecutive trading days, the Company may, at any time after the expiry of the hold period, notify the warrant holders that all unexercised warrants will expire 30 days following the date that the notice is issued.

All securities are subject to a four month hold period from the respective closing date of each financing under the private placement which have expired.

An aggregate finders' fee of \$204,000 in cash together with 2,176,000 compensation options, on the same terms as the subscribers' units, was paid.

The fair value of the 13,800,000 warrants and 2,176,000 compensation options was estimated at \$538,200 and \$84,864 respectively using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%, expected volatility - 117%, risk-free interest rate - 2.09 to 2.30% and an expected average life of 2 years.

- (iv) The issuance of flow-through common shares created a future income tax liability of \$901,000 which was allocated as a cost of issuing the flow-through shares at the time of renunciation.

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8. Share Capital (Continued)

(d) Non Flow-Through Private Placements

- (i) On October 15, 2007, the Company closed a non-brokered private placement financing of 5,428,570 units at \$0.14 per unit for total proceeds of approximately \$760,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.19 in year 1 and \$0.25 in year 2. If the closing price of the Company's common shares on the TSX Venture Exchange, or such other stock exchange where the majority of the trading volume occurs, is \$0.28 or higher for a period of a minimum of 21 days, the Company may notify the warrant holders that all unexercised warrants will expire on the 30th day after the date of such notice being given by the Company.

A finders' fee of \$45,600 in cash together with 434,286 compensation options, on the same terms as the subscribers' units, was paid. All securities were subject to a four month hold period which expired on February 16, 2008.

The fair value of the 5,428,570 warrants and 434,286 compensation options was estimated at \$700,286 and \$67,749 respectively using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%, expected volatility - 108.9%, risk-free interest rate - 4.36% and an expected average life of 2 years.

- (ii) On July 15, 2009, the Company closed a non-brokered private placement of Cdn \$601,110 financing through the sale of 10,018,508 common share units, at \$0.06 per unit, to a group of institutional investors. Each unit consisted of one common share plus one-half of one share purchase warrant exercisable at \$0.10 for 24 months from the closing date of the offering. If the Company's common shares achieve a closing price of \$0.14 or higher for a period of 21 consecutive trading days, Sage may, at any time after the expiry of the hold period, notify the warrant holders that all unexercised warrants will expire in 30 days following the date that the notice is issued.

A finder's fee of \$ 36,060 in cash together with 534,800 compensation options, on the same terms as the subscribers' units was paid. All securities are subject to a four month hold period which expires on November 16, 2009.

The fair value of the 5,009,254 warrants and 534,800 compensation options was estimated at \$160,296 and \$17,114 respectively using the Black-Scholes option pricing formula with the following assumptions: expected dividend yield - 0%, expected volatility - 124.9%, risk-free interest rate - 1.16 to 1.23% and an expected average life of 2 years.

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9. Warrants

The following table shows the continuity of warrants for the years ended September 30, 2009 and 2008.

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2007	32,772,493	\$ 0.45
Granted	10,908,569	0.47
Granted ⁽¹⁾	324,000	0.20
Exercised	(16,981,997)	0.19
Expired	(1,589,495)	0.20
Balance, September 30, 2008	25,433,570	0.64
Granted	18,809,254	0.17
Expired	(14,525,000)	0.77
Balance, September 30, 2009	29,717,824	\$ 0.28

⁽¹⁾ 384,000 compensation options at a price of \$0.10 expiring April 13, 2008 and 264,000 compensation options at a price of \$0.10 expiring April 25, 2008 were exercised. These options resulted in the creation of 192,000 and 132,000 warrants with an exercise price of \$0.20 expiring April 13, 2008 and April 25, 2008, respectively. The fair value of these warrants was estimated at \$60,996 and \$11,233 respectively using the Black-Scholes option pricing formula with the following weighted average assumptions: expected dividend yield - 0%, expected volatility - 132.9% to 176.6%, risk-free interest rate - 2.88% to 4.16% and an expected average life of 3 to 6 months.

The following are the warrants outstanding at September 30, 2009 with a weighted average exercise price of \$0.28 each.

Number of Warrants	Black-Scholes Value	Exercise Price	Expiry Date
5,428,570	\$ 700,286	\$ 0.19	October 12, 2009
5,480,000	1,002,840	0.75	November 14, 2009
12,800,000	499,200	0.20	October 17, 2010
1,000,000	39,000	0.20	October 25, 2010
5,009,254	160,296	0.10	July 15, 2010
29,717,824	\$ 2,401,622		

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10. Stock Options

The Company has an Incentive Stock Option Plan (the "Plan") to provide incentive for the directors, officers, employees, consultants and service providers of the Company (and its subsidiary). The maximum number of shares which may be set aside for issuance under the Plan is 10% of the outstanding common shares (24,925,272 maximum common shares as at September 30, 2009) (2008 - 14,886,498 maximum common shares)

The following table shows the continuity of stock options and compensation stock options for the years ended September 30, 2009 and 2008:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2007	10,256,429	\$ 0.14
Granted	7,140,000	0.39
Compensation options granted	1,264,686	0.34
Compensation options exercised	(1,415,809)	0.11
Exercised	(1,545,000)	0.11
Expired	(79,880)	0.10
Balance, September 30, 2008	15,620,426	0.28
Granted	6,200,000	0.10
Compensation options granted	2,710,800	0.18
Granted on business combination	3,425,700	0.10
Expired/Cancelled	(2,225,740)	0.25
Balance, September 30, 2009	25,731,186	\$ 0.24

Of the total options outstanding at the end of September 30, 2009, 21,755,700 options relate to the Plan.

The unvested unamortized fair value of options granted as at September 30, 2009 amounted to \$216,960 (2008 – \$76,504).

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10. Stock Options (Continued)

During 2009, 6,200,000 (2007 - 7,140,000) stock options were granted to members of management, board of directors, employees and consultants of the Company. The following weighted average assumptions were used under the Black-Scholes option-pricing model:

	2009	2008
Expected dividend yield	0%	0%
Expected volatility	118-127%	100%
Risk-free interest rate	1.23%-2.66%	3.10%-4.41%
Expected life	2 -5 years	5 years

The total stock-based compensation calculated under the fair value method was \$343,400 (2008 - \$1,870,045). The weighted average fair value of options granted during fiscal 2009 is \$0.06 (2008 - \$0.26).

The fair value of the stock options has been expensed as follows:

	2009	2008	Cumulative from Inception September 15, 2003
Directors' and management stock-based compensation	\$ 86,541	\$ 907,163	\$ 1,043,406
Salary costs and benefits	17,781	99,566	128,817
Investor relations and corporate development	44,196	25,744	76,242
Professional fees	49,181	357,469	417,355
Mineral properties	25,246	450,883	622,767
Stock-based compensation	-	-	366,159
	\$ 222,945	\$ 1,840,825	\$ 2,654,746

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10. Stock Options (Continued)

The following table shows the options outstanding at September 30, 2009:

	Number of Options	Amount (v)	Weighted Average Exercise Price	Weighted Average Contractual Life (years)	Expiry Date
Consultants	250,000	\$ 35,250	\$ 0.50	0.38	February 15, 2010
Directors, Officers, Consultants & Employees	1,000,000	54,546	0.10	0.86	August 10, 2010
Consultants	15,000	1,200	0.10	1.07	October 26, 2010
Management, Directors, Employees & Consultants	1,010,000	131,300	0.17	1.33	January 27, 2011
Directors, Officers & Consultants	721,200	-	1.46	1.55	April 17, 2011
Consultants	1,200,000	38,400	0.10	1.67	May 28, 2011
Directors, Officers, Consultants & Employees	2,215,000	237,005	0.14	1.66	May 29, 2011
Directors, Officers, Consultants & Employees	910,000	82,810	0.12	2.42	March 1, 2012
Consultant	300,000	36,600	0.16	2.99	September 27, 2012
Management, Directors, Employees & Consultants	2,895,000	506,625	0.24	3.04	October 15, 2012
Management, Directors, Employees & Consultants	2,835,000	1,054,620	0.50	3.21	December 13, 2012
Consultants	350,000	89,950	0.50	3.30	January 18, 2013
Consultants	350,000	61,250	0.25	3.64	May 20, 2013
Directors, Officers & Consultants	1,262,100	-	0.15	4.00	September 30, 2013
Directors, Officers & Consultants	1,442,400	-	0.08	4.42	March 3, 2014
Management, Directors, Employees & Consultants	5,000,000	325,000	0.10	4.86	August 10, 2014
Subtotal	21,755,700	2,654,556			
Compensation Options(i)	434,286	67,749	0.14	0.03	October 12, 2009
Compensation Options (ii)	830,400	178,536	0.50	0.12	November 14, 2009
Compensation Options (iii)	2,016,000	78,624	0.20	1.05	October 17, 2010
Compensation Options (iii)	160,000	6,240	0.20	1.07	October 17, 2010
Compensation Options (iv)	534,800	17,114	0.10	1.78	July 10, 2011
	25,731,186	\$ 3,002,819			

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10. Stock Options (Continued)

- (i) Upon exercise of the 434,286 compensation options, 434,286 common shares and 434,286 warrants will be issued. The warrants have the same terms as disclosed in Note 8(d)(i).
- (ii) Upon exercise of the 830,400 compensation options, 830,400 common shares and 415,200 warrants will be issued. The warrants have the same terms as disclosed in Note 8(c)(i).
- (iii) Upon exercise of the 2,176,000 compensation options, 2,176,000 common shares and 1,088,000 warrants will be issued. The warrants have the same terms as disclosed in Note 8(c)(iii).
- (iv) Upon exercise of the 534,800 compensation options, 534,800 common shares and 267,400 warrants will be issued. The warrants have the same terms as disclosed in Note 8(d)(ii).
- (v) Black-Scholes value for total vested and non-vested options. Of the \$2,654,556, \$329,346 has not yet vested and will be recorded as an expense or capitalized to mineral properties upon vesting.

11. Related Party Transactions

The Company had the following related party transactions:

	2009	2008
Administrative and general expenses:		
Management fees to directors and officers	\$ 223,100	\$ 215,725
Consulting fees to companies owned by officers of the Company	127,500	96,975
Directors fees	45,820	45,000
Mineral properties:		
Consulting fees to officer	\$ 27,465	\$ 109,800

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the parties.

Included in accounts payable and accrued liabilities are the following amounts due to related parties:

To directors and officers	\$ 31,436	\$ 26,629
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12. Income Taxes

The following table reconciles the expected income tax recovery at the Canadian Federal and Provincial statutory rate of 31.1% (2008 - 34.2%) to the amounts recognized in the statements of operations:

	2009	2008
Net loss reflected in the statements of loss and comprehensive loss	\$ (6,275,627)	\$ (3,474,817)
Expected income tax recovery	(1,923,380)	(1,119,000)
Permanent differences	625,000	292,000
Tax rate changes and other adjustments	85,000	319,000
Effect of change in temporary differences not recognized	220,000	(135,000)
Valuation allowance	(135,000)	(28,000)
Income tax recovery reflected in the statement of operations	\$ (1,128,380)	\$ (671,000)

The Company's income tax (recovery) is split as follows:

Current tax expense	\$ -	\$ -
Future tax expense (recovery)	(1,128,380)	(671,000)
Total tax expense (recovery)	\$ (1,128,380)	\$ (671,000)

The Company's future income tax assets and liabilities at September 30, 2009 and 2008 are as follows:

	2009	2008
Future Income Tax Assets		
Non-capital losses	\$ 2,350,000	\$ 1,872,000
Capital assets	11,000	6,000
Undeducted share issue costs	255,000	199,000
U.S. mineral properties	719,000	179,000
Undeducted resource and other tax pools	73,000	73,000
	3,408,000	2,329,000
Less: allocated against future income tax liabilities	(2,689,000)	(1,475,000)
Less: valuation allowance	(719,000)	(854,000)
Net future income tax assets	\$ -	\$ -
Future Income Tax Liabilities		
Canadian mineral properties	\$ 3,720,620	\$ 3,076,000
Ontario mining tax	342,000	-
Less: reduction due to allocation of applicable future income tax assets	(2,689,000)	(1,475,000)
	\$ 1,373,620	\$ 1,601,000

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12. Income Taxes (Continued)

The Company's non-capital income tax losses expire as follows:

Year of expiry	2010	\$	69,001
	2011		572,143
	2015		994,269
	2026		1,368,565
	2027		1,521,532
	2028		2,362,834
	2029		1,815,703
		\$	<u>8,704,047</u>

13. Loss Per Share

The following table sets out the computation for basic and diluted loss per share:

	2009	2008
Numerator		
Loss for the period	\$ (5,147,247)	\$ (2,803,817)
Denominator		
Average number of common shares outstanding	180,353,230	142,700,678
Basic and diluted loss per share	\$ (0.03)	\$ (0.02)

The effect of common share purchase options and warrants on the net loss per share in 2009 and 2008 is not reflected as to do so would be anti-dilutive.

14. Supplemental Cash Flow Information

	2009	2008
Non-cash financing activities		
Shares issued	\$ (36,222)	\$ (333,291)
Agents' compensation for private placement	-	62,492
Non-cash investing activities		
Additions to mineral properties	\$ 25,246	\$ 253,711

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15. Commitments

- (a) The Company leases its office space under a lease agreement which expires in February 2011. Annual lease payments under the agreement are as follows:

2010	48,333
2011	<u>20,833</u>
	<u>\$ 69,166</u>

- (b) Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligations with subscribers with respect to the Income Tax Act (Canada). As at September 30, 2009, the Company is committed to incurring approximately \$840,000 in qualifying exploration expenditures in Canada ("CEE") by December 31, 2009 arising from the flow-through offerings.

16. General and Administrative Detail

For the years ended September 30	2009	2008	Cumulative from inception September 15, 2003
Professional fees	\$ 387,636	\$ 590,789	\$ 1,889,598
Investor relations and corporate development	340,341	375,454	948,541
Salary costs and benefits	237,887	279,943	912,072
Management fees	223,100	208,112	1,077,447
Office supplies	143,685	161,725	648,398
Flow-through tax penalty	143,253	20,870	183,617
Directors' and management stock-based compensation	86,541	907,163	1,043,406
Travel and entertainment	83,059	151,439	532,810
Accounting and corporate services	63,388	44,048	245,159
Insurance	46,881	58,672	183,649
Transfer agent fees	46,691	55,009	187,462
Directors fees	45,820	45,000	169,570
Advertising and promotion	43,079	88,757	336,283
Listing and filing fees	41,588	26,827	182,647
Telephone	24,160	28,432	98,958
Bank service charges	7,255	12,803	29,168
Foreign exchange loss	430	5,315	24,674
Stock-based compensation	-	-	767,742
Property holding costs	-	-	21,507
Other	-	(883)	3,523
	\$ 1,964,794	\$ 3,059,475	\$ 9,486,231

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17. Segmented Financial Information

The Company has been directly or indirectly engaged in 2009 and 2008 in the exploration of mineral properties in both Canada and the United States.

The Company's operating segments have been identified based on geographic area. There are no revenues in the United States and assets are disclosed in the consolidated statements of mineral properties.

18. Subsequent Events

- a) Subsequent to September 30, 2009, the Company completed a non-brokered private placement of 13,400,000 flow-through units for gross proceeds of \$804,000; each unit consisting of one common share plus one non flow-through common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share at an exercise price of \$0.10 during the first twelve months from closing, and of \$0.12 for a period of twelve months following the first anniversary date of closing. If the Company's shares trade at or above \$0.18 per share for 21 consecutive trading days, the Company may then accelerate the expiration of the warrants upon not less than 30 days written notice by the Company.

The Company paid a finders' fee of \$52,320 in cash and issued 1,072,000 broker warrants pursuant to the offering. The warrants are executable to purchase common share units at a price of \$0.06 per unit. Each common share unit consists of one common share in the capital of the Company and one warrant to purchase common shares on the same terms as the warrants.

- All shares and warrants issued under the financing are subject to a four month hold period which expires on April 19, 2010.

The Company intends to renounce the exploration expenditures generated by this flow-through financing, and is committed to incurring \$804,000 in qualified exploration expenses in Canada by December 31, 2010.

- b) On December 23, 2009, OAK and Sage jointly announced that OAK had completed a transaction whereby OAK purchased a 100% interest in Sage's unpatented claims and interests in the Larder Lake Mining district in Kerrs Township in the Abitibi Greenstone belt of Ontario.

In consideration thereof, Sage receives 2 million common shares of Sheltered Oak upon closing and \$500,000 in cash (secured by a charge on the Kerrs gold property), to be paid to Sage twelve months following the date of closing of the Purchase Agreement. Sage will receive a 2% Net Smelter Royalty on the Kerrs Gold Property of which 1% can be purchased from Sage by Sheltered Oak at any time for \$500,000. Sheltered Oak will also pay Sage an advance royalty payment of \$125,000, payable in five annual installments with the first payment due twenty-four months following the date of closing of the Purchase Agreement. This agreement is subject to the registration of the transfers with various government offices.

19. Comparative Figures

Certain comparative figures have been reclassified to conform with current period financial statement presentation.