

**CANADA GOLD CORPORATION
(Formerly MetalQuest Minerals Inc.)**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008**



MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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Auditors' Report

To the Shareholders of
Canada Gold Corporation
(formerly MetalQuest Minerals Inc.)

We have audited the consolidated balance sheets of Canada Gold Corporation. (formerly MetalQuest Minerals Inc.) as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 as to 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, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

March 17, 2010

Canada Gold Corporation
(Formerly MetalQuest Minerals Inc.)
Consolidated Balance Sheets
As at December 31, 2009 and 2008

	2009	2008
ASSETS		
Current		
Cash	\$ 784,759	\$ 284,234
Marketable securities (Note 5)	2,782,290	860,782
Amounts receivable	33,309	8,155
Current portion of long-term receivable (Note 7a)	510,218	575,562
Prepaid expenses	105,913	48,055
	4,216,489	1,776,788
Marketable securities (Notes 4 and 5)	-	156,557
Long-term receivable (Note 7a)	235,634	508,033
Advance to related party (Note 12)	85,282	40,000
Reclamation bond (Note 7c)	-	13,000
Construction in progress (Note 6)	39,191	-
Resource property costs (Note 7)	-	400,000
	\$ 4,576,596	\$ 2,894,378
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 178,709	\$ 53,688
Short term loan (Note 4)	209,320	-
	388,029	53,688
Non controlling interest	372,372	-
	760,401	53,688
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	13,621,890	12,165,843
Contributed surplus (Note 9)	1,701,196	1,459,688
Accumulated other comprehensive income (loss) (Note 10)	405,264	(223,462)
Deficit	(11,912,155)	(10,561,379)
	3,816,195	2,840,690
	\$ 4,576,596	\$ 2,894,378

NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS (Note 1)
COMMITMENTS AND CONTINGENT LIABILITY (Note 15 and 16)

Approved on Behalf of the Board:

"David McMillan" "Harold Forzley"
 David McMillan, Director Harold Forzley, Director

Canada Gold Corporation
(Formerly MetalQuest Minerals Inc.)
Consolidated Statements of Operations and Deficit
For the years ended December 31, 2009 and 2008

	2009	2008
Expenses		
Accounting and audit fees	\$ 87,693	\$ 72,824
Assays	14,385	-
Bad debts	-	1,522
Consulting fees	113,546	7,351
Interest and bank charges	2,105	682
Investor relations	49,178	18,201
Legal	66,668	23,676
Management fees <i>(Note 12)</i>	185,011	132,749
Office and administrative	149,684	60,732
Salaries <i>(Note 12)</i>	117,439	-
Stock based compensation cost	201,743	81,406
Transfer agent, listing and filing fees	31,450	19,404
Travel and promotion	77,375	16,526
Loss before other items	1,096,277	435,073
Other Items		
Interest income	95,187	103,852
Gain (loss) on foreign exchange	(110,661)	273,958
Gain (loss) on disposition of marketable securities	50,656	(18,194)
Gain on disposition of Mexican subsidiaries <i>(Notes 7a and b)</i>	-	482,664
Loss on settlement of amounts receivable	(126,790)	-
Amendment fee <i>(Note 7a)</i>	94,148	-
Resource property costs written-off <i>(Note 7)</i>	(388,409)	(697,946)
Loss from operations before non-controlling interest	(1,482,146)	(290,739)
Non-controlling Interest	131,370	-
Net loss for the year	(1,350,776)	(290,739)
Deficit - beginning of year	(10,561,379)	(10,270,640)
Deficit - end of year	\$ (11,912,155)	\$ (10,561,379)
Weighted average number of shares outstanding	9,099,916	8,224,117
Net loss per share - basic and diluted	\$ (0.15)	\$ (0.03)

- See accompanying notes to the consolidated financial statements -

Canada Gold Corporation
(Formerly MetalQuest Minerals Inc.)
Consolidated Statement of Comprehensive Loss
For the years ended December 31, 2009 and 2008

	2009	2008
Net loss for the year	\$ (1,350,776)	\$ (290,739)
Unrealized gain (loss) on available-for-sale investments	628,726	(1,803,135)
Comprehensive loss for the year	\$ (722,050)	\$ (2,093,874)

- See accompanying notes to the consolidated financial statements -

Canada Gold Corporation
(Formerly MetalQuest Minerals Inc.)
Consolidated Statements of Cash Flows
For the years ended December 31, 2009 and 2008

	2009	2008
Cash resources provided by (used in)		
Operating activities		
Net loss for the year	\$ (1,350,776)	\$ (290,739)
Items not affected by cash		
Stock-based compensation	201,743	81,406
Loss (gain) on disposition of marketable securities	(50,655)	18,194
Interest income on loans and receivables	(95,081)	(103,252)
Unrealized foreign exchange loss (gain)	105,559	(218,021)
Loss (gain) on disposition of Mexican subsidiaries	-	(482,664)
Resource property costs written-off	388,409	697,946
Loss on settlement of amounts receivable	126,790	-
Amendment Fee	(94,148)	-
Non-controlling Interest	(131,370)	-
Changes in non-cash working capital balances:		
Amounts receivable	(25,154)	2,813
Prepaid expenses	(57,858)	(16,747)
Accounts payable and accrued liabilities	128,294	(12,424)
	<u>(854,247)</u>	<u>(323,488)</u>
Investing activities		
Resource property costs, net	1,591	(1,115)
Cash paid for asset acquisition	(62,260)	-
Cash paid for construction in progress	(39,191)	-
Cash from disposition of marketable securities	435,672	27,172
	<u>335,812</u>	<u>26,057</u>
Financing activities		
Advance prior to asset acquisition	(100,000)	-
Proceeds received from loans payable	107,695	-
Recovery of share issuance cost	-	2,250
Shares issued for cash	1,155,000	-
Share issuance cost	(97,788)	-
Advanced to related parties	(45,947)	(40,665)
	<u>1,018,960</u>	<u>(38,415)</u>
Net increase (decrease) in cash	500,525	(335,846)
Cash - beginning of year	<u>284,234</u>	<u>620,080</u>
Cash - end of year	\$ 784,759	\$ 284,234
Non-cash investing and financing activities		
Business acquired by issuance of shares	\$ 438,600	\$ -
Amendment fees in shares	\$ 94,148	\$ -
Supplemental cash flow information		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

- See accompanying notes to the consolidated financial statements -

**Canada Gold Corporation
(Formerly MetalQuest Minerals Inc.)
Notes to the Consolidated Financial Statements
For the years ended December 31, 2009 and 2008**

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

The Company is engaged in the business of resource development by establishing modern mineral processing facilities that will service active small scale gold mining regions in developing countries. The Company is currently proposing to develop a mineral based ore processing facility in Northern Peru. On August 17, 2009 the Company changed its name from MetalQuest Minerals Inc. to Canada Gold Corporation.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. As at December 31, 2009, the Company has incurred significant losses since inception totalling \$11,912,155. Due to recent business acquisition and corporate restructuring activities, the Company was able to complete additional equity financing. For the year ended, the Company received gross proceeds of \$1,155,000 from two private placements. In addition, the Company has liquid marketable investments. As a result, management is of the opinion that the Company has sufficient working capital to pursue business strategies, and meet its day to day operational obligations and commitments.

2. NEW ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Adopted in fiscal 2009

On January 1, 2009, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA")

In March 2009, the CICA issued EIC-174, "Mining Exploration Costs." The EIC provides guidance on accounting for capitalization and impairment of exploration costs. This standard was effective for the fiscal year beginning January 1, 2009. The application of this EIC had no effect on the consolidated financial statements.

In January 2009, the CICA issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 1, 2009. The application of this EIC had no material effect on the consolidated financial statements.

The CICA has issued Handbook Section 3064 "Goodwill and Intangible assets" which may affect the financial disclosure and results of the Company. This Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and the Company adopted the requirements on January 1, 2009. Section 3064 establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The application of this EIC had no effect on the consolidated financial statements.

**Canada Gold Corporation
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Notes to the Consolidated Financial Statements
For the years ended December 31, 2009 and 2008**

2. NEW ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS - *Continued*

Adopted in fiscal 2009 *Continued*

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”), was amended to require disclosures 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

Recent accounting pronouncements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company does not expect that the adoption of this standard will have a material impact on the Company’s financial statements.

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company’s financial statements.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and 1602, Non-controlling interests, which replaces existing guidance. 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 on or after January 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company’s financial statements.

In February 2008, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards (“IFRS”). The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

Canada Gold Corporation
(Formerly MetalQuest Minerals Inc.)
Notes to the Consolidated Financial Statements
For the years ended December 31, 2009 and 2008

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company, and its wholly-owned subsidiaries.

The 2009 consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

- Red Tusk Resources Inc. ("Red Tusk")- dissolved on June 25, 2009
- Canadian Ore Processors Corp. ("CanOrePro")- acquired on August 17, 2009 (Note 4)

All material intercompany balances and transactions have been eliminated on consolidation.

b) Marketable securities

The Company has classified its marketable securities as available-for-sale and therefore carries them at fair market value with the unrealized gain or loss recorded in accumulated other comprehensive income. Fair values were determined by reference to published price quotations in an active market as at December 31, 2009. For financial instruments classified as available for sale for which a quoted market price in an active market is unavailable, such instruments will be measured at cost.

c) Resource properties

All costs related to the acquisition, exploration and development of resource properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized to income using the unit of production method over estimated recoverable ore reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that have lapsed, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of resource properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its resource properties contains economically recoverable reserves. Amounts capitalized as resource properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

When options are granted on resource properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

d) Long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying value of the asset exceeds the fair value of the asset.

**Canada Gold Corporation
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Notes to the Consolidated Financial Statements
For the years ended December 31, 2009 and 2008**

3. SIGNIFICANT ACCOUNTING POLICIES - *Continued*

e) Asset retirement obligations

The Company follows CICA Handbook Section 3110, "Asset Retirement Obligations", which establishes standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2009, the Company has not incurred any asset retirement obligation related to the exploration and development of its resource properties.

f) Income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the liability method, future income taxes are recognized to reflect the expected future tax consequences arising from temporary differences between the carrying value and the tax bases of the Company's assets and liabilities. The amount of future income tax assets is not recognized until realization is more likely than not.

g) Financial instruments

The Company's financial instruments consist of cash, marketable securities, long-term receivable, advances to related party, accounts payable, and short term loan payable.

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3840 "Related Party Transactions".

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. Financial assets classified as available-for-sale for which a quoted market price in an active market is unavailable, such instruments will be measured at cost.

The Company classified cash as held-for-trading, marketable securities as available-for-sale, advances to related parties, long-term receivable, short-term loans payables as loans and receivables, accounts payable as other financial liabilities.

h) Stock-based compensation

The Company follows the recommendation of CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Under this method, compensation expense for stock option grants to employees and non-employees is based on the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option Pricing Model. Compensation expense for stock options granted to non-employees is recognized as the options are earned and the services are provided. Compensation expense for stock options granted to employees is amortized over the vesting period. Consideration paid by employees and non-employees together with the related contributed surplus on the exercise of stock options is recorded as share capital.

**Canada Gold Corporation
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Notes to the Consolidated Financial Statements
For the years ended December 31, 2009 and 2008**

3. SIGNIFICANT ACCOUNTING POLICIES - *Continued*

i) Foreign currency translation

Transactions and balances in currencies other than the Canadian dollar are translated using the temporal method. Accordingly revenue, expenses and non-monetary balances are translated at the rate of exchange prevailing at the transaction dates, and monetary balances are translated at the rate prevailing at the balance sheet date with resulting exchange gains and losses being included in the determination of income.

j) Non-monetary transactions

Transactions in which shares or other non-cash consideration are exchanged for assets or services are measured at the fair value of the assets or services involved in accordance with CICA Handbook Section 3830 "Non-monetary Transactions".

k) Earning (loss) per share

The Company uses the treasury stock method in computing earning (loss) per share. Under this method, basic earning (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. For the periods ended December 31, 2009 and 2008, the existence of warrants and options causes the calculation of fully diluted earning (loss) per share to be anti-dilutive. Accordingly, fully diluted earning (loss) per share information has not been shown.

l) Construction-in-progress

Construction-in-progress is stated at cost, which comprises all direct and indirect costs of procuring assembling and testing the asset. Upon completion, construction-in-progress is transferred to property, plant and equipment and is amortized upon being put into productive use.

m) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Significant areas requiring the use of management estimates are the determination of impairment of resource properties, stock-based compensation, fair value of marketable securities, and estimation of future income tax assets and liabilities. Actual results may differ from those estimates.

4. ACQUISITION

On August 17, 2009 the Company acquired all of the issued and outstanding Class A common shares of Canadian Ore Processors Corp. ("CanOrePro") in exchange for 1,190,001 common shares of the Company. The shares had a fair value of \$404,600. The Company also paid \$67,000 in finders fees which consisted of \$33,000 in cash and \$34,000 in common shares by issuing 100,000 common shares with a fair value of \$0.34 per share. In addition, the Company paid filing and legal fees in the amount of \$32,142. Total cost of CanOrePro acquisition was \$503,742.

CanOrePro holds 100% of the equity of Procesador Canorepro S.A. a private Peruvian based company that is in the process of developing and constructing a mineral based ore processing facility in Peru.

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4. ACQUISITION - Continued

Prior to the acquisition of CanOrePro, Grafton Resources Investment Ltd. ("Grafton"), a Cayman Island based closed end resource fund managed in London, England which has its shares listed for trading on the Irish Stock Exchange, owned 88% of the common shares outstanding of CanOrePro. Grafton acquired its ownership interest of CanOrePro by issuing 231,623 Grafton units to CanOrePro. The common shares issued to Grafton were later consolidated to 100 non voting Class B common shares. The Class B common shares have the same rights and restrictions as the Class A common shares with the exception that they are non-voting.

As Class A and B common shares share equally in the equity of CanOrePro and as a result of the above noted transactions, the Company and Grafton each have a 50% equity interest in CanOrePro.

Per the Agreement, the Company has the option to purchase all of Grafton's Class B common shares of CanOrePro (the "Option"). The Option is exercisable for a period of 36 months with an option price of US\$10,000,000 and shall be payable in cash or shares at the discretion of the Company. If the Company elects to pay the Option price in shares, the deemed value will be based on the 30 day average trading price on the Exchange prior to the issue date of such shares. If the 30 day average trading price is lower than US\$0.55 per share, the deemed price of the consideration shall be US\$0.55 per share.

The acquisition of CanOrePro was treated as an acquisition of assets rather than a business combination because the acquisition does not meet the definition as outlined in the Canadian Institute of Chartered Accountant Handbook Emerging Issues Committee Abstract 124, "Definition of a Business". The operations of CanOrePro have been included in these consolidated financial statements from the date of acquisition.

The following is a summary of the purchase price allocation at the date of acquisition based upon the estimated fair values of the assets acquired and liabilities assumed:

Consideration Given:		
Common shares issued- 1,190,001 common shares	\$	404,600
Finders fees- 100,000 common shares and cash		67,000
Filing and legal fees		32,142
	\$	503,742
Net asset acquired at fair value		
Cash	\$	2,882
Grafton units		1,225,784
Current liabilities (Note 4(i))		(221,181)
Net asset at fair value		1,007,485
Non controlling interest		(503,743)
	\$	503,742

- (i) CanOrePro entered into a short term non interest bearing loan agreement with Grafton whereby Grafton advanced CanOrePro US \$200,000. The principal of the loan will be repaid from proceeds from the future disposition of Grafton units.

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5. MARKETABLE SECURITIES

Marketable securities consist of 2,392,912 common shares of Animas Resources Inc. ("Animas"), a company listed on the TSX-V in Canada, with a fair value of \$1,542,756. 450,000 of these shares were held in escrow as at December 31, 2009 and will be released in 2010 as disclosed in Note 7(a). Escrowed shares are valued at market then reduced by amortization using the Black-Scholes Option Pricing Model.

Marketable securities also include 231,623 Grafton units held by CanOrePro (Note 4) which are valued at \$1,225,784 and 250,000 common shares of GMV Minerals Inc. ("GMV"), a company listed on the TSX-V in Canada, which have a fair value of \$13,750. Grafton is a Cayman Island closed end resource fund managed in London, England. The Grafton units are valued at cost as they do not have a quoted market price in an active market. The GMV shares were received under the RHG property option agreement as disclosed in Note 7(b).

6. CONSTRUCTION IN PROGRESS

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Peru Processing Facility	\$ 39,191	\$ -	\$ 39,191	\$ -
	\$ 39,191	\$ -	\$ 39,191	\$ -

7. RESOURCE PROPERTY COSTS

Summary of cumulative expenditures are as follows:

December 31, 2009					
	Acquisition	Annual Mining Concession Fees	Exploration	Write-off	Total
Resource Property	\$ 1,149,707	-	(63,352)	(1,086,355)	\$ -
RHG Property	\$ 1,149,707	-	(63,352)	(1,086,355)	\$ -
	\$ 1,149,707	-	(63,352)	(1,086,355)	\$ -
As at December 31, 2008					
	Acquisition	Annual Mining Concession Fees	Exploration	Write-off	Total
Resource Property	\$ 1,149,707	-	(51,761)	(697,946)	\$ 400,000
RHG Property	\$ 1,149,707	-	(51,761)	(697,946)	\$ 400,000
	\$ 1,149,707	-	(51,761)	(697,946)	\$ 400,000

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7. RESOURCE PROPERTY COSTS - *Continued*

Summary of current year expenditures:

	2009	2008
Canada		
RHG Property		
Camp and supplies (recovery)	-	(8,885)
Helicopter	-	10,000
Consulting	-	15,000
Geology	-	250
Other	-	9,750
BC mining tax credit	(1,591)	-
Option payment	(10,000)	(25,000)
Total costs (recoveries) for the period	(11,591)	1,115
Mineral property written-off	(388,409)	(697,946)
Net change for the year	(400,000)	(696,831)
Balance - Beginning of Year	400,000	1,096,831
Balance – End of Year	\$ -	\$ 400,000

a) **Santa Gertrudis and Roca Roja**

On April 15, 2007 the Company entered into an agreement to sell 100% of its shares, rights, title and interest of First Silver Reserves, S.A. de C.V. and Recursos Escondidos, S.A. de C.V. (“the Subsidiaries”) to Animas Resources Inc. (“Animas”). The Subsidiaries are registered and beneficial holders of the Santa Gertrudis and Roca Roja properties located in Sonora, Mexico.

In consideration for the sale the Company received \$726,386 in cash and 1,500,000 common shares of Animas, which are subject to an escrow agreement. The shares will be released from escrow in share allotments of 225,000 in 6 month intervals until July 2010. As at December 31, 2009, 450,000 shares (2008 – 900,000 shares) were held in escrow. The following are details pertaining to the escrow release:

Release dates	Shares to be released	Shares received	Escrow balance
July 13, 2007	150,000	150,000	-
January 13, 2008	225,000	225,000	-
July 13, 2008	225,000	225,000	-
January 13, 2009	225,000	225,000	-
July 13, 2009	225,000	225,000	-
January 13, 2010	225,000	-	225,000
July 13, 2010	225,000	-	225,000
Total	1,500,000	1,050,000	450,000

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7. RESOURCE PROPERTY COSTS - Continued

a) **Santa Gertrudis and Roca Roja**

In addition, Animas is required to pay US \$1,500,000 in three equal payments of US\$500,000. The payments can be made in cash and/or common shares of Animas, at the option of Animas, on the anniversary of the closing date, which is July 10. As a result of the sale, the Company reduced the carrying values of the Santa Gertrudis and Roca Roja resources properties to \$Nil and recorded a loss on disposition of \$415,617 in the year ended December 31, 2007.

During the current year, the Company entered into an amending agreement with Animas whereby the Company agreed to extend the due dates and deemed price per share of the remaining instalment payments. The minimum and maximum deemed price per share shall not be lower than \$0.50 or higher than \$1.00, if Animas elects to pay the Company with common shares. As consideration for the amendment, Animas issued the Company an additional 254,454 common shares with a total value of \$94,148.

The changes of due dates on the remaining instalment payments include:

- a) Extending the \$250,000 originally due on July 10, 2009 to January 31, 2010;
- b) Reducing the \$500,000 due in July 10, 2010 to \$250,000; and
- c) Extending the remaining \$250,000 due in July 10, 2010 to January 31, 2011.

During the current year, Animas elected to pay US\$250,000 by issuing 637,700 of its common shares valued at \$191,310.

As at December 31, 2009, no derivative liability has been recorded relating to the minimum deemed price as the fair value of the Animas shares as at December 31, 2009 exceeded \$0.50.

The following are details pertaining to the remaining receivable:

Payment dates	Balance US\$	Balance CAD\$
January 31, 2010	250,000	261,650
July 10, 2010	250,000	248,568
January 31, 2011	250,000	235,634
Total	750,000	745,852

The Company accounted for the long term receivable from Animas at amortized cost using the effective interest rate method. For the year ended December 31, 2009, the Company recorded \$95,081 (2008- \$103,252) non cash interest on long term receivables.

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7. RESOURCE PROPERTY COSTS – Continued

b) **San Enrique**

Subsequent to the disposition of the Company's Mexican subsidiaries in 2007, the Company entered into an option agreement with Animas on July 5, 2007 offering a 120 day option to purchase the Company's 100% interest in the San Enrique property located in Sonora, Mexico for a consideration of US\$450,000.

On February 29, 2008, Animas exercised the option to acquire a 100% interest in the San Enrique property. As consideration, Animas elected to issue 307,429 common shares with a fair value of \$482,664. During the year ended December 31, 2008, the Company recorded a gain of \$482,664 from the disposition of this property.

c) **RHG Property**

On December 15, 2005, Red Tusk entered into an option agreement to acquire a 100% undivided legal and beneficial interest in 16 mineral claims located in the Liard Mining Division, British Columbia, Canada (the "RHG Property") in consideration for \$100,000 in cash (paid), the issuance of 1,000,000 common shares (issued) and reimbursement of exploration costs of \$405,775. The interest in the RHG Property is subject to a 2.5% net smelter return royalty. Red Tusk may purchase 60% of the net smelter return royalty at any time for \$1,000,000.

Reclamation bonds are cash deposits pledged to the Province government of B.C. The bonds mature and roll over every year until the Company is released from its obligation.

An officer of the Optionor is related to a director.

On September 10, 2008, the Company entered into an option agreement (the "Agreement") with Georgia Ventures Corp. ("Georgia Ventures"), a Canadian private corporation located in Vancouver, British Columbia. Under the terms of the Agreement, the Company granted Georgia Ventures an option to acquire a 65% interest in the RHG Property. The option requires Georgia Ventures to:

- (i) pay the Company an aggregate of \$375,000 per the following instalments:
 - a. \$25,000 paid as a deposit upon completion of the Agreement; (received)
 - b. \$25,000 paid within 15 days from the time Georgia Ventures' common shares are listed for trading on the TSX Venture Exchange (the "Approval Date");
 - c. \$75,000 paid on or before the first anniversary of the Approval Date;
 - d. \$100,000 paid on or before the second anniversary of the Approval Date; and
 - e. \$150,000 paid on or before the third anniversary of the Approval Date.

- (ii) issue to the Company 1,000,000 common shares of Georgia Ventures per the following instalments:
 - a. 250,000 common shares within six months from the date of the Agreement; (received)
 - b. 250,000 common shares on or before the first anniversary of the Approval Date;
 - c. 250,000 common shares on or before the second anniversary of the Approval Date; and
 - d. 250,000 common shares on or before the third anniversary of the Approval Date.

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7. RESOURCE PROPERTY COSTS - *Continued*

c) **RHG Property - *Continued***

- (iii) complete minimum expenditures on the RHG Property of \$3,500,000 over three years per the following schedule:
- a. \$300,000 within six months from the date of the Agreement;
 - b. \$700,000 on or before the first anniversary of the Approval Date;
 - c. \$1,000,000 on or before the second anniversary of the Approval Date; and
 - d. \$1,500,000 on or before the third anniversary of the Approval Date.

If Georgia Ventures exercises the option, Georgia Ventures is also granted an exclusive option (the "Additional Option") to acquire an additional 10% interest in and to the RHG Property. The Additional Option requires Georgia Ventures to notify the Company 90 days before exercising the Additional Option and finance all expenditures related to the preparation and delivery of the feasibility report on the RHG to the Company.

On September 30, 2008, the Company entered into an assignment agreement whereby all benefits and costs related to the Agreement with Georgia Ventures have been assigned from Georgia Ventures to GMV Minerals Inc., a Canadian public corporation listed on the TSX Venture Exchange.

For the year ended December 31, 2008, the Company recognized an impairment charge of \$697,946 on the RHG property.

As at December 31, 2009, GMV was in default as it had not met the terms of the agreement including failure to make cash payments, share issuances and expenditures on the RHG Property. As at December 31, 2009, a notice of default had not been issued. As a result, the Company recognized an impairment charge of \$388,409 on the RHG property and reduced the carrying value to nil.

8. SHARE CAPITAL

On August 17, 2009, the Company completed a 3 for 1 share consolidation. At that date, the Company had 24,672,346 common shares issued and outstanding resulting in 8,224,117 common shares outstanding after consolidation. Comparative amounts have been consolidated.

a) Details are as follows:

	<u>Number</u>	<u>Amount</u>
Authorized:		
Unlimited common shares without par value		
Issued and fully paid:		
Balance - December 31, 2007	8,224,117	12,163,593
Share issuance cost recovery	-	2,250
Balance - December 31, 2008	8,224,117	12,165,843
Shares issued for business acquisition (<i>Note 4</i>)	1,290,001	438,600
Shares issued for cash (net of costs) (<i>Note 8(a)(i) and (ii)</i>)	3,500,000	1,017,446
Balance- December, 31 2009	13,014,118	\$ 13,621,889

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8. SHARE CAPITAL- *Continued*

a) Details on share capital

- i) On September 18, 2009, the Company closed the first tranche of a non brokered private placement and received \$270,000 by issuing 818,182 units at \$0.33 per unit. Each unit consist of one common share and one half of one non transferable common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share at \$0.50 per share for a one year period and \$0.65 per share in the second year. The Company paid finders fees of \$27,000, resulting in net proceeds of \$243,000 from this private placement.
- ii) On November 25, 2009, the Company closed the second tranche of a non brokered private placement and received gross proceeds of \$885,000 and issued 2,681,818 units at \$0.33 per unit. Each unit consist of one common share and one half of one non transferable common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share at \$0.50 per share for a one year and \$0.65 per share in the second year. The Company paid finders fee of \$70,788, resulting in net proceeds of \$814,212 from this private placement. The Company also issued 187,100 warrants to the agents with a fair value of \$39,765 recorded as a share issuance cost. Each agent warrant entitles the holder to purchase one additional common share at \$0.50 per share for a one year and \$0.65 per share in the second year.

For purposes of the calculation, the following weighted average assumptions were used:

	2009
Risk free interest rate	1.32%
Expected dividend yield	-
Expected stock price volatility	117%
Expected life of options	2 years

The weighted average fair value of the agent warrants issued during the period was \$0.21.

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8. SHARE CAPITAL - Continued

b) **Warrants**

Warrant transactions are summarized as follows:

	Number of Warrants	
	December 31, 2009	December 31, 2008
Balance - Beginning of year	-	2,939,949
Issued (Note 7(a)(i) and (ii))	1,937,100	-
Expired	-	(2,939,949)
Balance – End of year	1,937,100	-

9. CONTRIBUTED SURPLUS

The Company's contributed surplus is comprised of the following:

	2009		2008	
Balance - Beginning of year	\$	1,459,688	\$	1,378,282
Stock-based compensation (Note 11)		201,743		81,406
Warrants issued to agents (Note 8(a))		39,765		-
Balance - End of year	\$	1,701,196	\$	1,459,688

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	2009		2008	
Balance - Beginning of year	\$	(223,462)	\$	1,579,673
Unrealized gain (loss) on marketable securities		628,726		(1,803,135)
Balance - End of year	\$	405,264	\$	(223,462)

11. STOCK OPTIONS

At the Company's June 26, 2009 Annual General and Special Meeting of the Shareholders, the Company adopted a stock option plan pursuant to which the directors may, from time to time, authorize the issuance of options to directors, officers, employees and consultants of the Company and its subsidiaries to a maximum of 10% of the issued and outstanding common shares at the time of the grant. Options granted under the plan are not subject to vesting.

a) A summary of the Company's outstanding options is as follows:

	December 31, 2009		December 31, 2008	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	650,000	\$0.54	688,889	\$0.87
Granted	658,889	\$0.39	416,667	\$0.39
Exercised	-	-	-	-
Expired/Cancelled	(338,889)	\$0.19	(455,556)	\$0.84
Ending balance	970,000	\$0.39	650,000	\$0.54

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11. STOCK OPTIONS- *Continued*

b) The Company had the following share purchase options outstanding and exercisable:

December 31, 2009				
Quantity			Exercise	
Outstanding	Exercisable		Price	Expiry Date
311,111	311,111		\$0.39	March 6, 2010
658,889	658,889		\$0.39	January 10, 2011
970,000	970,000			

December 31, 2008				
Quantity			Exercise	
Outstanding	Exercisable		Price	Expiry Date
233,333	233,333		\$0.90	May 16, 2009
416,667	208,333		\$0.39	March 6, 2010
650,000	441,666			

The weighted average contract life remaining on the above options is 455 days or 1.25 years (2008 – 0.89 years).

The Company uses the Black-Scholes Option Pricing Model (the “Model”) to calculate the fair value of stock options granted. The Model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The Model requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the calculation, the following weighted average assumptions were used:

	2009	2008
Risk free interest rate	1.31%	2.52%
Expected dividend yield	-	0%
Expected stock price volatility	132%	78%
Expected life of options	2 years	2 years

The weighted average fair value of the options granted during the period was \$0.26 (2008 - \$0.18).

Total stock-based compensation for the period ended December 31, 2009 was \$201,743 (2008 - \$81,406) and was expensed to operations and included in contributed surplus for options granted to directors, officers, and consultants of the Company.

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12. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these consolidated financial statements, are as follows:

- a) During the year, management fees of \$140,625 (2008 - \$132,750) were paid to companies controlled by a director and by an officer of the Company. The Company is committed to pay \$11,250 per month to companies controlled by a director and by an officer of the Company expiring August 2011.
- b) During the year, consulting fees of \$Nil (2008 - \$1,350) were paid to a company controlled by an officer.
- c) During the year, accounting fees of \$34,000 (2008 - \$22,000) were paid to a company controlled by an officer. The Company is committed to pay \$4,000 per month to a company controlled by an officer for accounting services expiring August 2011.
- d) During the year, the Company paid \$125,231 (2008 - \$64,996) for rent, office, accounting and investor relations expenses to a company controlled by a director and by an officer of the Company.
- e) During the year, the Company expensed \$199,404 (2008 - \$81,406) of stock-based compensation cost for stock-based compensation options allocated to directors and officers of the Company.
- f) During the year, the Company paid \$nil (2008 - \$4,299) for accounting and investor relations expense to a company with directors in common.
- g) The Company entered into an option agreement with GMV Minerals Inc ("GMV"), a company with a common director. The Company received \$nil (2008 - \$25,000) as consideration and reimbursement of \$nil (2008 - \$13,000) for a reclamation bond (Note 7c). Accounting fees of \$Nil (2008 - \$12,000) were also paid to GMV.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the consideration established and agreed to by the related parties and are on terms and conditions similar to non-related parties.

As at December 31, 2009, the Company had advanced \$85,282 (2008 - \$40,000) to a company controlled by directors and officer of the Company for future rent and office expenses. The amount is non-interest bearing with no formal terms of repayment.

13. INCOME TAXES

- a) The Company has the following non-capital tax loss carry-forwards expiring in the following years:

2010	\$	316,000
2014		426,000
2015		416,000
2026		379,000
2027		392,000
2028		66,000
2029		825,000
		<hr/>
	\$	<u>2,820,000</u>

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13. INCOME TAXES- *Continued*

- b) The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2009	2008
Canadian statutory income tax rate	30.00%	31.00%
Income tax recovery at statutory rate	\$ (405,232)	\$ (90,129)
Permanent difference and others	62,808	288,511
Rate change	35,050	73,782
Expiry of loss	71,018	-
Change in valuation allowance	236,356	(272,164)
Income tax recoverable	\$ -	\$ -

- c) Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The significant components of the Company's future income tax assets and liabilities as at December 31, 2009 and 2008 are as follows:

	2009	2008
	25%	25%
Accounting value of resource property costs		
less than tax value	\$ 690,000	\$ 614,000
Property and equipment	2,000	2,000
Capital loss carry forward	10,000	-
Share issue costs	37,000	12,000
Investment tax credits	29,000	29,000
Marketable securities	(51,000)	28,000
Long term receivables	2,000	(33,000)
Non-capital losses carried forward	708,000	545,000
Eligible capital expenditures	32,000	26,000
Future income tax asset	1,459,000	1,223,000
Less: Valuation allowance	(1,459,000)	(1,223,000)
Future income tax asset recognized	\$ -	\$ -

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14. FINANCIAL INSTRUMENTS

Transaction Costs

Transaction costs attributable to the acquisition or issue of financial assets or financial liabilities, other than those classified as held-for-trading, are added to the initial fair value amount to match the costs with the related transactions. Purchases and sales of securities are accounted for on the settlement date basis.

Fair Value

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's balance sheet as of December 31, 2009 as follows:

	Fair Value Measurements Using			Balance as of December 31, 2009 \$	
	Quoted Prices in Active Markets For Identical Instruments (Level 1) \$	Significant Other Observable Inputs (Level 2) \$	Significant Unobservable Inputs (Level 3) \$		
	Assets:				
	Cash	784,759	–		–
	Marketable Securities	1,556,506	–		–
Total assets measured at fair value	2,341,265	–	–		

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and long-term receivable. To minimize the credit risk the Company places the cash with high credit quality financial institutions. Management, on an ongoing basis, monitors the financial condition of Animas in order to reduce the default risk.

The Company's long-term receivable is from Animas. Credit risk from long-term receivable encompasses the default risk of Animas. Management does not believe that there is significant credit risk arising from Animas; however, should Animas be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from long-term receivable is equal to their total carrying amounts. The Company is not exposed to interest rate risk on long-term receivable as the amount is fixed.

Currency Risk

The Company incurs expenses and expenditures primarily in Canada and is not exposed to risk from changes in foreign currency rates. However, the Company holds the long-term receivable in U.S. dollars that exposes the Company to foreign exchange risks. A significant change in the exchange rates between the Canadian dollar relative to the U.S. dollar could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2009, the Company had a long-term receivable of \$750,000 and loan payable of \$200,000 denominated in U.S. dollars.

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14. FINANCIAL INSTRUMENTS -Continued

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. Currently the Company has minimal liabilities and as a result, is not exposed to liquidity risk.

The following table summarizes the Company's contractual maturities for financial liabilities as at December 31, 2009

Payment due by period	Total \$	Less than 1 year \$	1-3 years \$	After 3 years \$
Short term loan (CanOrePro)	209,320	209,320	—	—
	209,320	209,320	—	—

Market Risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The Company is exposed to market risk in holding its marketable securities, and unfavourable market conditions could result in dispositions of investments at less than favourable prices.

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income for the year had a change in foreign exchange rates occurred.

The sensitivity analysis includes the assumption that changes in individual foreign exchange rates do not cause foreign exchange rates in other countries to alter.

The result of the sensitivity analysis shows a change in +/- 10% in the US dollar exchange rate could have an impact of approximately +/- \$55,000 on the Company's net income.

This result arises primarily because the Company has a long-term receivable and a loan payable balance denominated in US dollars. The actual results of a change in foreign exchange rates would depend on the foreign currency denominated assets and liabilities at the time and could cause the impact on the Company's results to differ from the above.

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15. COMMITMENTS

- a) The Company is committed to a lease for its office in Vancouver expiring in August 2011. Minimum lease payments are required as follows:

2010	\$	113,745
2011		<u>75,830</u>
Total	\$	<u>189,575</u>

- b) The Company entered into an agreement with a consultant to provide environmental impact studies services. The Company is committed to spend a further \$85,776US (\$89,773Cdn) as part of the arrangement with the consultant.

16. CONTINGENT LIABILITY

A legal proceeding was brought against the Company's subsidiary CanOrePro on December 4, 2009 by a former employee for wrongful employment termination seeking damages in the approximate amount of \$609,708. CanOrePro holds the position that the former employee is not entitled to any severance or compensation and CanOrePro is in the process of filing a Statement of Defence and will vigorously defend its position.

17. MANAGEMENT OF CAPITAL

The Company defines capital as all components of shareholders' equity. The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The board of directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends and is not subject to any externally imposed capital requirements.