

Linear Gold Corp.
(A Development Stage Enterprise)

Consolidated Financial Statements
March 31, 2008 and 2007

June 19, 2008

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **Linear Gold Corp.** have been prepared by the Company's management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are independent directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, have examined these consolidated financial statements and their report follows.

(signed) "*Wade K. Dawe*"
President & CEO
Halifax, Nova Scotia

(signed) "*Keith Abriel*"
Chief Financial Officer

June 19, 2008

Independent Auditors' Report

To the Shareholders of Linear Gold Corp.

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

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

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

(signed) "*PricewaterhouseCoopers LLP*"

Chartered Accountants

Linear Gold Corp.

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Consolidated Balance Sheets

As at March 31, 2008 and 2007

(in Canadian dollars)

	2008 \$	2007 \$
Assets		
Current assets		
Cash and cash equivalents	25,577,634	30,348,334
Marketable securities	137,500	–
Accounts receivable (note 11)	689,484	586,463
Sales taxes recoverable	583,202	1,654,550
Deposits (note 13)	876,194	–
Prepaid expenses	53,975	6,097
	<u>27,917,989</u>	<u>32,595,444</u>
Property and equipment (note 6)	309,246	334,668
Reclamation deposits (note 7)	35,029	33,708
Resource properties (note 8)	<u>29,534,887</u>	<u>26,575,440</u>
	<u>57,797,151</u>	<u>59,539,260</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	<u>501,811</u>	<u>808,770</u>
Shareholders' Equity		
Share capital (note 9)	64,290,836	62,596,341
Warrants (note 10)	4,407,191	4,407,191
Contributed surplus (note 9)	2,733,551	2,072,778
Accumulated other comprehensive loss	(111,000)	–
Deficit	<u>(14,025,238)</u>	<u>(10,345,820)</u>
	<u>57,295,340</u>	<u>58,730,490</u>
	<u>57,797,151</u>	<u>59,539,260</u>
Commitments and contingency (note 13)		

Approved on behalf of the Board of Directors

(signed) "Derrick Gill"
Director

(signed) "Wade K. Dawe"
Director

Linear Gold Corp.

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Consolidated Statements of Operations, Deficit and Comprehensive Loss

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

	2008 \$	2007 \$
Income		
Interest	1,209,313	561,587
Other	294,448	130,824
	<u>1,503,761</u>	<u>692,411</u>
Operating costs and expenses		
Depreciation and amortization	63,045	56,752
Investor relations and marketing	352,337	591,684
Office	79,676	60,745
Premises	81,267	65,260
Professional services	78,925	177,186
Regulator and securities	109,918	103,706
Salaries and benefits	1,303,969	1,023,614
Stock-based compensation	805,374	307,450
Travel	194,430	180,413
Write-down of resource properties (note 8)	1,958,083	62,273
	<u>5,027,024</u>	<u>2,629,083</u>
Loss before the following	<u>(3,523,263)</u>	<u>(1,936,672)</u>
Other expenses (income)		
Costs associated with distribution of subsidiary (note 5)	–	122,144
Foreign exchange losses	236,083	31,458
Gain on sale of marketable securities	(79,928)	(237,146)
	<u>156,155</u>	<u>(83,544)</u>
Net loss for the years	(3,679,418)	(1,853,128)
Dividend (note 5)	–	(1,100,017)
Deficit – Beginning of years	<u>(10,345,820)</u>	<u>(7,392,675)</u>
Deficit – End of years	<u>(14,025,238)</u>	<u>(10,345,820)</u>
Loss per share – basic and diluted	<u>(0.13)</u>	<u>(0.08)</u>
Weighted average number of common shares outstanding – basic and diluted	<u>27,697,625</u>	<u>22,169,575</u>
Statement of comprehensive loss		
Net loss for the years	(3,679,418)	(1,853,128)
Other comprehensive loss		
Net change in unrealized loss on available for sale securities	(111,000)	–
Comprehensive loss	<u>(3,790,418)</u>	<u>(1,853,128)</u>

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Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

	2008 \$	2007 \$
Cash provided by (used in)		
Operating activities		
Net loss for the years	(3,679,418)	(1,853,128)
Charges (credits) to income not involving cash		
Depreciation and amortization	63,045	56,752
Stock-based compensation	805,374	307,450
Gain on sale of marketable securities	(79,928)	(237,146)
Write-down of resource properties	1,958,083	62,273
	(932,844)	(1,663,799)
Net change in non-cash working capital items related to operations		
Decrease (increase) in accounts receivable	(253,021)	52,465
Decrease (increase) in advances to exploration partners	—	59,066
Decrease (increase) in sales taxes recoverable	8,091	4,339
Decrease (increase) in deposits	(876,194)	—
Decrease (increase) in prepaid expenses	(47,878)	20,916
Decrease (increase) in reclamation deposits	(1,321)	(748)
Increase (decrease) in accounts payable and accrued liabilities	150,078	(92,999)
	(1,953,089)	(1,620,760)
Financing activities		
Units issued for cash	—	25,000,000
Stock options exercised for cash	982,000	646,750
Share issuance costs	—	(1,668,726)
Repayment of loans to officers and directors to exercise options	488,000	—
	1,470,000	23,978,024
Investing activities		
Proceeds on sale of marketable securities	79,928	312,521
Resource property interests and options, net	(5,325,138)	(10,098,515)
Sales tax recoverable related to resource property interests	1,063,257	(401,013)
Purchase of equipment	(105,658)	(45,990)
	(4,287,611)	(10,232,997)
Net change in cash and cash equivalents during the years	(4,770,700)	12,124,267
Cash and cash equivalents – Beginning of years	30,348,334	18,224,067
Cash and cash equivalents – End of years	25,577,634	30,348,334

Supplemental cash flow information (note 14)

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Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

1 Nature of operations

The Company, directly and with exploration partners, is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The amounts shown as resource properties and related deferred costs represent costs net of recoveries to date, less amounts written off, and do not necessarily represent present or future values.

The Company has no income or cash flow from operations. The Company will periodically have to raise additional funds to complete exploration and development and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future. The recoverability of amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing and permits to continue operations, completing development and attaining future profitable production or proceeds from the disposition thereof.

2 Changes in accounting policies

Effective April 1, 2007, the Company adopted five new accounting standards issued by the Accounting Standards Board: (i) Section 1530, Comprehensive Income; (ii) Section 3251, Equity; (iii) Section 3855, Financial Instruments – Recognition and Measurement; (iv) Section 3861, Financial Instruments – Disclosure and Presentation; and (v) Section 3865, Hedges.

The new standards prescribe how financial instruments are to be recognized depending on their classification. Depending on financial instruments' classification changes in subsequent measurements are recognized in net income (loss) or comprehensive income (loss).

If a financial instrument is measured at fair value, changes in its fair value usually shall be recognized in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available for sale investments. For investments designated as being available for sale, changes in the fair value shall be recorded directly in Shareholders' Equity in a separate account called "Accumulated Other Comprehensive Income (Loss)" until the asset is disposed of or becomes impaired. At that time, the gains and losses are transferred to the Statement of Operations.

The Company has implemented the following classifications:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market and changes in fair value are recognized in net income (loss) each period.
- Marketable securities are classified as available-for-sale financial assets and are marked to market and changes in fair value are recognized in other comprehensive income (loss) each period.
- Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

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2 Change in accounting policies (continued)

- Accounts payable and accrued liabilities are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

These new standards have been applied without restatement of prior period amounts. Upon initial application, there were no adjustments required to the carrying amount of financial assets and liabilities based on the classification of existing assets and liabilities.

3 Significant accounting policies

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and, in management’s opinion, within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Linear Gold Mexico, S.A. de C.V., Linear Gold Caribe, S.A., Servicios Ixhuatan, S.A. de C.V., Linear Gold Mineração Ltda. and Linear Gold Holdings Corp., as well as the accounts of Linear Metals Corporation, 6321593 Canada Inc. and Linear Metal Corp. Mexico, S.A. de C.V. up to the Company’s distribution of Linear Metals Corporation on June 26, 2006 (see note 5) (individually and collectively referred to as the “Company”). All inter-company transactions and balances have been eliminated on consolidation of the accounts. All amounts presented are in Canadian dollars unless otherwise stated.

Resource properties

As a development stage enterprise, the Company defers all expenditures related to its resource properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, all amounts shown as resource properties represent costs incurred to date, less amounts amortized, received from exploration partners and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted following the unit-of-production method. If the properties are sold or abandoned, or considered to be impaired in value, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its resource properties.

The carrying values of resource properties, on a property-by-property basis, are reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the resource property will be written down to its fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon the delineation of economically recoverable ore reserves, the Company’s ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

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3 Significant accounting policies (continued)

Resource properties (continued)

Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

Marketable securities

Marketable securities are measured at fair value with changes in fair value recorded in other comprehensive income (loss).

Property option agreements

From time to time, the Company may acquire or dispose of a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable in accordance with the terms of the options are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

Loss per share

Loss per share is computed based on the weighted average number of common shares outstanding during the years. Diluted loss per share has not been disclosed since the exercise of options and warrants would be anti-dilutive.

Management estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount 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. Actual results may differ from those estimates.

Cash equivalents

Cash equivalents consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased and which bear interest at nominal annual rates of return.

Future income taxes

Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the date substantively enacted tax rates will be effective. A valuation allowance has been applied against all of the future income tax assets, as realization is not considered more likely than not.

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3 Significant accounting policies (continued)

Related party transactions

All transactions with related parties are in the normal course of business and are measured at the exchange amount.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining-balance method at the annual rate of 30% for office furniture and exploration equipment and the straight-line method at the annual rate of 25% for exploration vehicles.

Leasehold improvements are amortized on a straight-line basis over the term of the related lease.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average exchange rates prevailing during the years except for amortization, which is translated at historical exchange rates. Gains and losses on translations are included in the determination of income (loss) for the years.

Stock-based compensation

The Company accounts for stock options using the fair value method of the Canadian Institute of Chartered Accountants Handbook Section 3870 ("CICA 3870"), "Stock-based Compensation and Other Stock-based Payments". Under this Section, the fair value of all stock options granted are recorded in operations over their vesting periods.

The estimated fair value of options is determined using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is expensed on a straight-line basis over their vesting periods. Cash consideration received from employees when options are exercised is credited to capital stock.

Future accounting changes

The Canadian Institute of Chartered Accountants has issued accounting standards that become effective for the Company on April 1, 2008: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

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(in Canadian dollars)

3 Significant accounting policies (continued)

Future accounting changes (continued)

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Further disclosure by the Company will be required by this standard. The Company does not expect that this section will have a significant impact on its financial statements.

Sections 3862 and 3863 will replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Based on the financial instruments currently held by the Company and the disclosure already made, it is not expected that the revised sections will have a significant impact on the financial statements.

4 Financial instruments

a) Fair market value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of accounts receivable, deposits and accounts payable and accrued liabilities, approximates their fair value because of the short-term nature of those instruments.

b) Foreign currency rate risk management

A significant portion of the Company's transactions occur in United States, Mexican, Brazilian and Dominican Republic currencies, and accordingly the related financial assets and financial liabilities are subject to fluctuations in the respective exchange rates.

c) Concentration of credit risk

The Company does not believe it is exposed to any significant concentration of credit risk, with the exception of the sales taxes recoverable and certain deposits. Virtually all of the sales taxes recoverable and deposits are with governments in a foreign jurisdiction.

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5 Linear Metals Corporation distribution

On June 26, 2006, the Company completed its distribution of Linear Metals Corporation (“Linear Metals”), a 100%-owned subsidiary of the Company at that time, as a dividend-in-kind to shareholders of record on June 26, 2006. Prior to the dividend distribution, the Company had transferred its La Morena and Tierra Blanca properties, located in Mexico, and its Seymour Lake and KM61 properties, located in Canada, to Linear Metals, as well as providing Linear Metals with an option to earn an 80% interest in the Cobre Grande property in Mexico.

The Company’s 100% ownership interest in Linear Metals was distributed to the Company’s shareholders on the basis of one unit of Linear Metals for each share of the Company.

Prior to the distribution, the Company incurred expenditures of \$122,144 through Linear Metals, arising from professional fees and filing fees associated with the completion of Linear Metals’ prospectus, private placement and TSX Venture Exchange listing. These expenses have been included in the results of the Company for the year ended March 31, 2007.

The amount of the dividend-in-kind was \$1,100,017, representing the book value of Resource Properties transferred to Linear Metals.

6 Property and equipment

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Office equipment	241,364	100,085	141,279
Exploration equipment	145,809	80,673	65,136
Exploration vehicles	227,407	155,201	72,206
Leasehold improvements	53,983	23,358	30,625
	668,563	359,317	309,246
	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Office equipment	162,374	62,524	99,850
Exploration equipment	142,606	59,753	82,853
Exploration vehicles	227,407	99,764	127,643
Leasehold improvements	30,518	6,196	24,322
	562,905	228,237	334,668

During the year ended March 31, 2008, the Company capitalized amortization of \$68,035 (2007 - \$65,975) to resource properties.

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(in Canadian dollars)

7 Reclamation deposits

Term deposits totaling \$35,029 (2007 - \$33,708) have been posted as a reclamation bond held in trust with the Ministry of Finance, Province of British Columbia.

8 Resource properties

	2008		
	Mineral properties costs \$	Deferred exploration and development costs \$	Total \$
Mexico			
Ixhuatan	1,159,016	24,976,639	26,135,655
Cobre Grande	168,812	1,046,724	1,215,536
Other	55,280	220,128	275,408
Dominican Republic	741,255	370,916	1,112,171
Brazil	107,431	688,686	796,117
	2,231,794	27,303,093	29,534,887
			2007
	Mineral properties costs \$	Deferred exploration and development costs \$	Total \$
Mexico			
Ixhuatan	1,121,466	21,249,385	22,370,851
Cobre Grande	168,812	1,046,484	1,215,296
Other	360,954	1,176,158	1,537,112
Dominican Republic	741,134	711,047	1,452,181
	2,392,366	24,183,074	26,575,440

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(in Canadian dollars)

8 Resource properties (continued)

The Company's interest in resource properties consists of:

a) Mexico

i) Ixhuatan

The Company has a 100% interest in the Ixhuatan Project ("Ixhuatan"), covering an area of approximately 98,000 hectares in the state of Chiapas. Ixhuatan is covered by exploration concessions which can be replaced by exploitation concessions upon application by the Company. Ixhuatan includes the Campamento Deposit, the Cerro la Mina Discovery and several other prospective drill targets.

Effective October 26, 2007, the Company entered into an Option Agreement (the "Agreement") with Kinross Gold Corporation ("Kinross") with respect to the exploration and potential future development of Ixhuatan, granting Kinross an option to earn up to a 70% interest in Ixhuatan.

Under the terms of the Agreement, Kinross' subsidiary became the operator of Ixhuatan and must incur a minimum of US\$15 million of expenditures on Ixhuatan within the 24-month period ending on October 26, 2009. Upon completion of such expenditures, Kinross will have the option to acquire an initial 60% interest in Ixhuatan by paying the Company US\$45 million. Kinross will then have a further option to increase its interest in Ixhuatan to 70% by paying the Company an additional US\$55 million within 90 days of Kinross' board of directors approving the construction and development of a mine, based on a positive NI 43-101 compliant feasibility study. If such a production decision is made and the Proven and Probable Gold Reserves and Gold Equivalent Ounce Silver Reserves of the Project, as referenced in the feasibility study, are greater than 2.0 million ounces, Kinross will pay the Company an additional fee, calculated as follows:

Proven and Probable Gold Reserves and Gold Equivalent Ounce Silver Reserves	Payment US \$
2.0 million – 2.49 million	5,000,000
2.5 million – 2.99 million	10,000,000
Greater than 3 million	15,000,000

During the year ended March 31, 2008, under the terms of the Agreement, Kinross paid the Company a US\$1.0 million transaction fee upon signing of the Agreement and reimbursed the Company US\$0.5 million to offset a portion of the exploration expenditures at Ixhuatan between September 6, 2007, the date of the signing of the letter of intent, and October 26, 2007. These amounts have been recorded as a recovery against the Company's exploration expenditures relating to Ixhuatan.

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(in Canadian dollars)

8 Resource properties (continued)

a) Mexico (continued)

ii) Cobre Grande

The Company held the right to acquire a 100% interest in the 6,238 hectare Cobre Grande polymetallic mineral project through a purchase option agreement with the Community of San Baltazar Guelavila (the "Community"). In 2006, the Company transferred the right to earn an 80% interest in the agreement to Linear Metal Corp Mexico, S.A de C.V., a subsidiary of Linear Metals Corporation (note 5). To earn its 80% interest in the agreement, Linear Metal Corp Mexico, S.A. de C.V. must fulfill the remaining terms of the agreement with the Community, which includes a payment of US\$90,000 by March 2009. If the purchase option is exercised by March 2009, the Community can choose between a US\$12 million buyout, a 2% Net Smelter Returns royalty, or a 15% participation interest, with the purchaser being responsible for all capital outlays. The Company retained a 20% interest in the agreement, which can be purchased by Linear Metals at any time prior to December 31, 2008, for US\$1.2 million. If Linear Metals does not acquire the residual 20% interest from the Company, an 80/20 venture will be formed which will be responsible for the remaining obligations to the Community.

iii) Other

The Company holds a 100% interest in the mineral rights of the Motozintla Property, an early-stage project located in the state of Chiapas.

During the year ended March 31, 2008, the Company relinquished its interests in certain early-stage properties in the state of Chiapas, including La Reforma, Los Olivos and Niquivil; and certain other early-stage properties located in the state of Oaxaca, including Loma Bonita and Yolanda, resulting in a write down of resource properties of \$1,958,083.

During the year ended March 31, 2007, the Company relinquished its interests in certain early-stage properties in the state of Chiapas, including the properties of Tenochitlan, Piedra Azul, El Porvenir, El Pajal, Estrella Roja and Tulanca resulting in a write down of resource properties of \$62,273.

b) Dominican Republic

The Company holds a 100% interest in the 4,045 hectare Ampliacion Pueblo Viejo Concession and the 3,450 hectare Loma Hueca and a 50% interest in the 5,775 hectare Loma E1 Mate Concession. On March 9, 2007 (amended April 10, 2007), the Company signed a Letter of Intent (the "Letter") with Everton Resources Inc. ("Everton") whereby Everton can acquire up to an undivided 65% interest in all three of the concessions.

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8 Resource properties (continued)

b) Dominican Republic (continued)

i) Ampliacion Pueblo Viejo Concession

Everton can earn a 50% interest in the Ampliacion Pueblo Viejo Concession by making total cash payments to the Company of US\$700,000 and issuing a total of 1,200,000 common shares to the Company and completing work commitments of US\$2,500,000 over a three-year period. During the year, and cumulative to date, the Company has received cash payments of US\$100,000 and 200,000 common shares of Everton. These amounts have been recorded as a recovery against the Company's exploration expenditures relating to the Ampliacion Pueblo Viejo Concession.

Everton can increase its interest in the Ampliacion Pueblo Viejo Concession to 65% by incurring all additional expenditures on the concession to the completion of a bankable feasibility study, paying the Company US\$2,000,000 and issuing 1,000,000 common shares to the Company.

ii) Loma Hueca Concession

Everton can earn a 50% interest in the Loma Hueca Concession by making total cash payments to the Company of US\$100,000, issuing a total of 200,000 common shares to the Company and completing work commitments of US\$600,000 over a three-year period. During the year, and cumulative to date, the Company received US\$50,000 and received 50,000 Everton common shares. These amounts have been recorded as a recovery against the Company's exploration expenditures relating to the Loma Hueca Concession.

Everton can increase its interest in the Loma Hueca Concession to 65% by incurring all additional expenditures on the concession to the completion of a bankable feasibility study, paying the Company US\$250,000 and issuing 300,000 common shares to the Company.

iii) Loma EI Mate Concession

Everton can acquire an additional 15% interest, thereby increasing its total interest to 65%, in the Loma EI Mate Concession by incurring all additional expenditures on the concession to the completion of a bankable feasibility study.

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8 Resource properties (continued)

c) Brazil

During the year, the Company entered into Letters of Intent and on March 28, 2008, four separate and independent agreements, with Geomin, S.A. ("Geomin"), whereby the Company can earn or acquire up to a 100% interest in four exploration properties in the state of Mato Grosso. The Company can earn up to a 70% interest in any of the properties by making total cash payments and incurring minimum exploration expenditures over a three-year period as follows:

	El Filao US \$	Apiacas US \$	Trairao US \$	Serrinha US \$
Cash payments				
Cash payments	260,000	1,425,000	1,325,000	220,000
Expenditure commitments	1,200,000	1,600,000	1,500,000	1,000,000

At March 31, 2008, the cash payments of US\$105,000 were recorded as accounts payable and were paid subsequent to year-end. The Company is committed to making total cash payments of US\$110,000 on, or before, September 28, 2008.

Within 90 days following the completion of a positive NI 43-101 compliant feasibility study and a decision by the Company exercise its option on any of the projects, subject to certain conditions and adjustments, the Company can elect to acquire the remaining 30% in the project, at which time the Company can elect a payment option as follows:

	El Filao US \$	Apiacas US \$	Trairao US \$	Serrinha US \$
Cash payment	2,100,000	5,500,000	5,500,000	2,700,000
	or	or	or	or
Cash payment and Net Smelter Royalty	1,700,000 1.00%	2,700,000 1.25%	2,700,000 1.25%	2,000,000 1.00%

Within 90 days following the completion of a positive NI 43-101 compliant feasibility study and a decision by the Company to exercise its option on any of the projects, subject to certain conditions and adjustments, Geomin can elect to have the Company acquire the remaining 30% in the project, at which time the Company can elect from similar payment options to the above, with lower cash payments.

Linear Gold Corp.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

9 Share capital

a) Authorized

Unlimited number of common shares without par value

Unlimited number of first preferred shares without par value

Unlimited number of second preferred shares without par value

b) Changes in the Company's issued common share capital during the years were as follows:

	Year ended March 31, 2008		Year ended March 31, 2007	
	Number	Amount \$	Number	Amount \$
Opening balance	27,207,980	62,596,341	21,380,980	42,070,678
Shares issued for cash (note 9 (c))	–	–	5,000,000	20,975,000
Shares issued on exercise of options	710,000	1,320,000	827,000	1,134,750
Value of options exercised	–	374,495	–	466,830
	27,917,980	64,290,836	27,207,980	64,647,258
Less: Share issue costs	–	–	–	(2,050,917)
Closing balance	27,917,980	64,290,836	27,207,980	62,596,341

c) Shares issued for cash

On March 1, 2007, the Company completed a private placement financing of 5,000,000 units at a price of \$5.00 per unit, for aggregate gross proceeds of \$25,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$5.50 for a period of 24 months. The value allocated to the common shares issued was \$20,975,000, and the value allocated to the warrants was \$4,025,000. Total costs associated with the private placement were \$2,438,226, including cash paid for commissions and legal fees of \$1,668,726 and warrants issued to underwriters valued at \$769,500. The warrants issued to the underwriters were broker warrants exercisable for 300,000 units of the Company at an exercise price of \$5.00 per unit, which were valued at \$769,500 (see note 10 (b)). The Company allocated \$2,050,917 to the costs of issuing common shares and \$387,309 to the costs of issuing warrants.

Linear Gold Corp.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

9 Share capital (continued)

d) Stock option plan

The Company has a stock option plan (the "Plan") providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price not less than the closing share price of the day preceding the date of grant.

The estimated fair value of options recognized in the consolidated statement of operations and deficit, has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate. The weighted average assumptions used in the pricing model to assign value to the options granted during the years are as follows:

	2008	2007
Risk free interest rate	3.76%	4.28%
Expected life	3.3 years	2.5 years
Expected volatility	61%	62%
Expected dividend yield	nil	nil

Option activity during the years ended March 31:

	2008		2007	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Opening balance	1,702,500	4.03	2,239,500	3.03
Exercised	(710,000)	1.86	(827,000)	1.37
Granted	1,932,500	3.90	550,000	5.07
Expired/cancelled	<u>(782,500)</u>	5.60	<u>(260,000)</u>	6.11
Closing balance	<u>2,142,500</u>	4.08	<u>1,702,500</u>	4.03

The weighted average grant date fair value per option of options issued during the year was \$1.56 (2007 - \$1.95).

The Company capitalized \$229,894 (2007 - \$165,289) in stock-based compensation expense to Resource Properties.

Linear Gold Corp.

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Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

9 Share capital (continued)

d) Stock option plan (continued)

As at March 31, 2008, the Company has outstanding stock options entitling the holders to acquire additional common shares as follows:

Price \$	Number outstanding	Weighted average remaining contractual life in years	Weighted average exercise price \$
3.00	1,005,000	4.8	3.00
5.00	1,112,500	1.8	5.00
6.30	10,000	1.0	6.30
6.34	<u>15,000</u>	1.6	6.34
	<u>2,142,500</u>	3.2	4.08

As at March 31, 2008, 649,298 options remained available for future grants under the plan. Options vested and exercisable at March 31, 2008 totalled 111,500 at an average exercise price of \$5.13 per share.

e) Contributed surplus

	\$
Balance at March 31, 2006	1,807,515
Value of options earned during the year	472,739
Value of options exercised during the year	(466,830)
Value of warrants expired during the year	<u>259,354</u>
Balance at March 31, 2007	2,072,778
Value of options earned during the year	1,035,268
Value of options exercised during the year	<u>(374,495)</u>
Balance at March 31, 2008	<u>2,733,551</u>

Linear Gold Corp.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

10 Warrants

a) Warrants outstanding as of March 31, 2008:

Expiry date	Number	Weighted average exercise price \$	Amount \$ *
March 1, 2009	2,500,000	5.50	4,025,000
March 1, 2009	300,000 **	5.00	769,500
	<u>2,800,000</u>	5.45	<u>4,794,500</u>

*Black-Scholes valuation

**These are broker warrants, exercisable for 300,000 units at \$5.00 per unit (see note 10 (b)).

b) Warrant activity during the years ended March 31:

	2008			2007		
	Number	Weighted average exercise price \$	Amount \$	Number	Weighted average exercise price \$	Amount \$
Opening balance	2,800,000	5.45	4,407,191	193,548	7.75	259,354
Issued	—	—	—	2,800,000	5.45	4,794,500
Expired	—	—	—	(193,548)	7.75	(259,354)
	<u>2,800,000</u>	5.45	4,407,191	<u>2,800,000</u>	5.45	4,794,500
Less: Warrant issue costs	—	—	—	—	—	(387,309)
Closing balance	<u>2,800,000</u>	5.45	<u>4,407,191</u>	<u>2,800,000</u>	5.45	<u>4,407,191</u>

The Company incurred cash warrant issue costs of \$263,419 in connection with the private placement on March 1, 2007. As an additional cost of the financing, the Company granted 300,000 broker warrants to the underwriters, exercisable for an aggregate of 300,000 units of the Company at an exercise price of \$5.00 per unit until March 1, 2009. When exercised, the units will consist of 300,000 common shares and 150,000 warrants exercisable at \$5.50 per warrant. The value of the broker warrants is \$769,500, and \$123,890 was allocated by the Company to the cost of issuing the warrants.

Linear Gold Corp.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

10 Warrants (continued)

- c) The fair value of warrants recognized has been estimated at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for the year ended March 31, 2007 are as follows:

	2007
Risk free interest rate	4.13%
Maximum life	2.0 years
Expected volatility	61%
Expected dividend yield	0%

11 Related party transactions

During the years, the Company entered into transactions with related parties, as follows:

	2008	2007
	\$	\$
Geological consulting fees paid to a director	—	400
Legal fees paid to a firm of which an officer is a partner	40,071	76,700
	<hr/>	<hr/>
	40,071	77,100

During the year ending March 31, 2008, the Company provided financing in the form of demand loans totaling \$338,000 (2007 - \$986,200) in connection with the exercise of 300,000 expiring stock options (2007 - 742,200) by certain officers and directors. The demand loans are interest-bearing and during the year, interest of \$11,026 (2007 - \$1,689) was received by the Company. The balance of \$338,000 (2007 - \$488,000) has been included in the Company's accounts receivable. This balance and all accrued interest have been repaid in full subsequent to year-end.

Linear Gold Corp.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

12 Income taxes

The following table reconciles the expected income taxes payable (recoverable) at the statutory income tax rate to the amounts recognized in the consolidated statements of operations and deficit for the years ended March 31, 2008 and 2007:

	2008	2007
	\$	\$
Loss before income taxes	(3,679,418)	(1,853,128)
Income tax rate	35.5%	38.1%
Expected income tax recovery based on above rates	(1,306,000)	(706,000)
Effect of different tax rates in foreign jurisdictions	18,000	23,000
Non-deductible stock option expense	286,000	117,000
Change in valuation allowance	861,000	983,000
Other and permanent differences	141,000	(417,000)
Provision for income taxes	—	—
Provision for (recovery of) income taxes is comprised of:		
Future income taxes	(861,000)	(983,000)
Adjustment to valuation allowance	861,000	983,000
	—	—

The following reflects future income tax assets at March 31, 2008 and 2007:

	2008	2007
	\$	\$
Future tax assets (liabilities)		
Non-capital losses carried forward	11,649,000	10,285,000
Resource expenditures and deductible share issue costs	857,000	1,372,000
Accounting value of mineral resource properties in excess of tax value	(7,306,000)	(7,317,000)
Accounting value of property and equipment in excess of tax value	(23,000)	(24,000)
	5,177,000	4,316,000
Valuation allowance	(5,177,000)	(4,316,000)
Net future income tax asset recognized	—	—

Linear Gold Corp.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

12 Income taxes (continued)

The Company has accumulated losses for Canadian tax purposes of approximately \$8,621,000, which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

	\$
Year ending March 31, 2009	249,000
2010	396,000
2014	667,000
2015	1,945,000
2026	1,604,000
2027	2,224,000
2028	1,536,000
	<hr/>
	8,621,000
	<hr/>

The Company has undeducted share issuance costs from prior years of approximately \$1,333,000 which will be deducted from Canadian taxable income over the next three years. The Company has also incurred resource expenditures of approximately \$1,081,000, which may be carried forward indefinitely and used to reduce Canadian taxable income in future years.

In addition, the Company has accumulated Mexican tax losses of approximately \$30,675,000, which may be carried forward and used to reduce taxable income in Mexico in future years. These losses expire as follows:

	\$
Year ending March 31, 2009	1,429,000
2010	1,711,000
2011	1,798,000
2012	1,150,000
2013	3,175,000
2014	3,017,000
2015	2,107,000
2016	4,466,000
2017	6,378,000
2018	5,444,000
	<hr/>
	30,675,000
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The future tax asset resulting from these items has not been recognized in these accounts, as realization is not considered more likely than not. A valuation allowance has been applied against the entire future tax benefit asset.

Linear Gold Corp.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

13 Commitments and contingency

Commitments

Under the terms of the Cobre Grande agreement, the Company is required to make certain payments and exploration expenditures through March 2009. Pursuant to the Company's agreement with Linear Metals, these obligations are now being fulfilled by Linear Metal Corp. Mexico, S.A. de C.V. (see note 8 (a)).

As disclosed in note 8 (c) the Company is committed to make payments of US\$110,000 on, or before, September 28, 2008.

In addition, the Company has commitments in respect of three operating leases on its premises and an office copier lease which expire between July 31, 2009 and February 21, 2010. These commitments require total payments over the next two years as follows:

	\$
Year ending March 31, 2009	99,243
2010	37,728

Contingency

The Company follows Section 3290, Contingencies of the CICA Handbook in determining accruals and related disclosure with respect to contingent losses. Estimated contingent losses are accrued when it is considered likely that a future event will confirm that an asset has been impaired or a liability incurred at the date of the financial statements and the amount of the contingent loss can be reasonably estimated.

The Company has been advised that the income tax authority in Mexico has reviewed the funding of Linear Gold Corp. Mexico, S.A. de C.V. (formerly MIM Mexico, S.A. de C.V.) by its previous owners and has determined that this funding was taxable as revenue. As such, the tax authorities in Mexico have issued an assessment of approximately MXN\$9,175,000 (\$876,000) for income tax and value added tax on this assessed revenue, including interest and penalties. During the year, the Company placed approximately MXN\$9,175,000 (\$876,000) on deposit with the income tax authority. The deposit is interest bearing. The Company's tax and legal advisors in Mexico believe that the assessment is incorrect and accordingly, the Company believes a loss is unlikely and the amount has been recorded as a deposit in the financial statements, as management expects to recover this amount.

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Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

(in Canadian dollars)

14 Supplemental cash flow information

	2008 \$	2007 \$
Supplemental information		
Interest received during the years	1,213,175	561,587
Significant non-cash transactions		
Marketable securities received from property option agreements	248,500	–
Loans to officers and directors to exercise options	338,000	488,000
Dividend on distribution of subsidiary	–	1,100,017
Cash and cash equivalents		
Cash	2,366,598	2,842,091
Short-term investments	23,211,036	27,506,243
	<u>25,577,634</u>	<u>30,348,334</u>

15 Segmented information

The Company conducts mineral operations in Mexico, the Dominican Republic and Brazil. Since the Company is in the exploration stage, there is no segmented revenue or operating results to report. The Company's total assets are segmented geographically as:

	2008				
	Corporate Canada \$	Mineral Operations Brazil \$	Mineral Operations Mexico \$	Mineral Operations Dominican Republic \$	Total \$
Current assets	25,210,882	–	2,631,112	75,995	27,917,989
Property and equipment	107,698	42,866	119,418	39,264	309,246
Reclamation deposits	35,029	–	–	–	35,029
Resource properties	–	796,117	27,626,599	1,112,171	29,534,887
	<u>25,353,609</u>	<u>838,983</u>	<u>30,377,129</u>	<u>1,227,430</u>	<u>57,797,151</u>
	2007				
	Corporate Canada \$	Mineral Operations Mexico \$	Mineral Operations Dominican Republic \$	Total \$	
Current assets	30,744,155	1,786,513	64,776	32,595,444	
Property and equipment	94,519	184,331	55,818	334,668	
Deposits	33,708	–	–	33,708	
Resource properties	–	25,123,259	1,452,181	26,575,440	
	<u>30,872,382</u>	<u>27,094,103</u>	<u>1,572,775</u>	<u>59,539,260</u>	