

TAGISH LAKE GOLD CORP.

**Financial Statements
October 31, 2007 and 2006**

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Tagish Lake Gold Corp. have been prepared in accordance with Canadian generally accepted accounting principles by management. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate preparation of financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

"Greg Hawkins"

Greg Hawkins
President

January 25, 2008

"Denis Lampron"

Denis Lampron
Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF TAGISH LAKE GOLD CORP.

We have audited the balance sheets of Tagish Lake Gold Corp. as at October 31, 2007 and 2006 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
January 25, 2008

TAGISH LAKE GOLD CORP.**Balance Sheets****October 31**

| | 2007 | 2006 |
|--|---------------|---------------|
| Assets (note 9) | | |
| Current | | |
| Cash (note 5) | \$ 443,444 | \$ 432,564 |
| GST receivable | 180,835 | 82,150 |
| Tax credit receivable | 0 | 450,000 |
| Prepaid expenses and deposits | 44,893 | 271,777 |
| Due from shareholder/director (note 7) | 120,000 | 120,000 |
| | 789,172 | 1,356,491 |
| Resource Property (note 6) | 27,321,181 | 18,139,554 |
| Reclamation Bond , at cost | 15,000 | 15,000 |
| Property and Equipment (note 8) | 232,146 | 119,616 |
| | \$ 28,357,499 | \$ 19,630,661 |
| Liabilities | | |
| Current | | |
| Bank overdraft | \$ 0 | \$ 14,231 |
| Accounts payable and accrued liabilities | 1,778,235 | 351,126 |
| Bank loan (note 9) | 1,500,000 | 0 |
| Advances from related party (note 12(c)) | 60,000 | 0 |
| | 3,338,235 | 365,357 |
| Future Income Tax (note 11) | 1,998,866 | 1,387,000 |
| | 5,337,101 | 1,752,357 |
| Shareholders' Equity | | |
| Capital Stock (note 10) | 46,891,894 | 40,696,119 |
| Contributed Surplus (note 10(e)) | 1,156,556 | 391,223 |
| Deficit | (25,028,052) | (23,209,038) |
| | 23,020,398 | 17,878,304 |
| | \$ 28,357,499 | \$ 19,630,661 |

Going-Concern (note 2)

Commitments (note 13)

Approved on behalf of the Board:

"Greg Hawkins"

..... Director

Greg Hawkins

"Robert J. Rodger"

..... Director

Robert J. Rodger

TAGISH LAKE GOLD CORP.
Statements of Operations and Deficit
Years Ended October 31

| | 2007 | 2006 |
|---|------------------------|------------------------|
| Expenses | | |
| Interest and financing costs (note 9) | \$ 479,429 | \$ (2,697) |
| Directors' fees (note 10(d)) | 396,880 | 106,647 |
| Professional fees | 260,576 | 145,670 |
| Office and miscellaneous | 193,345 | 78,691 |
| Travel | 191,257 | 127,473 |
| Wages and benefits | 186,178 | 0 |
| Shareholder and investor relations | 185,081 | 117,934 |
| Management fees (note 10(d)) | 164,643 | 106,092 |
| Advertising and promotion | 128,986 | 90,719 |
| Listing and filing fees | 43,373 | 27,972 |
| Transfer agent fees | 36,053 | 19,347 |
| Consulting fees | 30,784 | 10,737 |
| Rent | 17,475 | 11,110 |
| Telecommunications | 13,326 | 9,571 |
| Amortization | 38,383 | 24,166 |
| | 2,365,769 | 873,432 |
| Loss Before Future Income Tax (Recovery) | (2,365,769) | (873,432) |
| Future Income Tax (Recovery) (note 11) | (546,755) | 339,000 |
| Net Loss for Year | (1,819,014) | (1,212,432) |
| Deficit, Beginning of Year | (23,209,038) | (21,996,606) |
| Deficit, End of Year | \$ (25,028,052) | \$ (23,209,038) |
| Loss Per Share | \$ (0.02) | \$ (0.02) |
| Weighted Average Number of Common Shares Outstanding | 96,871,118 | 59,780,231 |

TAGISH LAKE GOLD CORP.
Statements of Cash Flows
Years Ended October 31

| | 2007 | 2006 |
|---|--------------------|--------------------|
| Operating Activities | | |
| Net loss | \$ (1,819,014) | \$ (1,212,432) |
| Items not involving cash | | |
| Stock-based compensation | 506,523 | 140,739 |
| Financing fee | 228,160 | 0 |
| Amortization | 38,383 | 24,166 |
| Future income tax | (546,755) | 339,000 |
| | (1,592,703) | (708,527) |
| Changes in non-cash working capital | 671,014 | (682,543) |
| Cash Used in Operating Activities | (921,689) | (1,391,070) |
| Investing Activities | | |
| Acquisition of equipment | (150,913) | (80,434) |
| Expenditures on resource properties | (7,847,333) | (2,656,327) |
| Cash Used in Investing Activities | (7,998,246) | (2,736,761) |
| Financing Activities | | |
| Proceeds from issuance of capital stock, net of issue costs | 7,385,046 | 4,545,307 |
| Advance from a related party | 60,000 | 0 |
| Proceeds from bank loan | 1,500,000 | 0 |
| Cash Provided by Financing Activities | 8,945,046 | 4,545,307 |
| Inflow of Cash | 25,111 | 417,476 |
| Cash, Beginning of Year | 418,333 | 857 |
| Cash, End of Year | \$ 443,444 | \$ 418,333 |
| Consisting of | | |
| Cash | \$ 443,444 | \$ 432,564 |
| Bank overdraft | 0 | (14,231) |
| | \$ 443,444 | \$ 418,333 |
| Supplemental Cash Flow Information | | |
| Non-Cash Investing and Financing Activities | | |
| Shares issued for finders' fee | \$ 0 | \$ 16,000 |
| Exploration costs included in accounts payable | \$ 1,591,764 | \$ 257,470 |
| Exploration expenditures recovery included in tax credit receivable | \$ 0 | \$ 450,000 |
| Interest paid | \$ 0 | \$ 0 |
| Income tax paid | \$ 0 | \$ 0 |

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

1. NATURE OF OPERATIONS

The Company was formed under the laws of British Columbia and its principal business activity is the exploration and development of natural resource properties.

2. GOING-CONCERN

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going-concern basis. This presumes funds will be available to finance on-going development, operations and capital expenditures, and the realization of assets and payment of liabilities in the normal course of operations for the foreseeable future.

The Company has sustained significant operating losses and depends on obtaining equity financing to finance operations and on-going development of its resource properties. As at October 31, 2007, the Company has a working capital deficit of \$2,549,063 (2006 - working capital of \$991,134) and an accumulated deficit of \$25,028,052 (2006 - \$23,209,038). These factors raise substantial doubt about the Company's ability to continue as a going-concern, which is dependent on its ability to obtain and maintain an appropriate level of financing on a timely basis and to achieve sufficient cash flows to cover obligations and expenses. The outcome of these matters cannot be predicted. These financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue its operations as a going-concern.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting policies generally accepted in Canada and reflect the following:

(a) Resource property interests

The Company defers all costs related to investments in resource property interests on a property-by-property basis. Such costs include property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred resource property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

From time to time the Company may acquire or dispose of a resource property interests 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 are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Property and equipment

Amortization of property and equipment is recorded on a declining-balance basis at the following annual rates:

| | |
|-------------------------------|--------------|
| Building | - 5% |
| Process and plant equipment | - 20% to 25% |
| Automotive equipment | - 30% |
| Office and computer equipment | - 30% |

Additions during the year are amortized at one-half the annual rates.

(c) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. However, diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, have not been included in the calculation of the weighted average number of common shares outstanding.

(d) Use of estimates

The preparation of financial statements in conformity 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 amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of environmental obligations, asset retirement obligations, rates of amortization for property and equipment, impairment of mineral property interests, valuation of accrued liabilities, valuation allowance for future income tax assets and the variables used in the calculation of stock-based compensation. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(e) Stock-based compensation

The Company accounts for stock-based compensation using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Flow-through common shares

The Company may from time to time issue flow-through common shares to finance its resource exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholder the income tax attributes of resource exploration costs financed by such shares. The effect of such renouncement is to reduce future income tax deductions, which is considered to be a share issue cost that is recorded as a reduction to capital stock and a corresponding increase in future income tax liability.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not previously recognized, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

(g) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using 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 a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(h) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in these financial statements.

(i) Comparative figures

Certain prior year figures have been reclassified to conform to current year presentation.

4. FINANCIAL INSTRUMENTS

(a) Financial instruments

Effective November 1, 2006, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, "financial instruments – recognition and measurement" which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Company classifies its debt and investments into held-to-maturity, trading or available-for-sale categories. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheet based on the contractual maturity date and are stated at amortized cost. Investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings.

Debt and investments not classified as held-to-maturity or as trading are classified as available-for-sale and carried at fair value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity.

On the date of adoption, the Company remeasured its financial assets and liabilities as appropriate. Any adjustment of the previous carrying amount is recognized as an adjustment of the balance of retained earnings at the beginning of the fiscal year, except when a financial asset is classified as available-for-sale. For available-for-sale financial assets, the adjustment has been included as the opening balance as a separate component of accumulated other comprehensive income, which will be subsequently recognized in net income on disposition of the financial assets.

The fair value of substantially all investments is determined by quoted market prices. The fair value of warrants held by the Company as an investment is determined using the intrinsic value method, being the quoted market price of the share less the exercise price of the warrant. Gains or losses on securities sold are based on the specific identification method.

(b) Comprehensive income

Effective November 1, 2006, the Company adopted the CICA Handbook Section 1530, "comprehensive income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period, but excluded from net income for that period.

Accordingly, the Company now reports a consolidated statement of comprehensive income (loss) and includes the account "Accumulated Other Comprehensive Income" in the shareholders' equity section of the consolidated balance sheet. At October 31, 2007, the Company had no Accumulated Other Comprehensive Income.

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

4. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, bank loan and advances from related party approximate their fair values because of the short-term maturity of these financial instruments.

The fair value of the amount due from shareholder/director is disclosed in note 7.

(d) Interest rate risk

The Company is exposed to interest rate cash flow risk on its bank loan with variable interest rates, as the repayment amounts will fluctuate as the interest rates fluctuate.

(e) Credit risk

The Company is not exposed to significant credit risk since the amounts receivable are due from government agencies.

Cash is placed with well-capitalized high quality financial institutions. Therefore, the Company is not exposed to significant credit risk with respect to these financial instruments.

(f) Currency risk

The Company is not exposed to significant currency risk since the Company conducts its business in Canadian dollars.

(g) Derivative – resource property interests

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties, the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the resource property interest to which they relate is not sufficiently developed to reasonably determine value.

5. CASH – FLOW-THROUGH SHARE FUNDS

During the years ended October 31, 2007 and 2006, the Company entered into flow-through share subscription agreements whereby it committed to incur, on or before December 31, 2008 and 2007, respectively, and renounce to the subscribers, a total of \$2,555,943 (2006 - \$1,519,180) of qualifying Canadian exploration expenditures. To October 31, 2007, the Company has incurred \$2,140,397 (2006 - \$1,086,616) of qualifying exploration expenditures and has a commitment to incur an additional \$415,546 of qualifying expenditures. Cash of \$415,545 (2006 - \$432,564) has been segregated for those expenditures.

6. RESOURCE PROPERTY

The Skukum Creek, Goddell and Charleston properties consist of a total of 987 mineral claims in the Whitehorse Mining District, Yukon.

The Arctic Property consists of two Crown grants near Carcross, Yukon, which are held for future exploration and development.

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

6. RESOURCE PROPERTY (Continued)

The investment in and expenditures on the properties are summarized as follows:

| | 2005 | Incurring During Year | 2006 | Incurring During Year | 2007 |
|---|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| Skukum Creek | | | | | |
| Acquisition costs | \$ 265,573 | \$ 0 | \$ 265,573 | \$ 0 | \$ 265,573 |
| Geological and geophysical | 2,061,597 | 284,711 | 2,346,308 | 568,813 | 2,915,121 |
| Underground work | 1,925,498 | 948,968 | 2,874,466 | 6,315,501 | 9,189,967 |
| Drilling | 96,885 | 715,568 | 812,453 | 73,430 | 885,883 |
| Site supervision | 74,263 | 284,942 | 359,205 | 240,243 | 599,448 |
| Camp | 96,743 | 162,098 | 258,841 | 565,517 | 824,358 |
| Road work | 20,996 | 153,859 | 174,855 | 588,995 | 763,850 |
| Environmental | 136,551 | 120,287 | 256,838 | 243,923 | 500,761 |
| Assaying | 24,101 | 49,780 | 73,881 | 222,197 | 296,078 |
| Other | 31,331 | 193,584 | 224,915 | 358,913 | 583,828 |
| Total Skukum Creek | 4,733,538 | 2,913,797 | 7,647,335 | 9,177,532 | 16,824,867 |
| Goddell | | | | | |
| Acquisition costs | 395,443 | 0 | 395,443 | 0 | 395,443 |
| Geological, geophysical and underground work | 9,864,957 | 0 | 9,864,957 | 0 | 9,864,957 |
| Drilling | 77,379 | 0 | 77,379 | 0 | 77,379 |
| Assaying | 9,586 | 0 | 9,586 | 4,095 | 13,681 |
| Total Goddell | 10,347,365 | 0 | 10,347,365 | 4,095 | 10,351,460 |
| Charleston | | | | | |
| Geological and geophysical | 10,637 | 0 | 10,637 | 0 | 10,637 |
| Arctic Property | | | | | |
| Geological and geophysical | 134,217 | 0 | 134,217 | 0 | 134,217 |
| | \$ 15,225,757 | \$ 2,913,797 | \$ 18,139,554 | \$ 9,181,627 | \$ 27,321,181 |

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

6. RESOURCE PROPERTY (Continued)

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the resource properties, the potential for production on the property may be diminished or negated.

Realization of assets

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

Title to resource property interests

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

7. DUE FROM SHAREHOLDER/DIRECTOR

The amount represents the balance of \$375,000 due from a shareholder/director, which amount was due October 24, 2007. The Company holds an assignment at 1,056,094 shares of the Company as security with a market value at October 31, 2007 of \$142,572 (2006 market - \$264,000). The carrying amount was reduced on October 31, 2005 to the market value at that time of the underlying security held, as collection of the full amount owing is not assured at that date.

The due date of the non-interest bearing note receivable of \$375,000 has been extended on a yearly basis from its original due date (October 24, 2004) at the request of the debtor (note 14(d)).

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

8. PROPERTY AND EQUIPMENT

| | | 2007 | | |
|-------------------------------|-----------|----------------|-----------------------------|-------------------|
| | | Cost | Accumulated Amortization | Net |
| Building | \$ | 106,100 | \$ 3,449 | \$ 102,651 |
| Automotive equipment | | 141,768 | 82,669 | 59,099 |
| Process and plant equipment | | 317,800 | 268,350 | 49,450 |
| Office and computer equipment | | 52,819 | 31,873 | 20,946 |
| | \$ | 618,487 | \$ 386,341 | \$ 232,146 |

| | | 2006 | | |
|-------------------------------|-----------|----------------|-----------------------------|-------------------|
| | | Cost | Accumulated Amortization | Net |
| Building | \$ | 4,400 | \$ 722 | \$ 3,678 |
| Process and plant equipment | | 312,501 | 256,650 | 55,851 |
| Automotive equipment | | 109,367 | 64,284 | 45,083 |
| Office and computer equipment | | 41,305 | 26,301 | 15,004 |
| | \$ | 467,573 | \$ 347,957 | \$ 119,616 |

9. BANK LOAN

The Company has entered into a \$1,500,000 debt facility with Macquarie Metals and Energy Capital (Canada) Ltd. ("Macquarie"). The loan is secured by the assets of the Company, bears interest at LIBOR (London Interbank Offered Rate) plus 2.5% and is due June 9, 2009. Macquarie was issued 3,200,000 warrants as a financing fee (having a fair value of \$228,160), each warrant entitling the holder to acquire one common share of the Company at a price of \$0.25 per share to June 9, 2009. At October 31, 2007, the Company is not in compliance with respect to certain covenants of the bank loan; however, the bank has granted the Company an extension to March 31, 2008 to be in compliance with the covenants.

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

10. CAPITAL STOCK

- (a) Authorized
 Unlimited common shares and 30,000,000 preferred shares without par value
- (b) Common shares issued

| | 2007 | | 2006 | |
|--|---------------------|---------------|---------------------|---------------|
| | Number of Shares | Amount | Number of Shares | Amount |
| Balance, beginning of year | 78,172,042 | \$ 40,696,119 | 38,780,764 | \$ 36,260,082 |
| Issued during year | | | | |
| For cash, private placements (note 10(b)) | 25,834,480 | 5,160,789 | 38,698,778 | 4,444,482 |
| For warrants exercised | 13,991,791 | 2,112,042 | 687,500 | 99,925 |
| For options exercised | 300,000 | 45,000 | 5,000 | 900 |
| Fair value of stock options exercised | 0 | 36,565 | 0 | 730 |
| Flow-through renunciation | 0 | (1,158,621) | 0 | (110,000) |
| | 40,126,271 | 6,195,775 | 39,391,278 | 4,436,037 |
| Balance, end of year | 118,298,313 | \$ 46,891,894 | 78,172,042 | \$ 40,696,119 |

Private placements during the year ended October 31, 2007 consisted of the following:

- (i) In December 2006, the Company issued 7,986,703 units at a price of \$0.26 per unit, for gross proceeds of \$2,076,543. Each unit consisted of one flow-through common share and one-half of one non-transferable non-flow-through share purchase warrant, each full warrant entitling the holder to purchase one common share at a price of \$0.32 per share for a period of 18 months from the closing date. The Company paid an aggregate finders' fee of \$128,184 and issued 620,536 broker warrants valued at \$0.09 as a commission at the same terms.
- (ii) In February 2007, the Company issued 1,000,000 common share units at a price of \$0.155 per share, for gross proceeds of \$155,000.

In March 2007, the Company issued 2,777,777 units at a price of \$0.18 per unit, for gross proceeds of \$500,000. Each unit consisted of one common share and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.25 per share for a period of 24 months from the closing date.

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

10. CAPITAL STOCK (Continued)

(b) Issued (Continued)

- (iii) In July 2007, the Company issued 10,000,000 units at a price of \$0.20 per unit, for gross proceeds of \$2,000,000. Each unit consisted of one common share and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.30 per share for a period of 24 months from the closing date.

Also in July 2007, the Company issued 1,250,000 units at a price of \$0.20 per unit, for gross proceeds of \$250,000. Each unit consisted of one common share and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.30 per share for a period of 24 months from the closing date. The Company paid an aggregate finders' fee of \$4,960 and issued 100,000 broker warrants valued at \$0.05 as a commission. Each warrant entitles the holder to purchase one common share at a price of \$0.30 per share for a period of 18 months from the closing date.

- (iv) In October 2007, the Company issued 2,820,000 units at a price \$0.17 per unit, for gross proceeds of \$479,400. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date. The Company paid an aggregate finders' fee of \$36,924 and issued 199,200 broker warrants valued at \$0.03 as a commission. Each broker warrant entitles the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date.

The Company also incurred \$47,720 of legal fees relating to the above private placements in 2007.

During 2007, the Company issued 510,000 warrants entitling the holder to acquire one common share at \$0.15 per share. The warrants were issued for no consideration to settle a dispute pertaining to the February 2006 issuance of shares (note 10(b)(vi)).

Private placements during the year ended October 31, 2006 consisted of the following:

- (v) In December 2005, 2,000,000 units were issued at a price of \$0.10 per unit, for gross proceeds of \$200,000. Each unit consisted of one common share and one-half of one share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.13 per share for a period of 12 months from the offering date. The Company issued 160,000 common shares at \$0.10 per share as finders' fee and issued 160,000 broker warrants as a commission. Each warrant entitling the holder to purchase one common share at a price of \$0.13 per share for a period of 12 months from the offering date.

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

10. CAPITAL STOCK (Continued)

(b) Issued (Continued)

- (vi) In February 2006, 23,280,000 units were issued at a price of \$0.10 per unit, for gross proceeds of \$2,328,000. Each unit consisted of one common share and one-half of one share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.15 per share for a period of 18 months from the closing date. Officers and directors of the Company subscribed for an aggregate of 200,000 units. The Company paid an aggregate finders' fee of \$78,080 and issued 275,200 broker warrants as a commission. Each warrant entitled the holder to purchase one common share at a price of \$0.15 per share on or before February 3, 2007.
- (vii) In August and September 2006, 7,328,778 units were issued at a price of \$0.18 per unit, for gross proceeds of \$1,319,180. Each unit consisted of one flow-through common share and one-half of one non-flow-through share purchase warrant, each full warrant entitling the holder to purchase one common share at a price of \$0.22 per share for a period of 18 months from the closing date.
- (viii) In August and September 2006, 5,930,000 units were issued at a price of \$0.15 per unit, for gross proceeds of \$889,500. Each unit consisted of one common share and one-half of one share purchase warrant, each full warrant entitling the holder to purchase one common share at a price of \$0.22 per share for a period of 18 months from the closing date.

For these last two offerings, the Company paid an aggregate finders' fee of \$130,430 and issued 798,880 broker warrants as a commission. Each warrant entitled the holder to purchase one common share at a price of \$0.22 per share for a period of 18 months from the closing date.

The Company also incurred \$83,688 of legal fees relating to the above private placements in 2006.

(c) Share purchase warrants

At October 31, the following common share purchase warrants were outstanding entitling the holders the right to purchase one common share for each warrant held as follows:

| | 2007 | | 2006 | |
|---|--------------------|---------------------------------|--------------------|---------------------------------|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Warrants exercisable, beginning of year | 24,074,980 | \$ 0.17 | 4,436,876 | \$ 0.16 |
| Granted | 24,060,865 | \$ 0.27 | 20,503,524 | \$ 0.17 |
| Exercised | (13,991,791) | \$ 0.15 | (687,500) | \$ 0.15 |
| Expired | (3,165,000) | \$ 0.15 | (177,920) | \$ 0.20 |
| Warrants exercisable, end of year | 30,979,054 | \$ 0.25 | 24,074,980 | \$ 0.17 |

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

10. CAPITAL STOCK (Continued)

(c) Share purchase warrants (Continued)

At October 31, the following share purchase warrants were outstanding:

| Expiry Date | Exercise Price | Number of Warrants | |
|-------------------------------|----------------|--------------------|-------------------|
| | | 2007 | 2006 |
| December 22, 2006 (exercised) | \$ 0.13 | 0 | 1,000,000 |
| January 13, 2007 (exercised) | \$ 0.18 | 0 | 1,109,091 |
| January 13, 2007 (exercised) | \$ 0.15 | 0 | 250,000 |
| January 13, 2007 (expired) | \$ 0.15 | 0 | 1,000,000 |
| January 18, 2007 (expired) | \$ 0.15 | 0 | 1,900,000 |
| March 7, 2007 (exercised) | \$ 0.15 | 0 | 275,200 |
| August 3, 2007 (exercised) | \$ 0.15 | 0 | 5,847,500 |
| August 3, 2007 (expired) | \$ 0.15 | 0 | 265,000 |
| August 17, 2007 (exercised) | \$ 0.15 | 0 | 5,000,000 |
| February 18, 2008 | \$ 0.22 | 1,758,889 | 1,758,889 |
| February 18, 2008 | \$ 0.22 | 48,000 | 48,000 |
| March 1, 2008 | \$ 0.22 | 2,831,700 | 2,831,700 |
| March 8, 2008 | \$ 0.22 | 2,789,600 | 2,789,600 |
| June 18, 2008 | \$ 0.32 | 1,232,500 | 0 |
| June 22, 2008 | \$ 0.32 | 1,602,932 | 0 |
| June 29, 2008 | \$ 0.32 | 1,778,456 | 0 |
| January 18, 2009 | \$ 0.30 | 100,000 | 0 |
| February 27, 2009 | \$ 0.25 | 2,777,777 | 0 |
| April 24, 2009 | \$ 0.25 | 1,609,200 | 0 |
| June 7, 2009 | \$ 0.25 | 3,200,000 | 0 |
| July 4, 2009 | \$ 0.30 | 10,000,000 | 0 |
| July 18, 2009 | \$ 0.30 | 1,250,000 | 0 |
| | | 30,979,054 | 24,074,980 |

(d) Share purchase options

The Company has a stock option plan whereby the Company may grant options to directors, officers, employees and consultants of up to 10% of the common shares outstanding at the time of grant. The exercise price of each option is equal to or at an allowable discount to the market price of the Company's common shares at the date of the grant. The option term and vesting period is determined by the board of directors within regulatory guidelines.

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

10. CAPITAL STOCK (Continued)

(d) Share purchase options (Continued)

Details of the status of the Company's share purchase options is as follows:

| | 2007 | | 2006 | |
|--------------------------------|---------------------|--|---------------------|--|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding, beginning of year | 2,140,000 | \$ 0.18 | 1,050,000 | \$ 0.21 |
| Granted | 4,000,000 | \$ 0.20 | 1,345,000 | \$ 0.16 |
| Exercised | (300,000) | \$ 0.15 | (5,000) | \$ 0.18 |
| Expired/Forfeited | (650,000) | \$ 0.20 | (250,000) | \$ 0.20 |
| Outstanding, end of year | 5,190,000 | \$ 0.20 | 2,140,000 | \$ 0.18 |

The following table summarizes information about the share purchase options outstanding and exercisable at October 31, 2007 and 2006.

| | 2007 | | | 2006 | | |
|-------------------|-------------------|------------------------|--------------------------------|-------------------|------------------------|--------------------------------|
| Expiry Date | Exercise Price | Number of Shares | Number of Options Vested | Exercise Price | Number of Shares | Number of Options Vested |
| August 18, 2008 | \$ 0.18 | 115,000 | 115,000 | \$ 0.18 | 115,000 | 115,000 |
| August 19, 2008 | \$ 0.20 | 475,000 | 475,000 | \$ 0.20 | 550,000 | 475,000 |
| March 17, 2009 | \$ 0.22 | 350,000 | 350,000 | \$ 0.22 | 500,000 | 350,000 |
| March 7, 2011 | \$ 0.15 | 450,000 | 450,000 | \$ 0.15 | 875,000 | 875,000 |
| March 7, 2011 | \$ 0.17 | 100,000 | 100,000 | \$ 0.17 | 100,000 | 100,000 |
| February 6, 2009 | \$ 0.22 | 100,000 | 100,000 | | | |
| June 25, 2009 | \$ 0.21 | 100,000 | 100,000 | | | |
| December 4, 2011 | \$ 0.20 | 800,000 | 800,000 | | | |
| May 12, 2012 | \$ 0.20 | 400,000 | 400,000 | | | |
| June 25, 2012 | \$ 0.20 | 1,400,000 | 1,000,000 | | | |
| August 21, 2012 | \$ 0.20 | 200,000 | 200,000 | | | |
| September 1, 2012 | \$ 0.20 | 500,000 | 200,000 | | | |
| October 1, 2012 | \$ 0.20 | 200,000 | 50,000 | | | |
| | | 5,190,000 | 4,340,000 | | 2,140,000 | 1,915,000 |

The 850,000 unvested options vest as follows:

| Expiry Date | |
|-------------------|---|
| June 25, 2012 | 200,000 on each anniversary of grant for two years |
| September 1, 2012 | 150,000 on each anniversary of grant for two years |
| October 1, 2012 | 50,000 on each quarter after grant for three quarters |

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

10. CAPITAL STOCK (Continued)

(d) Share purchase options (Continued)

The Company applies the fair value method in accounting for its stock options granted to directors, consultants and employees by using the Black-Scholes option pricing model. Stock-based compensation consists of the following:

| | 2007 | 2006 |
|-----------------|-------------------|-------------------|
| Directors' fees | \$ 378,880 | \$ 106,647 |
| Management fees | 127,643 | 34,092 |
| | \$ 506,523 | \$ 140,739 |

The fair value of stock options used to calculate compensation is estimated using the Black-Scholes option pricing model with the following assumptions:

| | 2007 | 2006 |
|-----------------------|-------------|-------------|
| Expected life (years) | 2 - 5 | 2 - 5 |
| Interest rate | 3.94% | 2.75% |
| Volatility | 110.31% | 113.01% |
| Dividend yield | 0.00% | 0.00% |

(e) Contributed surplus

| | 2007 | 2006 |
|---|---------------------|-------------------|
| Balance, beginning of year | \$ 391,223 | \$ 251,214 |
| Stock-based compensation | 506,523 | 140,739 |
| Issuance of warrants as share issue costs | 67,215 | 0 |
| Issuance of warrants as financing fee | 228,160 | 0 |
| Transfer to capital stock on exercise of warrants | (36,565) | (730) |
| Balance, end of year | \$ 1,156,556 | \$ 391,223 |

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

11. INCOME TAXES

The reconciliation of income tax provision computed at effective statutory rates to the reported income tax provision is as follows:

| | 2007 | 2006 |
|--|---------------------|-------------------|
| Income tax benefit computed at Canadian statutory rate | \$ (807,200) | \$ (298,010) |
| Difference of accounting amortization and capital cost allowance | 13,096 | 8,245 |
| Non-deductible expense | 86,466 | 27,980 |
| Non-deductible stock-based compensation | 172,826 | 48,020 |
| Flow-through share renunciation | (1,158,621) | (110,000) |
| Unrecognized tax losses | 419,643 | 213,765 |
| Change in future income tax liability | 611,866 | 449,000 |
| Share issuance costs | (15,888) | 0 |
| Tax rate variation | 131,057 | 0 |
| | \$ (546,755) | \$ 339,000 |

Future income tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The applicable tax rate to be expected is 34.12% for 2007 (2006 - 34.12%). Significant components of the Company's future tax liabilities as at October 31 are as follows:

| | 2007 | 2006 |
|--|-----------------------|-----------------------|
| Future income tax liability | | |
| Book value over tax value of investment in and expenditures on resource properties | \$ (3,239,153) | \$ (2,393,000) |
| Future income tax assets | | |
| Non-capital losses carried forward | 1,055,384 | 882,000 |
| Capital losses carried forward | 1,120,197 | 1,213,370 |
| Tax value over book value of equipment | 126,230 | 124,000 |
| Share issue costs | 58,673 | 0 |
| | 2,360,484 | 2,219,370 |
| Valuation allowance | (1,120,197) | (1,213,370) |
| | 1,240,287 | 1,006,000 |
| Net future tax liability | \$ (1,998,866) | \$ (1,387,000) |

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

11. INCOME TAXES (Continued)

The non-capital losses that may be carried forward to apply against future years' income for Canadian income tax purposes will expire as follows:

| | | |
|------|----|-----------|
| 2008 | \$ | 301,000 |
| 2009 | | 281,000 |
| 2010 | | 356,000 |
| 2014 | | 393,000 |
| 2015 | | 329,000 |
| 2026 | | 638,000 |
| 2027 | | 1,614,000 |
| | | <hr/> |
| | \$ | 3,912,000 |

The Company has capital losses of approximately \$7,000,000 that may be carried forward indefinitely to apply against future years' taxable capital gains. The valuation allowance reflects the Company's estimate that certain tax assets will likely not be realized and, consequently, have been recorded in these financial statements.

During the year, the Company renounced a total of \$3,395,723 (2006 - \$322,000) of qualifying Canadian exploration expenditures pursuant to the issuance of flow-through shares. To October 31, 2007, the Company has renounced expenditures totalling \$5,319,301 (2006 - \$1,906,560).

12. RELATED PARTY TRANSACTIONS

Related party transactions consist of the following:

- (a) During the year ended October 31, 2007, the Company:
- (i) paid management fees of \$12,000 (2006 - \$72,000) to an officer/shareholder of the Company;
 - (ii) paid \$34,746 (2006 - \$0) to a Company owned by an officer/shareholder's family member for mineral property expenditures;
 - (iii) paid rent of \$7,000 (2006 - \$11,110) to a company with a common director; and
 - (iv) issued 2,409,091 shares to directors upon the exercise of stock options, warrants and private placement for total proceeds of \$399,636.

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

- (b) The Company is owed \$375,000 (2006 - \$375,000) by a shareholder/director for shares (note 7). The amount is non-interest bearing.
- (c) Advances from related party are non-interest bearing and consist of \$60,000 (2006 - \$0) payable to a director for advances made to the Company, and accounts payable and accrued liabilities includes \$3,232 (2006 - \$6,976) for corporate expenditures reimbursement, and \$22,500 (2006 - \$9,018) payable to a company with a common director and \$18,000 payable to directors.

TAGISH LAKE GOLD CORP.
Notes to Financial Statements
Years Ended October 31, 2007 and 2006

13. COMMITMENTS

The Company is committed to minimum rental payment for premises leases aggregating \$84,806, over the term of the lease expiring in 2012. Commitments in each of the next five years is as follows:

| | | |
|------|----|--------|
| 2008 | \$ | 16,120 |
| 2009 | | 16,120 |
| 2010 | | 17,522 |
| 2011 | | 17,522 |
| 2012 | | 17,522 |
| | \$ | 84,806 |

In April 2007, the Company entered into a lease agreement for office equipment for 36 months for a monthly fee of \$338.

In July 2007, the Company entered into an investor relation service contract for 12 months for a monthly fee of \$5,000.

14. SUBSEQUENT EVENTS

- (a) In November 2007, the Company issued 2,565,870 units at a price of \$0.17 per unit, for gross proceeds of \$436,198. Each unit consisted of one flow-through common share and one-half of one non-transferable non-flow-through share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date. The Company paid an aggregate finders' fee of \$33,027 and issued 50,117 broker warrants as a commission. Each warrant entitles the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date.
- (b) The Company received \$50,000 in November 2007 from the Government of Yukon to undertake the definitive feasibility study for the Skukum Creek project.
- (c) In December 2007, the Company issued 2,352,941 common shares at a price of \$0.17 per unit, for gross proceeds of \$400,000. Each unit consisted of one flow-through common share and one-half of one non-transferable non-flow-through share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.25 per share for period of 18 months from the closing date. The Company paid an aggregate finders' fee of \$32,000 and issued 188,179 broker warrants as a commission. Each warrant entitles the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date.
- (d) Subsequent to the year-end, a shareholder/director returned 1,056,094 common shares to the Company's treasury in full settlement of the \$120,000 loan receivable (note 7).