



PARAGON MINERALS CORPORATION

Financial Statements

Three months ended December 31, 2008

(Unaudited)

These financial Statements have not been reviewed by the Company's auditors.

PARAGON MINERALS CORPORATION

Balance Sheets

(Unaudited - Stated in Canadian Dollars)

	December 31, 2008	September 30, 2008
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	\$ 719,806	\$ 1,593,028
Amounts receivable	248,449	347,103
Prepaid expenses	29,057	12,638
	997,312	1,952,769
Equipment (note 4)	48,890	56,782
Marketable securities (note 6)	12,834	24,041
Mineral property costs (note 7)	11,099,931	10,492,773
	\$ 12,158,967	\$ 12,526,365
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 147,737	\$ 334,982
Future income taxes	360,844	218,911
	508,581	553,893
Shareholders' equity		
Accumulated comprehensive loss		
Deficit	(3,535,081)	(3,179,974)
Accumulated other comprehensive loss (note 9)	(128,689)	(116,232)
	(3,663,770)	(3,296,206)
Share capital (note 8(a))	14,054,149	14,054,149
Contributed surplus (note 8(b))	1,260,007	1,214,529
	11,650,386	11,972,472
	\$ 12,158,967	\$ 12,526,365

Nature and continuance of operations (note 1)

See accompanying notes to the financial statements

Approved by the Board of Directors:

"Michael Vande Guchte"

Michael Vande Guchte
Director

"David Adamson"

David Adamson
Director

PARAGON MINERALS CORPORATION

Statements of Operations and Deficit

For the three months ended December 31,

(Unaudited - Stated in Canadian Dollars)

	2008	2007
Expenses		
Amortization	\$ 5,493	\$ 4,098
General mineral exploration	-	3,107
Investor relations	2,631	30,586
Office and miscellaneous	20,903	23,125
Part XII.6 flow-through tax	-	3,809
Professional fees	8,695	7,234
Salaries and benefits	127,141	84,517
Stock-based compensation	45,478	85,429
Shareholder information	3,494	10,626
Transfer agent and filing fees	824	5,740
Travel and accommodation	6,139	-
Loss before other items	(220,798)	(258,271)
Foreign exchange gain	-	240
Interest income	5,933	22,989
Other income	1,691	-
Future income tax (expense) recovery	(141,933)	22,312
Net loss for the period	(355,107)	(212,730)
Deficit, beginning of the period	(3,179,974)	(976,250)
Deficit, end of the period	\$ (3,535,081)	\$ (1,188,980)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	25,940,079	22,427,335

See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Statements of Comprehensive Loss

For the three months ended December 31,

(Unaudited - Stated in Canadian Dollars)

	2008	2007
Net loss for the period	\$ (355,107)	\$ (212,730)
Other comprehensive loss		
Unrealized gains (losses) on available for sale instruments:		
Cash and cash equivalents	-	(257)
Marketable securities	(12,457)	9,393
	(12,457)	9,136
Comprehensive loss	\$ (367,564)	\$ (203,594)

See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Statements of Cash Flows

For the three months ended December 31,

(Unaudited - Stated in Canadian Dollars)

	2008	2007
Operating activities		
Net loss for the period	\$ (355,107)	\$ (212,730)
Items not involving cash:		
Amortization	5,493	4,098
Gain on sale of equipment	(441)	-
Other Income	(1,250)	-
Stock-based compensation	45,478	85,429
Future income tax expense (recovery)	141,933	(22,312)
Fair value adjustment to cash equivalents	-	(257)
	(163,894)	(145,772)
Changes in non-cash working capital items:		
Amounts receivable	81,361	174,036
Prepaid expenses	(16,419)	(43,260)
Accounts payable and accrued liabilities	(15,566)	32,199
	(114,518)	17,203
Investing activities		
Mineral property costs	(788,481)	(1,247,600)
Proceeds on sale of equipment	2,840	-
Purchase of equipment	-	(9,876)
	(785,641)	(1,257,476)
Financing activities		
Common shares issued for cash	-	3,758,850
Share issue costs	-	(23,879)
Recovery of property costs incurred	24,896	206,159
Property management fees received	2,041	10,022
	26,937	3,951,152
(Decrease) increase in cash and equivalents	(873,222)	2,710,879
Cash and cash equivalents, beginning of period	1,593,028	1,241,561
Cash and cash equivalents, end of period	\$ 719,806	\$ 3,952,440

Supplemental disclosure of non-cash investing and financing activities – Refer to note 10.

Supplementary information

Interest paid	\$	-	\$	-
Interest received	\$	5,486	\$	19,595

See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Statement of Mineral Property Costs

(Unaudited - Stated in Canadian Dollars)

GOLD PROPERTIES	Balance September 30, 2008	Gross Expenditures/ (Recoveries)	Balance December 30, 2008	Balance, September 30, 2007	Gross Expenditures/ (Recoveries)	Balance, December 31, 2007
JBP Linear						
Plan of arrangement acquisition costs (1)	\$ 1,625,276	-	\$ 1,625,276	\$ 1,625,276	\$ -	\$ 1,625,276
Option payments (2)	33,333	525	33,858	15,000	3,333	18,333
Exploration costs						
Geological and geochemical	253,911	34,493	288,404	139,738	30,377	170,115
Drilling	580,230	-	580,230	229,487	33,443	262,930
Geophysical	96,320	-	96,320	87,320	-	87,320
Travel	2,136	250	2,386	1,161	200	1,361
Other	7,275	-	7,275	7,275	-	7,275
Stock-based compensation	94,405	-	94,405	61,976	1,451	63,427
	2,692,886	35,268	2,728,154	2,167,233	68,804	2,236,037
Recoveries (3)	(366,016)	(1,463)	(367,479)	(54,069)	(21,250)	(75,319)
Project management fees	(34,114)	(386)	(34,500)	-	-	-
Option payments received	(6,250)	-	(6,250)	-	-	-
	2,286,506	33,419	2,319,925	2,113,164	47,554	2,160,718
Golden Promise						
Plan of arrangement acquisition costs (1)	374,829	-	374,829	374,829	-	374,829
Option payments (2)	55,000	-	55,000	35,000	-	35,000
Exploration costs						
Geological and geochemical	55,827	1,813	57,640	19,143	10,283	29,426
Drilling	707,451	-	707,451	524,424	161,951	686,375
Travel	8,789	-	8,789	5,506	1,989	7,495
Other	24,775	-	24,775	24,775	-	24,775
Stock-based compensation	56,364	-	56,364	45,073	-	45,073
	1,283,035	1,813	1,284,829	1,028,750	174,223	1,202,973
Recoveries (3)	(848,689)	(2,602)	(851,291)	(606,432)	(174,178)	(780,610)
Project management fees	(52,377)	(208)	(52,585)	(37,799)	(9,637)	(47,436)
Option payments received	(60,400)	-	(60,400)	(52,800)	-	(52,800)
	321,569	(997)	320,572	331,719	(9,592)	322,127
Other Gold Properties						
Plan of arrangement acquisition costs (1)	1,556,739	-	1,556,739	3,518,620	-	3,518,620
Option payments (2)	366,550	-	366,550	345,380	6,667	352,047
Exploration costs						
Geological and geochemical	311,353	62,674	374,027	122,600	28,344	150,944
Drilling	709,655	2,528	712,183	352,951	121,025	473,976
Geophysical	435	-	435	-	435	435
Travel	6,656	328	6,984	789	-	789
Other	12,300	5,325	17,625	17,025	-	17,025
Stock-based compensation	74,783	-	74,783	50,707	6,357	57,064
	3,038,471	70,856	3,109,327	4,408,072	162,828	4,570,900
Recoveries (3)	(986,717)	(18,341)	(1,005,058)	(359,725)	(10,731)	(370,456)
Project management fees	(60,403)	(1,248)	(61,651)	(25,356)	(385)	(25,741)
Option payments received	(21,250)	-	(21,250)	-	-	-
	1,970,101	51,267	2,021,368	4,022,991	151,712	4,174,703

PARAGON MINERALS CORPORATION

Statement of Mineral Property Costs

(Unaudited - Stated in Canadian Dollars)

BASE METAL PROPERTIES	Balance September 30, 2008	Gross Expenditures/ (Recoveries)	Balance December 31, 2008	Balance, September 30, 2007	Gross Expenditures/ (Recoveries)	Balance, December 31, 2007
South Tally Pond						
Plan of arrangement acquisition costs (1)	\$ 206,558	\$ -	\$ 206,558	\$ 206,558	\$ -	\$ 206,558
Option payments (2)	518,500			282,160	184,000	466,160
Exploration costs						
Geological and geochemical	613,756	131,063	744,819	58,739	32,436	91,175
Drilling	1,542,015	334,891	1,876,906	214,502	333,338	547,840
Geophysical	496,284	9,925	506,209	235,996	37,683	273,679
Travel	7,117	4,182	11,299	1,702	1,934	3,636
Other	6,872	-	6,872	3,738	1,240	4,978
Stock-based compensation	143,774	-	143,774	33,805	29,059	62,864
	3,534,876	480,061	4,014,937	1,037,200	619,690	1,656,890
Recoveries (3)	(37,779)	-	(37,779)	(37,779)	-	(37,779)
	3,497,097	480,061	3,977,158	999,421	619,690	1,619,111
Lake Douglas						
Plan of arrangement acquisition costs (1)	267,720	-	267,720	267,720	-	267,720
Option payments	214,000	-	214,000	95,000	-	95,000
Exploration costs						
Geological and geochemical	386,706	1,190	387,896	327,299	28,412	355,711
Drilling	322,390	-	322,390	3,552	296,336	299,888
Geophysical	193,281	-	193,281	165,291	870	166,161
Travel	1,593	-	1,593	1,593	-	1,593
Other	750	-	750	-	-	-
Stock-based compensation	111,026	-	111,026	90,146	17,327	107,473
	1,497,466	1,190	1,498,656	950,601	342,945	1,293,546
Recoveries (3)	(141,773)	-	(141,773)	(41,773)	-	(41,773)
	1,355,693	1,190	1,356,883	908,828	342,945	1,251,773
Other Base Metal Properties						
Plan of arrangement acquisition costs (1)	905,059	-	905,059	986,701	-	986,701
Option payments (2)	87,047	-	87,047	86,427	-	86,427
Exploration costs						
Geological and geochemical	55,903	42,218	98,121	36,157	5,808	41,965
Drilling	13,791	-	13,791	13,657	(150)	13,507
Geophysical	197,581	-	197,581	80,909	2,320	83,229
Travel	574	-	574	574	-	574
Other	26,173	-	26,173	16,174	-	16,174
Stock-based compensation	6,754	-	6,754	-	-	-
	1,292,882	42,218	1,335,100	1,220,599	7,978	1,228,577
Recoveries (3)	(260,753)	-	(260,753)	(106,701)	-	(106,701)
Project management fees	29,678	-	29,678	(1,125)	-	(1,125)
	1,061,807			1,112,773	7,978	1,120,751
	10,492,773	607,158	11,099,931	\$ 9,488,896	1,160,287	\$ 10,649,183

1. Properties acquired pursuant to the Rubicon Plan of Arrangement were valued at their carrying amounts on Rubicon's books, which consisted of historical acquisition and exploration expenditures.
2. Option payments include cash and share payments made pursuant to various property agreements.
3. Recoveries represent exploration and acquisition costs funded by partners, exploration grants received and option payments received.

See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in Canada under the Canada Business Corporations Act on July 4, 2006 and is in the business of acquiring and exploring mineral property interests in Canada. The Company was incorporated to be the recipient of the Newfoundland portfolio of mineral exploration properties previously owned by Rubicon Minerals Corporation ("Rubicon") as part of Rubicon's re-organization under a Plan of Arrangement. The Plan of Arrangement became effective on December 8, 2006. Refer to note 5.

At the date of these financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its Canadian properties and the ability of the Company to recover the costs it has incurred to date on these properties is dependent upon the Company being able to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the property. The Company is in the exploration stage.

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and has an accumulated operating deficit of \$3,535,081 at December 31, 2008. The ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate equity financing to fund its exploration and administrative expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Summarized below are those policies considered particularly significant to the Company.

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 the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the period. Actual results could differ from those estimates.

Mineral Property Costs

The Company records its interest in mineral properties at cost. Acquisition, option payments and direct exploration costs are deferred until the properties are placed into production, sold or abandoned, at which time these deferred costs will be amortized on a unit-of-production basis, charged to operations if sold, or written-off.

Mineral property cost includes any cash consideration and advance royalties paid, and the fair market value of shares issued, if any, on the acquisition of mineral property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition, option payments and direct exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company's management reviews capitalized costs on its property interests on a periodic and annual basis for impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Administration and management fees earned, which generally range from 8% to 10% of the allowable expenditures associated with exploration on certain properties, are offset against the historical costs deferred on those properties. Administrative costs are expensed as incurred.

Financial Instruments and Financial Risk

The Company's financial instruments consists of cash, temporary investments, amounts receivable, accounts payable and accrued liabilities, the fair values of which approximate their carrying amounts due to the short-term nature of these instruments.

Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the lower of the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares or the date of share issuance. Shares issued as property option payments are valued at their fair market value on the date of issuance. Flow-through shares are common shares which are issued under an agreement that, as provided for in the Canadian Income Tax Act, the Company transfers to the purchaser of the shares the benefits of the exploration expenditures that are financed by the proceeds of the share issue.

Stock-based Compensation

The Company follows the Standards of the Canadian Institute of Chartered Accountants ("CICA") in connection with accounting for stock option-based compensation. The standard requires that all stock option-based awards made to consultants and employees be recognized in these financial statements and measured using a fair value-based method.

Consideration received on the exercise of stock options and compensation options and warrants is recorded as share capital and the related contributed surplus, originally recognized when the options were granted, is transferred to share capital.

Income Taxes

The Company accounts for the tax consequences of the differences in the carrying amounts of assets and liabilities and their tax bases using tax rates expected to apply when these temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Flow-through Shares

The Company has adopted the guidance of the CICA provided in Abstract #146 issued by its Emerging Issues Committee. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the investor may claim the tax deductions arising from the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and shareholders' equity is reduced.

If the Company has sufficient unused tax loss carry-forwards to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these carry-forwards, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Asset retirement obligation

The Company recognizes the fair value of an Asset Retirement Obligation (“ARO”) in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value is determined through a review of engineering studies, industry guidelines and managements estimate on a site-by-site basis. The fair value of the ARO is recorded as a liability, with a corresponding increase in the amount of the related asset. The capitalized amount is depleted on the unit-of-production method based on proven and probable reserves. The liability amount of accretion is expensed in the period. Actual costs incurred upon the settlement of the ARO are charged against the liability. At December 31, 2008 the Company does not have any asset retirement obligations.

3. CHANGES IN ACCOUNTING POLICIES

Capital Disclosures

Effective October 1, 2007, the Company adopted new CICA Handbook section 1535 which requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance (note 15).

Financial Instruments - Disclosure and Presentation

Effective October 1, 2007, the Company adopted new CICA Handbook sections 3862 and 3863 which replace CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation. These standards increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity’s financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk (note 14). The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity’s key management personnel.

The Company’s financial instruments, at December 31, 2008, consist of cash equivalents, amounts receivable, investments in public companies, accounts payable and accrued liabilities. Cash equivalents, amounts receivable and investments in public companies have been classified as available for sale. The carrying values of cash equivalents and amounts receivable approximate their fair values due to their short term nature. Investments in public companies are revalued to market, based on quoted market prices, on acquisition and are re-valued to market at each succeeding period end. Unrealized changes in fair value are recorded as other comprehensive income and included in shareholders’ equity. Accounts payable and accrued liabilities are classified as other financial liabilities, measured at amortized cost using the effective interest rate method, however due to their short term nature, their carrying amounts approximate fair value.

New Canadian Accounting Pronouncements

International Financial Reporting Standards (“IFRS”)

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, at the end of the period, consists of the following:

	Three Month Period Ended December 31, 2008		Year Ended September 30, 2008	
Cash held in treasury accounts	\$	77,864	\$	749,796
Bankers acceptances with under 3 month maturity		-		638,480
Term deposits		641,942		204,752
	\$	719,806	\$	1,593,028

5. EQUIPMENT

The Company's equipment at the end of the period is summarized as follows:

	Three Month Period Ended December 31, 2008			Year Ended September 30, 2008	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Furniture and office equipment	\$ 7,186	\$ 1,501	\$ 5,685	\$ 5,984	
Computer equipment	55,815	26,474	29,341	35,177	
Software	25,302	11,438	13,864	15,621	
	\$ 88,303	\$ 39,413	\$ 48,890	\$ 56,782	

6. MARKETABLE SECURITIES

The Company's marketable securities at the end of the period are summarized as follows:

	Three Month Period Ended December 31, 2008				
	Number of shares at year end	Opening Balance	Additions at cost	Unrealized Loss	Market value
Crosshair Exploration & Mining Ltd.	40,000	\$ 9,600	\$ -	\$ (2,000)	\$ 7,600
Ucore Uranium Inc.	130,840	14,441	1,250	(10,457)	5,234
		\$ 24,041	\$ 1,250	\$ (12,457)	\$ 12,834

	Year Ended September 30, 2008				
	Number of shares at year end	Opening Balance	Additions at cost	Unrealized Loss	Market value
Crosshair Exploration & Mining Ltd.	40,000	\$ 39,400	\$ 7,600	\$ (37,400)	\$ 9,600
Ucore Uranium Inc.	99,500	20,400	38,437	(44,396)	14,441
		\$ 59,800	\$ 46,037	\$ (81,796)	\$ 24,041

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

6. MARKETABLE SECURITIES (Continued)

Market values of public company shares have been determined from the quoted price of the shares on the exchange where they are listed, as of the end of the year. Unrealized losses are included as a component of Other comprehensive Loss.

7. MINERAL PROPERTIES

The following is a summary of the Company's Newfoundland property transactions and holdings since its inception in 2006.

GOLD PROPERTIES

JBP Linear Property

Pursuant to the Plan of Arrangement, the Company acquired a 100% interest in the JBP Linear property, subject to advance royalties of \$15,000 per year commencing in 2007 and Net Smelter Return (NSR) royalties of up to 3%, of which up to 2% can be re-purchased by the Company.

The Company has granted a property option to acquire an interest in its JBP Linear Property as follows:

JBP-Appleton Linear Option Agreement (JBP Linear property) – Sprott Resource Corp.

On November 15, 2007, the Company optioned its 100% owned, JBP Linear property (and Appleton Linear property) to Sprott Resource Corp. ("Sprott"). Under the terms of the Agreement, Sprott was able to earn up to a 70% interest in the property.

On December 11, 2008 Sprott Resource Corp. ("Sprott") notified the Company that has elected to withdraw from the JBP-Appleton Linear Property Option Agreement as it no longer fit with their corporate strategy. As a result, both the JBP Linear property and Appleton Linear property revert 100% back to the Company with Sprott retaining no interest.

Golden Promise Property

Pursuant to the Plan of Arrangement, the Company acquired a 100% interest in the Golden Promise Property subject to a final option payment of \$15,000 in 2007 ("paid"), advance royalties of \$20,000 per year commencing in 2007 and Net Smelter Return (NSR) royalties of up to 2%, of which 1% can be re-purchased by the Company.

The Company has granted a property option to acquire an interest in its Golden Promise Property as follows:

Golden Promise Property Option Agreement – Crosshair Exploration & Mining Ltd.

The Golden Promise property is under option to Crosshair Exploration & Mining Ltd. ("Crosshair"), whereby Crosshair can earn a 60% interest in the property. Under the terms of the agreement, Crosshair must spend \$4.0 million over four years, including \$750,000 firm in the first year (complete) and make share payments totaling 80,000 shares (40,000 paid).

On June 4th 2008, the Company entered into an agreement to sell its interest in the Golden Promise property and its 40% interest in the South Golden Promise gold property, Victoria Lake property, and Victoria Lake 10118M property (collectively, the "Properties") to Crosshair and Gemini Metals Corp. ("Gemini"). Gemini is Crosshair's proposed spinout company to be formed to further explore its gold and base metal projects in Newfoundland. The Properties are all located in central Newfoundland and are all under option to or have been earned into by, Crosshair.

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December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

7. MINERAL PROPERTIES (continued)

Since the announcement of this agreement, significant changes in the financial markets affecting the resource sector has added additional risk to this transaction being delayed or not completing. Subsequent to the end of the period, the Company has extended the agreement to March 31, 2009.

Other Gold Properties

Pursuant to the Plan of Arrangement, the Company acquired a portfolio of 15 other gold properties. The Company holds or held a 100% interest in all these other gold properties to the end of the period ended December 31, 2008, with the exception of the Appleton Linear property and Huxter Lane SW property. The Company terminated the Huxter Lane SW property option agreement on December 11, 2008 and the Company can earn a 100% interest in the Appleton Linear property by making cash and share payments. The other gold properties are subject to varying NSR royalties of up to 3%, of which up to 2% can be re-purchased by the Company.

The Company has outstanding property option payments on the optioned properties as follows:

Appleton Linear property

During the period ended December 31 2008, the Company held options to earn a 100% interest in 2 of 4 properties (Linear property and Bowater property) that collectively, along with the 100%-owned Appleton property and 100%-owned Golden Bullet property, form the Appleton Linear property. Subsequent to Sprott dropping the JBP-Appleton Linear Agreement on December 11, 2008, the Company terminated the Linear property option agreement on December 29, 2008 and retains no further interest. To earn a 100% interest in the Bowater property, the Company must make \$160,000 (\$40,000 paid) in cash option payments to the property vendor. Advance royalty payments of \$25,000 per year are due on the Golden Bullet property.

Subsequent to the period ended December 31, 2008, the Company terminated the Appleton property option agreement on February 6, 2009.

The Company has granted property options to acquire interests in five of its Other Gold Properties as follows:

JBP-Appleton Linear Option Agreement (Appleton Linear property) – Sprott Resource Corp.

On November 15, 2007, the Company optioned its Appleton Linear property (and JBP Linear property) to Sprott Resource Corp. (“Sprott”). The option agreement was terminated by Sprott on December 11, 2008 (see Gold Properties – JBP Linear Property for details).

Victoria Lake Option Agreement (South Golden Promise gold property) – Crosshair Exploration & Mining Ltd.

Crosshair has acquired a 60% interest in one of the Company’s gold properties (South Golden Promise property) and two of the Company’s base metal properties (Victoria Lake property and Victoria Lake 10188M property – see Other Base Metal Properties). Under the terms of the agreement, Crosshair spent \$1.75 million over a four-year period and issued a total of 400,000 shares (issued previously to Rubicon).

On June 4th 2008, the Company entered into an agreement to sell its interest in the South Golden Promise property (see Gold Properties – Golden Promise Property for details)

Huxter Lane Option Agreement – Yamana Gold Inc.

Yamana Gold Inc. (“Yamana”) held the option to acquire up to 70% interest in the Company’s Huxter Lane Gold Property (2 licenses, 86 claims).

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

7. MINERAL PROPERTIES *(continued)*

On December 10, 2008 Yamana Gold Inc. notified the Company that it was withdrawing from the Huxter Lane Joint Venture as part of its plans to refocus its exploration efforts. As a result, the Huxter Lane property reverts 100% back to the Company with Yamana retaining no interest in the property.

Huxter Lane SW Option Land Offer – Yamana Gold Inc.

On March 20, 2007, under terms of the Huxter Lane Option Agreement, Yamana elected to include the Huxter Lane SW property (2 licenses, 37 claims) under the Huxter Lane Option Agreement. Subsequent to the termination of the Huxter Lane Option Agreement by Yamana, the Company terminated the Huxter Lane SW Option Agreement with the property vendors in December 2008.

Long Pond Option Agreement – Metals Creek Resources Corp.

On August 14, 2008, the Company optioned its 100%-owned Long Pond gold property (2 mineral licenses, 63 claims) located in the Baie Verte area of north central Newfoundland to Metals Creek Resources Corp. (“Metals Creek”). Under the terms of the agreement Metals Creek must spend \$500,000 over four years, including \$50,000 firm in the first year, and make share issuances totaling 300,000 shares (including 50,000 shares firm in the first year) to earn a 60% interest in the project. The property is subject to an underlying 0.5% NSR agreement that can be purchased by the Company at any time for \$500,000. Metals Creek will be the operator during the earn-in period.

BASE METAL PROPERTIES

South Tally Pond Property

On September 1, 2006 the Company signed an option to acquire a 100% interest in 2 mineral licenses (249 claims) located in central Newfoundland. In order for the Company to acquire the interest in the property it must:

- a) Issue 250,000 shares on December 15, 2006, the option effective date (issued);
- b) Issue 250,000 shares on December 15, 2007 (issued);
- c) Issue 500,000 shares on the earlier of December 15, 2014 or the completion of a bankable feasibility study;
- d) Fund exploration expenditures of \$30,951 incurred by the option or prior to the option effective date (paid).

The property is subject to a 2% NSR royalty.

Lake Douglas Property

Pursuant to the Plan of Arrangement, the Company acquired an option to earn a 100% interest in the Lake Douglas property, pursuant to two agreements, by issuing 450,000 common shares and paying \$500,000 in cash over 5 years. On January 10, 2008 the agreement was amended to decrease the aggregate cash option payments from \$500,000 to \$350,000 by January 2012 (\$150,000 paid) and to increase the number of common shares to be issued from 450,000 common shares to 600,000 common shares by January, 2012 (200,000 shares issued).

The property is subject to a 2% NSR royalty, of which the Company may purchase 1% for \$1,000,000 and a right of first refusal on the remaining 1% NSR.

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

7. MINERAL PROPERTIES (continued)

Other Base Metal Properties

Pursuant to the Plan of Arrangement, the Company acquired a portfolio of 9 other base metal properties with interests of 51% (Seal Bay property, West Cleary property), the option to earn a 100% interest in the Victoria Lake 10188M property (completed in fiscal 2007) and a 100% interest in the remaining properties. The Victoria Lake and Victoria Lake 10188M properties were subject to an option agreement with Crosshair, described earlier in these notes and completed in the current fiscal year, pursuant to which Crosshair earned a 60% interest in these properties. The properties are subject to NSR royalties of up to 2.5% of which up to 50% can be re-purchased by the Company. The Company also acquired three addition properties by Company staking following the Plan of Arrangement.

Victoria Lake Option Agreement (Victoria Lake and Victoria Lake 10188M properties)

As described above in the discussion of the Golden Promise property, the Company has entered into an agreement to sell its 40% interest in the Victoria Lake and Victoria Lake 10188M properties to Crosshair.

8. SHARE CAPITAL

- a) Authorized share capital consists of an unlimited number of common shares without par value.

The following is a summary of changes in issued share capital:

	Three month period Ended December 31, 2008		Year Ended September 30, 2008	
	Number of Shares		Number of Shares	
Balance, beginning of the year	25,940,079	\$ 14,054,149	21,162,940	\$ 10,883,983
Private placements – non-flow-through	-	-	1,391,214	973,850
Private placements – flow-through	-	-	2,785,000	2,785,000
Mineral property acquisition	-	-	375,000	292,500
Options exercised	-	-	29,166	13,709
Fair value of options exercised	-	-	-	11,257
Finders' fee shares	-	-	196,759	143,634
Future taxes related to flow through renunciation	-	-	-	(877,275)
Other share issuance costs	-	-	-	(172,509)
Balance, end of the year	25,940,079	\$ 14,054,149	25,940,079	\$ 14,054,149

- b) The following is a summary of changes in contributed surplus which consist entirely of stock based compensation transactions.

	Three months ended December 31, 2008		Year ended September 30, 2008	
Balance at beginning of year	\$	1,214,529	\$	745,520
Stock-based compensation - operations		45,478		268,318
Stock-based compensation - properties		-		211,948
Fair value of options exercised		-		(11,257)
Balance at end of year	\$	1,260,007	\$	1,214,529

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

8. SHARE CAPITAL (continued)

c) Stock Options

The Company has adopted an incentive stock option plan authorizing the issue of up to 20% of the amount of shares issued as at the initial listing date on the TSX Venture Exchange, 4,014,581 options. Under the plan, options may only be issued to directors, officers, employees and consultants of the Company and must be subject to a vesting period as required under TSX Venture Exchange policies. The term of each grant shall be no greater than 5 years from the date of grant. The option price shall be no less than the fair market value of the Company's shares on the date of the grant. The following is a summary of the changes in the Company's outstanding stock options.

	Three months ended December 31, 2008		Year ended September 30, 2008	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Beginning balance	2,618,849	\$ 0.60	1,943,013	\$ 0.68
Granted	-	-	1,121,000	0.45
Exercised		-	(29,166)	0.48
Expired or forfeited	(180,520)	0.65	(416,000)	0.72
Ending balance	2,438,327	0.58	2,618,847	0.60

The weighted average grant date fair value of options granted during the period was \$0.40.

Summary of stock options outstanding:

December 31, 2008			
Stock Options	Number Outstanding	Price \$	Weighted Average Life in Years
	435,000	0.28	4.44
	60,000	0.30	4.39
	75,000	0.30	4.42
	16,666	0.38	1.67
	25,000	0.42	1.70
	33,333	0.49	1.95
	435,000	0.61	4.10
	183,331	0.67	1.10
	58,333	0.67	1.16
	3,333	0.67	4.81
	33,332	0.69	1.00
	1,005,000	0.70	3.17
	30,000	0.70	3.32
	44,999	0.84	0.07
Total stock options	2,438,327	0.58	3.30

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

8. SHARE CAPITAL (continued)

The fair value of options, including options granted pursuant to the Rubicon Plan of Arrangement, has been estimated using the Black-Scholes Option Pricing Model based on the following weighted average assumptions:

	Year Ended September 30, 2008
Risk-free interest rate	2.88% to 3.48%
Expected life	5.00 years
Expected volatility	117% to 148%
Expected dividend yield	0%

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

d) Summary of warrants outstanding:

December 31, 2008				
Warrants	Expiry Date	Number Outstanding	Weighted Average Price (\$)	Weighted Average Life (years)
	December 6, 2009	695,607	1.05	0.93
Total warrants		695,607	1.05	0.93

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Three months ended December 31, 2008	Year ended September 30, 2008
Accumulated other comprehensive loss, beginning of year	\$ (116,232)	\$ (34,718)
Other comprehensive loss for the year	(12,457)	(81,514)
Accumulated other comprehensive loss, end of year	\$ (128,689)	\$ (116,232)
Components of accumulated other comprehensive loss are:		
Unrealized losses on temporary investments	\$ -	\$ 282
Unrealized losses on public company shares	(12,457)	(81,796)
Other comprehensive loss	\$ (12,457)	\$ (81,514)

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

December 31, 2008 and September 30, 2008

(Unaudited - Stated in Canadian Dollars)

10. SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

During the three months ended December 31, 2008 (2007), the Company issued \$nil (2007 - 250,000) common shares at a value of \$nil (2007 - \$182,500) for mineral properties. The Company recorded stock based compensation of \$nil (2007 - \$54,195) as mineral property costs. Included in accounts payable and accrued liabilities at December 31, 2008 is \$56,548 (2007 - \$296,854) of mineral property costs. Included in accounts receivable at December 31, 2008 is \$124,798 (2007 - \$487,794) of mineral property recoveries.

11. COMPARATIVE FIGURES

The comparative figures have been reclassified where necessary to conform to the presentation of the current period.



PARAGON MINERALS CORPORATION
MANAGEMENT DISCUSSION & ANALYSIS
THREE MONTHS ENDED DECEMBER 31, 2008

PARAGON MINERALS CORPORATION
Management Discussion & Analysis
For the three month period ended December 31, 2008

INTRODUCTION

The following Management Discussion and Analysis (“MD&A”) of the financial position and results of operations of Paragon Minerals Corporation (“Paragon” or the “Company”), dated February 27, 2009, should be read in conjunction with the unaudited interim financial statements for the three month period ended December 31, 2008, the audited financial statements for the year ended September 30, 2008, and the annual MD&A for the year ended September 30, 2008. All dollar figures stated herein are expressed in Canadian dollars, unless specified. Additional information about the Company can be found on SEDAR at www.sedar.com

Paragon is a Canadian-based junior exploration company engaged in the acquisition, exploration and development of gold and base metal projects, specifically within the Province of Newfoundland and Labrador. The Company has a significant portfolio of gold and base metal exploration properties in Newfoundland, which it is exploring through a combination of Company-funded exploration and partner-funded exploration. The Company is listed on the TSX Venture Exchange under the symbol “PGR”.

The Company’s head office and principal business address is Suite 1500, 701 West Georgia Street, Vancouver, British Columbia, V7Y 1C6 and its registered and records office is located at 2800 Park Place, 666 Burrard Street, Vancouver, BC, V6C 2V6.

OVERVIEW

The Company was incorporated as “Paragon Minerals Corporation” under the Canadian Business Corporations Act (“CBCA”) on July 4, 2006 in order to facilitate a Plan of Arrangement under which Rubicon Minerals Corporation (“Rubicon”), a public company whose shares are listed on the Toronto Stock Exchange and American Stock Exchange, would proceed with a reorganization which would have the result of dividing its mineral assets between three separate public companies: the then existing Rubicon and two newly created companies, namely the Company and CopperCo Resource Corp (“CopperCo”). Upon completion of the Plan of Arrangement on December 8, 2006, the Company acquired the exploration assets held by Rubicon in the Province of Newfoundland & Labrador and the Territory of Nunavut. For additional details on the Arrangement, please refer to the Rubicon Management Information Circular dated July 7, 2006 and filed on SEDAR at www.sedar.com.

During the three month period ended December 31, 2008, the Company spent \$788,481 on exploration of which \$24,896 was funded by partners. Net losses for the period ended December 30, 2008 were \$355,107. The Company continued to advance its key gold and base metal properties through partner-funded and company-funded exploration to the end of 2008. As part of its flow-through expenditure commitment, the Company has met its required expenditures to December 31, 2008.

In light of the recent uncertainty in the financial markets and resource sector, and in order to conserve its cash, the Company is reducing its company-funded exploration activities in 2009 to maintaining its key properties. The Company has already significantly downsized its exploration staff and will continue to reduce its non-core property portfolio as necessary to conserve cash. The Company has sufficient funds to maintain its operations through 2009 and is reviewing its core assets and assessing new opportunities. The Company’s priority will be to maintain and secure additional partners for several of its 100%-owned gold and base metal projects, to evaluate all new opportunities for the Company, and to secure new financings for future exploration programs.

The Company currently has two exploration JV partners including Crosshair Exploration & Mining Ltd. (“Crosshair”) and Metals Creek Resources Corp (“Metals Creek”). Discussions with potential partners are underway with respect to several of the Company’s other 100%-owned properties. In June 2008, the Company announced plans to vend its remaining interest in four optioned properties into a new company called Gemini Metals Corp. (“Gemini”) to be created by Crosshair. Due to the market downturn, the successful completion of this transaction is unlikely to occur exactly as planned, however, the Company is confident that the companies will complete a transaction on the properties in early 2009.

MINERAL PROPERTIES

Pursuant to the December 2006 Rubicon Plan of Arrangement, Rubicon transferred to the Company its gold and base metal mineral properties located in the Province of Newfoundland & Labrador and the Territory of Nunavut. Through this transaction, the Company acquired a total of 27 exploration properties. As of December 31, 2008, the Company has twenty-one exploration properties (9 gold properties, 12 base metal properties) of which one gold property is under option to a joint venture partner, four properties (2 gold and 2 base metal properties) are pending a property sale agreement, and one base metal property is pending a joint venture agreement.

EXPLORATION UPDATE

Exploration work during the three month period ended December 31, 2008 focused on the South Tally Pond base metal project. Report writing and compilation was completed on two partner-funded projects including the JBP-Appleton Linear property and the Huxter Lane property. Both of these partner-funded projects were returned to the Company in early December 2008. Results of the exploration work during the three month period ended December 31, 2009 are summarized below with additional information available on the Company website.

Gold Projects

JBP- Appleton Linear Property

On December 11, 2008 Sprott Resource Corp. ("Sprott") notified the Company that has elected to withdraw from the JBP-Appleton Linear Property Option Agreement as it no longer fit with their corporate strategy. As a result, both the JBP Linear property and Appleton Linear property, collectively the "JBP-Appleton Linear Property" revert 100% back to the Company with Sprott retaining no interest. The Company will review all results of the exploration work on the two properties and evaluate plans for continued exploration on the properties.

Golden Promise JV Property

No exploration was completed on the property by Crosshair during the period. In June 2008 the Company entered into an agreement to vend its remaining interest in the Golden Promise property (plus three other optioned properties) into a new company (Gemini) to be created by Crosshair. See Note 7 in the Interim Financial Statements ended December 31, 2008 for details.

Other Properties (gold)

Huxter Lane Property

On December 10, 2008 Yamana Gold Inc. notified the Company that it is withdrawing from the Huxter Lane Joint Venture as part of its plans to refocus its exploration efforts. As a result, the Huxter Lane property reverts 100% back to the Company with Yamana retaining no interest in the property. The Company will review the exploration results to date and evaluate plans for continued exploration on the Huxter Lane property.

Long Pond JV Property (gold)

On August 14, 2008, the Company optioned its 100%-owned Long Pond gold property (2 mineral licenses) located in the Baie Verte area of north central Newfoundland to Metals Creek Resources Corp. ("Metals Creek"). See Note 9 in the Interim Financial Statement ended December 31, 2008 for details. No further work was carried out during the period ended December 31, 2008.

Maritec Property

The Company completed additional data compilation and a field visit to the property area during the period. Results of the work indicate that the property is underlain by gold-bearing pyritic iron formation of the Goldenville Trend and gold-bearing quartz carbonate veins hosted within altered mafic and ultramafic rocks. Further geological mapping and prospecting is planned for 2009.

Base-Metal Projects

South Tally Pond Project – South Tally Pond Property

The South Tally Pond property is located in central Newfoundland and is under option from Altius Resources Inc., whereby the Company can earn a 100% interest in the property. The property is situated in the same volcanic belt

PARAGON MINERALS CORPORATION
Management Discussion & Analysis
For the three month period ended December 31, 2008

and has strong similarities to the rocks that host Teck Cominco's Duck Pond Mine (5.48 million tonnes of 3.3% copper, 5.8% zinc, 0.9% lead, 59 g/t silver and 0.86 g/t gold), located 20 kilometres to the northeast. The Company has a significant land position covering approximately 26,100 hectares immediately southwest of the Duck Pond Mine.

In October, 2007, the Company made a significant base metal discovery at the Lemarchant Prospect, where massive sulphides grading up to 9.46% zinc, 2.13% lead, 0.81% copper, 73.44 g/t silver, 1.85 g/t gold were intersected over 14.6 metres. The Lemarchant mineralization is hosted within a 4,000 metre long and 700 metre wide sequence of highly altered felsic volcanic rocks. Exploration work completed at the Lemarchant Prospect during the three month period ended December 31, 2008 consisted of nine drillholes totaling 3,000 metres.

The Lemarchant area is underlain by north-northwest striking sequence of bimodal submarine volcanic rocks (rhyolites and basalts) of the Tally Pond volcanic belt. The host rocks to the sulphide mineralization are moderate to intensely altered proximal felsic volcanic rocks consisting of rhyolite breccias, massive flows and lesser tuffaceous felsic rocks. The footwall to the semi-massive and massive sulphide mineralization is characterized by a well developed base-metal stringer system with associated variably quartz-sericite alteration and patchy to pervasive chlorite alteration that overall increases in intensity towards the north-northwest. Current structural interpretation suggests that the volcanic rocks underlying the Lemarchant prospect are part of a fold-thrust belt, similar to that described for the greater Tally Pond volcanic belt. The relationship between the volcanic units is largely determined by the displacements of low angle thrust faults and higher angle block faults.

Wide-spaced drilling completed to-date by the Company at the Lemarchant Prospect has outlined precious metal-rich zinc-lead-copper semi-massive to massive sulphide mineralization over a 500-metre strike length from sections 101+00N and 106+00N. The mineralized zone is located approximately 200 to 300 metres below surface and appears to plunge gently to the north-northwest. Eight drillhole intercepts through the semi-massive to massive sulphide mineralization range from 3 to 14.6 metres in thickness. The overall width of the sulphide mineralization is not well constrained based on the current drilling, but locally measures up to 100 metres in width on two of the sections. The mineralized zone remains open along strike.

Drilling from September through November, 2008 further defined the massive sulphide mineralization intersected between sections 101+00N and 104+00N and extended the base metal semi-massive sulphide mineralization to the north onto section 106+00N (LM08-37). A further 100-metre step out drillhole to the north (LM08-38, Section 107+00N) intersected altered felsic volcanic rocks with a thick mafic intrusive (35 metres) cutting through the projected target zone. A further 100-metre step out drillhole to the south (LM08-39, Section 100+00N) intersected mafic volcanic rocks over most of its length with local intervals of mineralized felsic volcanic rocks in the projected target zone. Results of all drillholes, including all historic drill holes are listed on the Company website.

South Tally Pond Project - Regional Area

The South Tally Pond Project Regional Area consists of five, 100%-owned Company properties that cover the remainder of the prospective Tally Pond volcanic belt immediately southwest of the Duck Pond Mine. These properties surround the South Tally Pond property and include the Harpoon property, Gills Pond property, Barren Lake property, South Tally Pond Extension property and Higher Levels property. All six properties are collectively referred to as the South Tally Pond Project.

In November 2008, Paragon collected a total of 626 soil samples over three target areas, including the Beaver Lake prospect. Soil samples were collected at the Beaver Lake prospect to provide some initial soil geochemical coverage over a historical electromagnetic conductor (1.5 km long) and coincident gravity anomalies (300 and 500 metres in length). Results from the sampling indicate anomalous zinc, lead, copper, and silver values that correspond with the historic geophysical anomalies. The area is underlain by vent proximal felsic pyroclastic breccias similar to that observed at the Lemarchant Prospect and the Duck Pond Mine.

Lake Douglas Project

No exploration was completed on the property during the period. The Company renegotiated the option terms on the Lake Douglas property subsequent to the period end. See Note 9 in the Interim Financial Statements ended December 31, 2008 for details.

PARAGON MINERALS CORPORATION
Management Discussion & Analysis
For the three month period ended December 31, 2008

Other Properties (base metals)

Lewis Lake Property

In December, 2008, a soil sampling program (863 samples) was completed over a previously recommend priority area. Sample results indicate coincident anomalous zinc, lead, copper, silver and gold values in an area approximately 0.6 square kilometres in area. The soil anomaly coincides with mineralized base metal bearing float from historic prospecting and anomalous base metal values intersected in two drillholes.

EXPLORATION OUTLOOK

In light of the continued uncertainty in the financial markets and resource sector, and in order to conserve its cash, the Company is reducing its company-funded exploration activities in 2009 to the maintenance of its key properties. During the period, the Company has significantly downsized its exploration staff and will also continue to reduce its non-core property portfolio as necessary to conserve cash. The Company has sufficient funds to maintain its operations through 2009 and is reviewing its core assets and assessing new opportunities. The Company's priority will be to maintain and secure joint venture partners on several of its 100%-owned gold and base metal projects, to evaluate new project opportunities for the Company, and to secure new financings for future exploration programs.

The Company currently has two exploration JV partners including Crosshair Exploration & Mining Ltd. and Metals Creek Resources Corp. Discussions with potential partners are underway with respect to several of the Company's 100%-owned properties. In June 2008, the Company announced plans to vend certain of its optioned properties into a new company (Gemini) to be created by Crosshair for cash and shares. Due to the market downturn, the successful completion of this transaction is unlikely to occur exactly as planned, however, the Company is confident that the companies will complete a transaction on the properties in early 2009.

MANAGEMENT CHANGES

On December 5, 2008, the Company ended its employment contract with Mr. Bruce Mitton, P.Geo., Vice President Exploration in conjunction with other exploration staff reductions in November/December, 2008.

RESULT OF QUARTERLY OPERATIONS

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars.

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	Dec	Sept	Jun	Mar	Dec	Sept	Jun	Mar
	31	30	30	31	31	30	30	31
	2008	2008	2008	2008	2007	2007	2007	2007
Interest income	\$ 5,933	\$ 15,684	\$ 10,688	\$ 39,763	\$ 23,229	\$ 16,155	\$ 2,5300	\$ 31,878
Net (loss) income	(355,107)	(1,827,536)	13,140	(176,598)	(212,730)	(169,343)	(282,809)	(152,867)
Basic and diluted (loss) income per share	(0.01)	(0.07)	0.00	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

For the three month period ended December 31, 2008, the Company incurred net losses of \$355,107 (\$0.01 per share) compared to a net loss of \$212,730 (\$0.01 per share) incurred in the three month period ended December 31, 2007, an increase in net loss of \$142,377. Causes of variances were as follows:

- Investor relations were lower by \$27,955 due to the reduction of in-house staffing costs and investor conferences for the period being prepaid (Toronto Cambridge; Newfoundland & Labrador CIM conference).

PARAGON MINERALS CORPORATION
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- Salaries and benefits expenses were higher by \$42,624 due to a severance payment of \$82,500 pursuant to the employment contract with Mr. Mitton.
- Stock based compensation was lower by \$39,951 due to fewer options being granted and vested.
- Future income tax (expenses) recoveries, arising from favorable imbalances in tax return pools, increased by \$164,245 due to adjustments to tax pool balances.

Income/loss is not affected by seasonality but can fluctuate considerably due to events such as mineral property write-offs, new stock option grants, flow-through share renunciations and corporate re-organizations.

Liquidity and Capital Resources

As at December 31, 2008, the Company had cash and cash equivalents and short-term money market investments of \$720,000 compared to \$1.59 million at September 30, 2008. The decrease in cash is mainly due to flow-through expenses being incurred and no financings being done. Working capital for the period ended December 31, 2007 was \$850,000 as compared to \$1.62 million at September 30, 2007.

As at September 30, 2008, the Company had CEE spending commitments of approximately \$612,000 to be completed by December 31, 2008 as compared to \$880,000 at September 30, 2007. Flow-through spending commitments were met in both years by the required date of December 31, 2007 and December 31, 2008.

Other sources of funds, during the three month period ended December 31, 2008, included recovery of exploration costs and property management fees from optionees of the Company's properties of \$25,000.

The Company has sufficient funds to maintain its operations through 2009, but it will not be able to maintain the same level of company-funded exploration that it has in previous two years without further financings. The Company's priority in 2009 will be to maintain its current partners, secure additional partners for several of its 100%-owned gold and base metal projects, evaluate new opportunities for the Company, and secure new financings for future exploration programs.

Financing Details

None

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements other than that which is disclosed under note 11(c) "NRD Agreement", of the financial statements.

Related Party Transactions

The Company has no related party transactions.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 of the September 31, 2008 financial statements. The Company considers the following policies to be most critical in understanding its financial results:

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting policies requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are based on past experience, industry trends and known commitments and events. By their nature, these estimates are subject to measurement uncertainty and the effects on the financial statements of changes in such estimates in future periods could be significant. Actual results will likely differ from those estimates.

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Carrying value of mineral property interests

The Company has capitalized the cost of acquiring mineral property interests and on-going exploration and maintenance costs. Capitalized property costs are expensed in the period in which the Company determines that the mineral property interests have no future economic value. Capitalized property costs may also be written down if future cash flow, including potential sales proceeds and option payments, related to the property are estimated to be less than the carrying value of the property. The Company reviews the carrying value of its mineral properties periodically, and whenever events or changes in circumstances indicate the carrying value may not be recoverable, reductions in the carrying value of each property would be recorded to the extent that the carrying value of the investment exceeds the property's estimated fair value.

Stock-based compensation

The Company has adopted the fair value based method of accounting for stock option and compensatory warrant awards granted to directors, employees and consultants. Under this method, the fair value of compensatory warrants or agents stock options are calculated at the grant date and recorded as share issue costs at the date of grant, with the offsetting credit to contributed surplus. Employee and consultant options are expensed over the period in which related services are rendered. If the stock options are exercised, the proceeds are credited to share capital.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options and compensatory warrants granted. This model is subject to various assumptions and estimates including the Company's future stock volatility, expected life of options granted, and the risk free interest rate. The Company believes its estimates are reasonable under the circumstances.

Flow-through share renunciations

Upon the renunciation of the tax benefits of exploration expenditures to flow-through shareholders, the Company reduces share capital and records a temporary future income tax liability for the amount of the tax deduction transferred to shareholders. In instances where the Company has available tax loss carry forwards or other deductible temporary differences, the benefits of which have not previously been recognized, those benefits will be re-instated and credited to income in the period of renunciation.

Changes in Accounting Policies including Initial Adoption

Capital Disclosures, CICA Handbook Section 1535

Effective October 1, 2007, the Company adopted new CICA Handbook section 1535 which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.

Financial Instruments - Disclosure and Presentation, CICA Handbook Sections 3862 and 3863

Effective October 1, 2007, the Company adopted new CICA Handbook sections 3862 and 3863 which replace CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation. These standards increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

New Accounting Pronouncements

The following pronouncements recently issued by the Canadian Institute of Chartered Accountants ("CICA") will likely impact the Company's future accounting policies:

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International Financial Reporting Standards (“IFRS”)

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Outstanding Share Data

As at December 31, 2008, the Company had the following common shares, stock options and warrants outstanding:

Issued and Outstanding Common shares	25,940,079
Stock options	2,438,327
Warrants	695,607
<hr/>	
Fully diluted shares outstanding	29,074,013

Additional information on the Company, including other public filings, is available on SEDAR at www.sedar.com.

RISK FACTORS

Companies operating in the mining industry face many and varied kinds of risk. While risk management cannot eliminate the impact of potential risks, the Company strives to manage such risks to the extent possible and practical. The following are the risk factors most applicable to the company:

Industry

Exploring and developing mineral resource projects bears a high potential for all manner of risks. The Company properties are in the exploration stage and are without a known body of commercial ore. Development of any of the Company’s properties will only follow upon obtaining satisfactory exploration results, mineral exploration and development involve a high degree of risk and few properties which are explored are ultimately developed into producing mines. There is no assurance that Company’s mineral exploration activities will result in the discovery of a body of commercial ore on any of its properties. Several years may pass between the discovery of a deposit and its exploitation. Most exploration projects do not result in the discovery of commercially mineable mineralized deposits

Financing

The Company is in the exploration stage and as such has no significant source of revenue. Its continued operations are dependent upon the ability of the company to obtain additional equity or partner financing. Obtaining further financing may be dependent upon market conditions and results of exploration. There is no assurance that the Company’s exploration efforts will be successful or that market conditions will be favourable. The Company will require additional funding to maintain its mineral properties in good standing. The lack of additional financing could result in delay or indefinite postponement of further exploration and possible, partial or total loss of Paragon’s interest in its mineral properties.

Title

There is no guarantee that title to properties in which Company has a material interest will not be challenged or impugned. The Company’s mineral property interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. In addition, certain of the mining claims in

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which the Company has an interest are not recorded in the name of the Company and cannot be recorded until certain steps are taken by other parties. Before a number of claims under option can be recorded in Company's name, the underlying title holder has to assign title to the Company once the Company satisfies its option agreement obligations. There are no assurances that the underlying title holder will assign title.

Operating Hazards and Risks

Mineral exploration involves many risks. The operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the risks involved in the conduct of exploration programs.

Environmental Factors

The Company currently conducts exploration activities in the Canadian Province of Newfoundland and Labrador. Such activities are subject to various laws, rules and regulations governing the protection of the environment. In Canada, extensive environmental legislation has been enacted by federal and provincial governments. Such legislation imposes rigorous standards on the mining industry to reduce or eliminate the effects of wastes generated by extraction and processing operations and subsequently deposited on the ground or emitted into the air or water. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed properties and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. The cost of compliance with changes in governmental regulations has the potential to preclude entirely the economic development of a property.

The Company is able to conduct its exploration within the provisions of the applicable environmental legislation without undue constraint on its ability to carry on efficient operations. The estimated annual cost of environmental compliance for all properties held by the Company in the exploration stage is minimal and pertains primarily to carrying out diamond drilling, trenching or stripping. Environmental hazards may exist on the Companies properties, which hazards are unknown to the Company at present, which have been caused by previous or existing owners or operators of the properties.

Governmental Regulation

Exploration activities on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law reform; (iii) restrictions on production, price controls, and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. Changes in such regulation could result in additional expenses and capital expenditures, availability of capital, competition, reserve uncertainty, potential conflicts of interest, title risks, dilution, and restrictions and delays in operations, the extent of which cannot be predicted.

The Company is at the exploration stage on all of its properties. Exploration on the Company's properties requires responsible best exploration practices to comply with company policy, government regulations, maintenance of claims and tenure. The Company is required to be registered to do business and have a valid prospecting license (required to prospect or explore for minerals on Crown Mineral Land or to stake a claim) in any Canadian province in which it is carrying out work.

Mineral exploration primarily falls under provincial jurisdiction. However, the Company is also required to follow the regulations pertaining to the mineral exploration industry that fall under federal jurisdiction, such as the Fish and Wildlife Act.

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If any of the Company's projects are advanced to the development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labour standards, environmental protection, mine safety and other matters.

QUALIFIED PERSONS

Work on the South Tally Pond project and other Company projects was carried out by Paragon employees and consultants and supervised by Qualified Person David Copeland, M.Sc., P.Geo.

FORWARD LOOKING STATEMENTS

The Company's audited financial statements for year ended September 30, 2008 and this accompanying MD&A contain certain statements that may be deemed "forward-looking statements". All statements in this document, other than statements of historical fact, that address events or developments that the Company expects to occur, are forward looking statements. Forward looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential", "interprets" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur. Forward-looking statements in this document include statements regarding future exploration programs, joint venture partner participation, and liquidity. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration success, continued availability of capital and financing, inability to obtain required regulatory or governmental approvals and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. The Company undertakes no obligation to update these forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, should change.

These statements are based on a number of assumptions, including, among others, assumptions regarding general business and economic conditions, the timing of the receipt of regulatory and governmental approvals for the transactions described herein, the ability of Paragon and other relevant parties to satisfy stock exchange and other regulatory requirements in a timely manner, the availability of financing for Paragon's proposed transactions and exploration and development programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. The foregoing list of assumptions is not exhaustive. Events or circumstances could cause results to differ materially.