



PARAGON MINERALS CORPORATION

Financial Statements

Year ended September 30, 2007

(Stated in Canadian Dollars)

DE VISSER GRAY LLP

CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of Paragon Minerals Corporation

We have audited the balance sheets of Paragon Minerals Corporation as at September 30, 2007 and 2006 and the statements of operations and deficit and cash flows for the year ended September 30, 2007 and for the period from incorporation on July 4, 2006 to September 30, 2006. 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 generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of materials 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 September 30, 2007 and 2006 and the results of its operations and cash flows for the year ended September 31, 2007 and for the period from incorporation on July 4, 2006 to September 30, 2006 in accordance with generally accepted accounting principles in Canada.

"De Visser Gray LLP"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
January 28, 2008

PARAGON MINERALS CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the company have been prepared by management in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Company's independent auditors, De Visser Gray LLP Chartered Accountants, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

The Audit Committee of the Board of Directors has met with the company's independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

"Michael Vande Guchte"
Michael Vande Guchte
President

"Robert Lewis"
Robert Lewis
Chief Financial Officer

PARAGON MINERALS CORPORATION

Balance Sheets

(Stated in Canadian Dollars)

	September 30 2007	September 30 2006
Assets		
Current assets		
Cash and cash equivalents (note 5)	\$ 1,241,561	\$ 5,722
Amounts receivable	956,164	-
Prepaid expenses	20,941	-
	<u>2,218,666</u>	<u>5,722</u>
Equipment (note 6)	41,269	-
Other investments (note 7)	59,800	-
Mineral property costs (note 8)	9,488,896	-
	<u>\$ 11,808,631</u>	<u>\$ 5,722</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 596,654	\$ 130,000
	<u>579,734</u>	<u>-</u>
Future income taxes (note 12)		
Shareholders' equity		
Share capital (note 9)	10,883,983	-
Obligation to issue shares (note 9(e))	13,708	-
Contributed surplus (note 9(b))	745,520	-
Deficit	(976,250)	(124,278)
Accumulated other comprehensive loss (note 10)	(34,718)	-
	<u>10,632,243</u>	<u>(124,278)</u>
	<u>\$ 11,808,631</u>	<u>\$ 5,722</u>

See accompanying notes to the financial statements

Continuance of operations (note 1)

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
(Stated in Canadian Dollars)

	Year Ended September 30 2007	For the Period from Incorporation on July 4 to September 30 2006
Expenses		
Amortization	\$ 8,419	\$ -
Consulting	35,363	-
General mineral exploration	35,654	-
Investor relations	54,573	-
Office	65,749	105
Part XII.6 flow-through tax	76,757	-
Plan of arrangement costs (note 4)	74,009	125,000
Professional fees	84,239	5,000
Salaries and management fees	232,098	-
Stock-based compensation (note 9(b))	464,150	-
Shareholder communication	31,611	-
Transfer agent and regulatory filing fees	53,206	-
Travel and accommodation	11,360	-
Write-off of deferred property costs	3,804	-
Loss before other items	(1,230,992)	(130,105)
Foreign exchange gain	483	4,787
Interest and miscellaneous income	79,087	1,040
Other income	41,435	-
Future income tax recovery (note 9(a))	258,015	-
Net loss for the period	(851,972)	(124,278)
Deficit, beginning of the period	(124,278)	-
Deficit, end of the period	\$ (976,250)	\$ (124,278)
Basic and diluted loss per common share	\$ (0.05)	\$ -
Weighted average number of common shares outstanding	16,401,767	-

See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Statements of Comprehensive Loss

(Stated in Canadian Dollars)

	Year Ended September 30 2007	For the Period from Incorporation on July 4 to September 30 2006
Net loss for the period	\$ (851,972)	\$ (124,278)
Other comprehensive loss in the period		
Fair value adjustment to financial instruments:		
Temporary investments	(282)	-
Investments in public company shares	(34,436)	-
	(34,718)	-
Comprehensive loss for the period	(886,690)	(124,278)
Accumulated comprehensive loss, beginning of the period	(124,278)	-
Accumulated comprehensive loss, end of the period	\$ (1,010,968)	\$ (124,278)

See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Statement of Cash Flows

(Stated in Canadian Dollars)

	September 30 2007	For the Period from Incorporation on July 4 to September 30 2006
Cash Provided by (Used for):		
Operating Activities		
Net loss for the period	\$ (851,972)	\$ (124,278)
Adjustment for items which do not involve cash:		
Amortization	8,419	-
Stock-based compensation	464,150	-
Write-off of deferred property costs	3,804	-
Other income	(41,435)	-
Future income tax recovery	(258,015)	-
Fair value adjustment to cash equivalents financial instruments	(282)	-
	(675,331)	(124,278)
Changes in non-cash working capital components:		
Temporary investments	-	-
Amounts receivable	(478,179)	-
Prepaid expenses	(20,941)	-
Accounts payable and accrued liabilities	71,879	130,000
	(1,102,572)	5,722
Investing Activities*		
Mineral property costs	(3,167,710)	-
Purchase of equipment	(33,736)	-
	(3,201,446)	-
Financing Activities*		
Common shares issued for cash	4,255,388	-
Share subscriptions received	13,708	-
Recovery of property costs incurred	1,206,480	-
Management and administration fees received	64,281	-
	5,539,857	-
Net cash provided during the period	1,235,839	5,722
Cash and cash equivalents, beginning of the period	5,722	-
Cash and cash equivalents, end of the period	\$ 1,241,561	\$ 5,722
During the period, the Company paid the following:		
Interest	\$ 186	\$ -

***Supplemental Disclosure of Non-Cash Investing and Financing Activities** – Refer to note 12.
See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Statement of Mineral Properties

(Stated in Canadian Dollars)

	Balance September 30 2006	Gross Acquisition and Exploration during the year	Balance September 30 2007
GOLD PROPERTIES			
JBP Linear			
Plan of arrangement acquisition costs ⁽¹⁾	\$ -	\$ 1,625,276	\$ 1,625,276
Option payments (cash and shares) ⁽²⁾	-	15,000	15,000
Exploration costs			
Geological and geochemical	-	139,738	139,738
Drilling	-	229,487	229,487
Geophysical	-	87,320	87,320
Travel	-	1,161	1,161
Other	-	7,275	7,275
Stock based compensation	-	61,976	61,976
	-	2,167,233	2,167,233
Recoveries (grant) ⁽³⁾	-	(54,069)	(54,069)
	-	2,113,164	2,113,164
Golden Promise			
Plan of arrangement acquisition costs ⁽¹⁾	-	374,829	374,829
Option payments (cash and shares) ⁽²⁾	-	35,000	35,000
Exploration costs			
Geological and geochemical	-	19,143	19,143
Drilling	-	524,424	524,424
Travel	-	5,506	5,506
Other	-	24,775	24,775
Stock based compensation	-	45,073	45,073
	-	1,028,750	1,028,750
Recoveries ⁽³⁾	-	(659,232)	(659,232)
Administration fees	-	(37,799)	(37,799)
	-	331,719	331,719
Other Gold Properties			
Plan of arrangement acquisition costs ⁽¹⁾	-	3,518,620	3,518,620
Acquisition costs	-	180	180
Option payments (cash and shares) ⁽²⁾	-	345,350	345,350
Exploration costs			
Geological and geochemical	-	126,343	126,343
Drilling	-	352,951	352,951
Geophysical	-	86,507	86,507
Travel	-	789	789
Other	-	18,650	18,650
Stock based compensation	-	50,707	50,707
	-	4,500,097	4,500,097
Recoveries ⁽³⁾	-	(359,725)	(359,725)
Administration fees	-	(25,356)	(25,356)
	-	4,115,016	4,115,016

See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Statement of Mineral Properties

(Stated in Canadian Dollars)

	Balance September 30 2006	Gross Acquisition and Exploration during the year	Balance September 30 2007
BASE METALS PROPERTIES			
South Tally Pond			
Option payments (cash and shares) ⁽²⁾	\$ -	\$ 260,000	\$ 260,000
Exploration costs			
Geological and geochemical	-	36,711	36,711
Drilling	-	214,439	214,439
Travel	-	1,702	1,702
Other	-	1,561	1,561
Stock based compensation	-	33,805	33,805
	-	548,218	548,218
Lake Douglas			
Plan of arrangement acquisition costs ⁽¹⁾	-	267,720	267,720
Option payments (cash and shares) ⁽²⁾	-	95,000	95,000
Exploration costs			
Geological and geochemical	-	327,299	327,299
Drilling	-	3,552	3,552
Geophysics	-	165,291	165,291
Travel	-	1,593	1,593
Stock based compensation	-	90,146	90,146
	-	950,601	950,601
Recoveries ⁽³⁾	-	(41,773)	(41,773)
	-	908,828	908,828
Other Base Metal Properties			
Plan of Arrangement acquisition costs ⁽¹⁾	-	1,193,259	1,193,259
Acquisition costs	-	20,937	20,937
Option payments (cash and shares) ⁽²⁾	-	87,500	87,500
Exploration costs			
Geological and geochemical	-	58,247	58,247
Drilling	-	13,720	13,720
Geophysics	-	230,398	230,398
Travel	-	574	574
Other	-	16,726	16,726
	-	1,621,361	1,621,361
Recoveries ⁽³⁾	-	(144,480)	(144,480)
Administration fees	-	(1,125)	(1,125)
Write-offs	-	(3,805)	(3,805)
	-	1,471,951	1,471,951
Total Mineral Property Costs	\$ -	\$ 9,488,896	\$ 9,488,896

See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Statement of Mineral Properties

(Stated in Canadian Dollars)

Summary of Expenditures

	Balance September 30 2006	Gross Acquisition and Exploration during the year	Balance September 30 2007
Plan of Arrangement acquisition costs ⁽¹⁾	\$ -	\$ 6,979,704	\$ 6,979,704
Acquisition costs	-	21,117	21,117
Option payments cash ⁽²⁾	-	367,500	367,500
Option payments shares ⁽²⁾	-	470,350	470,350
Stock based compensation	-	281,708	281,708
Exploration costs	-	2,695,883	2,695,883
Recoveries ⁽³⁾	-	(1,259,281)	(1,259,281)
Write-offs	-	(3,804)	(3,804)
Administration fees	-	(64,281)	(64,281)
	\$ -	\$ 9,488,896	\$ 9,488,896

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. (see note 9).
3. Recoveries represent exploration costs funded by partners and 2 government exploration grants.

See accompanying notes to the financial statements

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

September 30, 2007

(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.

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 \$976,250 at September 30, 2007. 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

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

September 30, 2007

(Stated in Canadian Dollars)

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

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.

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.

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

September 30, 2007

(Stated in Canadian Dollars)

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

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.

3. CHANGES IN ACCOUNTING POLICIES

Comprehensive Income

Effective October 1, 2006, the Company adopted new CICA Handbook Section 1530, which introduces new standards for reporting and display of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Financial Instruments

Effective October 1, 2006, the Company adopted new CICA Handbook Section 3855 which prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. It also specifies how financial instrument gains and losses are to be presented. No retroactive application of this standard is required.

Pursuant to this standard, the Company is required to classify each category of its financial instruments and restate their carrying values to market where required. The company's financial instruments and classifications are noted below.

Cash equivalents, temporary investments and investments in public companies have been classified as available for sale and as such were revalued to market on October 1, 2006 or upon acquisition. These instruments will be re-valued to market at each succeeding period end. New acquisitions will be immediately revalued to market. Unrealized changes in fair value are recorded as other comprehensive income and included in shareholders' equity.

4. PLAN OF ARRANGEMENT

Pursuant to the Rubicon Plan of Arrangement, the Company received all of the Newfoundland mineral properties and Newfoundland office equipment of Rubicon in exchange for 12,801,768 common shares of the Company, which were distributed to the Rubicon shareholders of record at that time. The Company also accepted the obligation to issue shares upon the exercise of restated stock options and warrants. These options and warrants represent the portion of the value of Rubicon options and warrants outstanding at the completion of the plan of arrangement attributable to the spun-out Newfoundland assets.

As no substantial change of ownership occurred on the asset transfer to the Company, the exchange was recorded at its net book value, as recorded on the books of Rubicon, as follows:

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

September 30, 2007

(Stated in Canadian Dollars)

4. PLAN OF ARRANGEMENT (continued)

	\$
Assets Received	
Newfoundland mineral properties	6,979,704
Newfoundland office equipment	15,952
Shares Issued	
Shares issued - 12,801,738 common shares	6,995,656

Arrangement Options and Warrants (see note 9)

- (a) The Company granted 633,111 stock options to the holders of Rubicon stock options at the exercise price of \$0.38 to \$0.96 as required by the Plan of Arrangement.
- (b) The Company accepted the obligation to issue a total of up to 525,453 shares upon the future exercise of Rubicon warrants outstanding at the completion of the Plan of Arrangement. The Company received \$0.24 to \$0.48 per Paragon share issued as stipulated by the Plan of Arrangement.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, at the end of the year, consisted of the following:

	2007	2006
Cash	\$ 330,255	\$ 5,722
Bankers acceptances with under 3 month maturity	711,103	-
Term Deposits	200,203	-
	\$ 1,241,561	\$ 5,722

Cash consists of on demand deposits. Cash equivalents consist of bankers acceptances, guaranteed by major Canadian banks, maturing between October 5, 2007 and November 14, 2007 with an aggregate carrying value and fair value of \$711,103 on September 30, 2007. Effective interest rates range between are 4.70% and 4.79% for bankers acceptances. Term deposits consist of an on demand guaranteed investment certificate with an effective interest rate of prime minus 2.15%.

6. EQUIPMENT

The Company's Equipment at the end of the year is summarized as follows:

			September 30, 2007	September 30, 2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and office equipment	\$ 2,686	\$ 269	\$ 2,417	\$ -
Computer equipment	36,002	5,400	30,602	-
Leasehold Improvements	11,000	2,750	8,250	-
	\$ 49,688	\$ 8,419	\$ 41,269	\$ -

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

September 30, 2007

(Stated in Canadian Dollars)

7. OTHER INVESTMENTS

The Company's other investments at the end of the year are summarized as follows:

	September 30, 2007		September 30, 2006	
	Carrying Value	Market Value	Carrying Value	Market Value
Public company shares	\$ 59,800	\$ 59,800	\$ -	\$ -

8. MINERAL PROPERTIES

The following Newfoundland properties were acquired during the year ended September 30, 2007, including those acquired pursuant to the Rubicon Plan of Arrangement.

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 up to 3% Net Smelter Return (NSR) royalties.

See Note 15 – Subsequent events for details of an agreement signed after the year end to option out 55% to 70% of the property.

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 up to 2% Net Smelter Return (NSR) royalties.

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

Crosshair Exploration & Mining Ltd. ("Crosshair") - Golden Promise Property Option

The Company optioned the Golden Promise property to Crosshair on May 1, 2006. Under the terms of the agreement, Crosshair must spend \$4.0 million over four years, including \$750,000 firm in the first year, make share payments totaling 80,000 shares including 20,000 shares firm in the first year and make underlying property payments, to earn a 60% interest in the project.

Other Gold Properties

Pursuant to the Plan of Arrangement, the Company acquired a portfolio of 15 other gold properties. The Company holds a 100% interest in all these other gold properties, with the exception of the Appleton Linear property where the Company can earn a 100% interest, by making cash and share payments. The other gold properties are subject to varying NSR royalties of up to 3%, of which up to 50% can be re-purchased by the Company.

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

September 30, 2007

(Stated in Canadian Dollars)

8. Mineral Properties (continued)

Outstanding property option payments on optioned properties include:

Appleton Linear property

The Company holds the options to earn a 100% interest in 3 of 4 properties (Appleton, Bowater and Linear) that collectively, along with the 100%-owned Golden Bullet property forms the Appleton Linear property. To earn a 100% interest in the 3 optioned properties, the Company must make the following payments to the property vendors:

- a) Appleton property: \$ 35,000 (\$15,000 paid) in cash option payments.
- b) Bowater property: \$160,000 (\$20,000 paid) in cash option payments.
- c) Linear property: \$145,000 (\$30,000 paid) in cash option payments and issue 240,000 shares (60,000 shares issued).

Advanced royalties of \$25,000 per year commenced on the Appleton Linear property (Golden Bullet) in 2007.

Huxter Lane SW property

On February 16, 2007 the Company acquired an option to earn 100% interest in the Huxter Lane SW property. To earn 100% interest, the Company must make \$80,000 (\$7,500 paid) in cash option payments and issue 75,000 shares (7,500 shares issued) to the property vendors.

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

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

Crosshair holds an option to acquire a 60% interest in one of the Company's gold properties (South Golden Promise property) and three base metal properties (Barren Lake property, Victoria Lake property and Victoria Lake 10188M property – see Other Base Metal Properties). Under the terms of the agreement, Crosshair must spend \$1.75 million over a four-year period and issue a total of 400,000 shares (400,000 paid to Rubicon). See below for further details on base metals properties.

Meridian Gold Inc. ("Meridian") - Huxter Lane Option Agreement

Meridian holds an option to acquire up to a 55% interest in the Company's Huxter Lane Gold Property. Under the terms of the agreement, Meridian can earn a 55% interest in the property by spending \$1,000,000 over a period of three years and making underlying cash payments to the vendor. Meridian may earn an additional 10% by funding the project to a bankable feasibility study and an additional 5% (for a total interest of 70%) by funding all costs to a positive production decision. Advanced royalties of \$10,000 per year begin in May, 2007.

Meridian Gold Inc. ("Meridian") – Huxter Lane SW Land Offer

On March 20, 2007, under terms of the Huxter Lane Option Agreement, Meridian has elected to include the Huxter Lane SW property under the Option Agreement. Under the terms of the Land Offer, Meridian must make all underlying cash option payments and reimburse to the Company the cash equivalent value of the Paragon shares issued based on the weighted 10-day average closing price which shall be capped at \$1.50 per Paragon share.

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

September 30, 2007

(Stated in Canadian Dollars)

8. Mineral Properties *(continued)*

BASE METAL PROPERTIES

South Tally Pond Property

On September 1, 2006 the Company signed an option to acquire a 100% interest in 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 optionor 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 according to the following schedule (all in addition to previous payments made by Rubicon pursuant to the option agreement):

Share option payments: 450,000 shares by January, 2011 (50,000 shares issued)

Cash option payments: \$500,000 by January, 2011 (\$50,000 paid)

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

Other Base Metal Properties

Pursuant to the Plan of Arrangement, the Company acquired a portfolio of 8 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) and 100% interest in the remaining properties. The properties are subject to NSR royalties of up to 2.5%.

Included in this group is the Seal Bay property, in which the Company holds a 51% interest to be formalized as a joint venture with Xstrata (formerly Falconbridge).

Included in this group is the West Cleary property, in which the company holds a 51% interest to be formalized as a joint venture with Xstrata (formerly Falconbridge).

Included in this group is the Pt. Leamington property, for which the Company may purchase a 0.5% NSR royalty for \$500,000.

In addition, the Company acquired 100% interests in 5 other properties, subject to 2.5% NSR royalties. One of these properties was written off in the year.

PARAGON MINERALS CORPORATION

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(Stated in Canadian Dollars)

8. Mineral Properties *(continued)*

The Company has granted an option to acquire interests in three of its Other Base Metal Properties as follows:

Crosshair Exploration & Mining Ltd. - Victoria Lake Option Agreement (Barren Lake, Victoria Lake and Victoria Lake 10188M properties)

Crosshair holds an option to acquire a 60% interest in one of the Company's gold properties (South Golden Promise property – see Other Gold Properties) and three base metal properties (Barren Lake property, Victoria Lake property and Victoria Lake 10188M property). Under the terms of the agreement, Crosshair must spend \$1.75 million over a four-year period and issue a total of 400,000 shares (400,000 paid to Rubicon). On June 6 2006, the Victoria Lake 10188M Property was incorporated into the Victoria Lake Agreement, whereby Crosshair makes the underlying property option payments.

A final, cash option payment of \$67,500 on the Victoria Lake 10188M property was paid by Crosshair to the vendor in 2007. The property is under option to Crosshair under the Victoria Lake Option Agreement, whereby Crosshair makes the underlying property option payments.

During the year to date period, Crosshair terminated the parts of the option in respect to the Barren Lake property and two licenses in the South Golden Promise property and returned these properties to the Company.

9. 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:

	Year Ended September 30, 2007	
	Number of Shares	\$
Balance, beginning of the period	-	-
Plan of Arrangement for property and office equipment	12,801,738	6,995,657
Private placements – non-flow-through	3,179,000	1,589,500
Private placements – flow-through	4,092,168	2,455,301
Mineral properties	467,500	470,350
Options exercised (1)	97,082	19,037
Warrants/Agent Options exercised	525,452	191,888
Less: reduction on flow through renunciation	-	(837,750)
Balance, end of the period	21,162,940	10,883,983

(1) Inclusive of the original \$338 (2006 - \$nil) fair value of these options re-allocated from contributed surplus to share capital on exercise.

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

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9. SHARE CAPITAL (continued)

Private Placement

In December 2006, the Company received the proceeds from a private placement financing that had been completed in the prior year, with funds held in escrow pending completion of the Rubicon Plan of Arrangement. The Company issued 3,179,000 non-flow-through units at \$0.50 per unit and 4,092,168 flow-through shares at \$0.60 per share for aggregate proceeds of \$4,044,800. Each non-flow-through unit consists of one common share and one warrant. Each warrant entitles the holder to purchase an additional common share for an exercise price of \$1.00 for a period of two years.

Pursuant to the issue of flow-through shares, the Company became committed to expend \$2,455,301 on eligible Canadian Exploration Expenditures before December 31, 2007. The cash received was restricted to use on this purpose. As at September 30, 2007 the amount of \$880,902 of this commitment remained outstanding. (Commitment met as of December 31, 2007).

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

	Year Ended September 30, 2007	Period from incorporation to September 30, 2006
Balance at beginning of period	\$ -	\$ -
Stock-based compensation - operations	464,150	-
Stock-based compensation - properties	281,708	-
Fair value of options exercised	(338)	-
Balance at end of period	\$ 745,520	\$ -

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.

	Year Ended September 30, 2007		Period from incorporation to September 30, 2006	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance at beginning of the period	-	\$ -	-	\$ -
Granted pursuant to the Plan of Arrangement	633,111	0.62	-	-
Other grants during the period	1,550,000	0.68	-	-
Exercised during the period	(97,082)	0.48	-	-
Expired or forfeited during the period	(143,016)	0.69	-	-
Outstanding at end of the period	1,943,013	0.67	-	-

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

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9. SHARE CAPITAL (continued)

The fair value of employee options, granted during the year including option 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, 2007	Period from incorporation to September 30, 2006
Risk-free interest rate	3.90%	-
Expected life	4.96 years	-
Expected volatility	80%	-
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.

Summary of stock options outstanding:

September 30, 2007			
	Number Outstanding	Weighted Average Price \$	Weighted Average Life Years
	16,666	0.38	3.01
	25,000	0.42	3.04
	105,000	0.45	4.89
(1)	29,166	0.47	-
	33,333	0.49	3.29
	244,997	0.67	2.42
	39,686	0.69	2.34
	1,390,000	0.70	4.43
	56,665	0.84	1.41
	2,500	0.96	3.64
Total stock options	1,943,013	0.67	3.95

(1) During the year a request to exercise 29,166 options was received but the shares were issued after the year end. See note 9(e).

d) Summary of warrants outstanding:

September 30, 2007			
	Number Outstanding	Weighted Average Price \$	Weighted Average Life Years
Warrants issued on financing	3,179,000	1.00	1.19
Total warrants	3,179,000	1.00	1.19

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Notes to the Financial Statements

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9. SHARE CAPITAL (continued)

- e) Obligation to issue shares

During the year, the Company received \$13,708 pursuant to a request to exercise stock options. 29,166 shares for this option exercise were issued after the year end.

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Year Ended September 30, 2007	Period from incorporation to September 30, 2006
	\$	\$
Accumulated other comprehensive loss, beginning of period	-	-
Other comprehensive loss for the period	(34,718)	-
Accumulated other comprehensive loss, end of period	(34,718)	-
Components of other comprehensive loss:		
Unrealized losses on temporary investments	(282)	-
Unrealized losses on public company shares	(34,436)	-
Accumulated other comprehensive loss, end of period	(34,718)	-

11. RELATED PARTY TRANSACTIONS

The Company has a director, Vice President, Investor Relations and CFO in common with Rubicon Minerals Corporation and has a cost sharing agreement with Rubicon for office, accounting and investor relation services.

- (a) During the year, the Company paid or accrued to Rubicon \$176,756 for shared and reimbursable costs, \$25,000 for the Company's share of the costs incurred on the Rubicon Plan of Arrangement and \$54,320 for refundable staking security deposits posted by Rubicon on the Company's properties. During the year, the Company invoiced Rubicon Minerals \$91,619 for reimbursable costs. As at September 30, 2007, the Company owed Rubicon \$20,434 and was owed \$4,899 by Rubicon for grants received on Paragon's behalf and for salary reimbursements. The net balance is included in accounts payable and accrued liabilities.

- (b) Rubicon Plan of Arrangement

See note 4 for details of the completion of the plan of arrangement with Rubicon.

- (c) NRD Agreement

Pursuant to an agreement with Rubicon, the Company may receive the following as proceeds from the optioning of certain mineral property interests in Newfoundland, where the optionees elect to continue the options.

- i) 125,000 shares of Ucore Uranium Inc. over 2 years (all issued in escrow; 31,250 released during the year).

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

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11. RELATED PARTY TRANSACTIONS *(continued)*

- i) 30,020 shares of Ucore Uranium Inc as option payments on 3 properties (5,840 shares received during the year). Future payments will be recorded upon receipt.

All these transactions were, or will be, recorded at their fair value amounts and were incurred in the normal course of business, except transactions with Rubicon, related to the plan of arrangement which were recorded at Rubicon's carrying amounts.

12. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	2007	2006
	\$	\$
Net loss for the year before income taxes	(851,972)	(124,278)
Expected income tax expense	(290,693)	(42,403)
Net adjustment for deductible and non-deductible expenses	98,458	42,403
Unrecognized benefit of current non-capital loss	192,235	-
Total income taxes	-	-

The significant components of the Company's future income tax liabilities are as follows:

	2007	2006
	\$	\$
Future income tax liability:		
Net mineral property carrying amounts in excess of tax pools	825,584	-
Equipment tax pool in excess of carrying value	(2,873)	-
Organizational costs	(50,742)	-
Non-capital loss carryforwards	(192,235)	-
	579,734	-
Valuation allowance	-	-
Net future tax liability	579,734	-

As at September 30, 2007 the Company has non-capital losses available for deduction against future years' taxable incomes amounting to \$563,410. The Company has not recognized any future benefit for these tax losses and resource deductions, as it is not considered likely that they will be utilized. If unused, these losses will expire as follows:

2026	-
2027	\$563,410

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

During the year ended September 30, 2007, the Company issued 12,801,738 shares pursuant to the plan of arrangement at a value of \$6,995,657 for mineral properties and equipment transferred from Rubicon and a further to 460,000 common shares at a value of \$470,350 for other mineral properties. The company received shares of other companies as option payments valued at \$59,800 and recorded stock based compensation of \$281,708 as mineral property costs. Included in accounts payable and accrued liabilities at September 30, 2007 is \$394,775 of mineral property costs. Included in accounts receivable at September 30, 2007 is \$477,986 of mineral property receivables.

PARAGON MINERALS CORPORATION

Notes to the Financial Statements

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14. SUBSEQUENT EVENTS

On December 6, 2007 the Company closed a non-brokered private placement, issuing 1,391,214 non-flow-through units at a purchase price of \$0.70 per unit for gross proceeds of \$973,850 and 2,785,000 flow-through shares at a purchase price of \$1.00 per share for gross proceeds of \$2,785,000. The non-flow-through units consist of one common share of the Company and one-half of one non-transferable common share purchase warrant at an exercise price \$1.05 exercisable for two years. As part of the financing the Company issued 196,759 common shares as a finder's fee.

On November 15, 2007 the Company signed an option agreement with Sprott Resource Corp. ("Sprott") whereby Sprott can earn a 55% interest in the Company's JBP and Appleton Linear gold properties by paying \$250,000 cash over four years (\$25,000 committed) and spending \$2,175,000 on exploration over four years (\$375,000 committed). Under certain conditions Sprott may increase its interest to a maximum of 70%.

Subsequent to the year end, the Company issued 375,000 common shares pursuant to mineral property option agreements and 29,166 common shares pursuant to the exercise of options.