

NORTH BAY RESOURCES INC.

North Bay Resources Inc.
Audited Financial Statements
December 31, 2008 and 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
North Bay Resources Inc.
(An Exploration Stage Company)

We have audited the accompanying balance sheets of North Bay Resources Inc. (an exploration stage company) as of December 31, 2008 and 2007, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and for the period from June 18, 2004 (inception) through December 31, 2008. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Bay Resources Inc. as of December 31, 2008 and 2007, and the results of its operations, changes in stockholders' equity and cash flows for the periods described in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has very little operations to date, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ M&K CPAS, PLLC
www.mkacpas.com
Houston, Texas
February 8, 2010

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007

	Dec. 31, 2008	Dec. 31, 2007
ASSETS		
Current Assets		
Cash	\$ 3,471	\$ 23
Investments	133,715	-
Total Current Assets	137,186	23
TOTAL ASSETS	\$ 137,186	\$ 23
LIABILITIES & STOCKHOLDERS' DEFICIT		
Liabilities		
Current Liabilities		
Deferred Compensation	\$ 570,289	\$ 377,428
Total Current Liabilities	570,289	377,428
Total Liabilities	570,289	377,428
Stockholders' Deficit		
Preferred stock, Series I, \$0.001 par value, 100 shares authorized, 100 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively	-	-
Convertible Preferred stock, Series A, \$0.001 par value, 8,000,000 shares authorized, no shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively	-	-
Common stock, \$0.001 par value, 250,000,000 shares authorized, 24,297,287 and 16,522,261 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively	24,297	16,522
Additional Paid-In Capital	8,755,889	8,513,664
Deficit Accumulated During Exploration Stage	(9,236,069)	(8,907,591)
Accumulated Other Comprehensive Income	22,780	-
Total Stockholders' Deficit	(433,103)	(377,405)
TOTAL LIABILITIES & STOCKHOLDERS' DEFICIT	\$ 137,186	\$ 23

The accompanying notes are an integral part of these financial statements

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND DECEMBER 31, 2007
AND THE PERIOD FROM
JUNE 18, 2004 (INCEPTION) THROUGH DECEMBER 31, 2008

	Year ended December 31, 2008	Year ended December 31, 2007	Since inception (Jun 18, 2004 - Dec 31, 2008)
Revenues			
Retail Sales (revenue prior to change to mining company in 2006)	\$ -	\$ -	\$ 40,567
Cost of Revenue			49,070
Gross Profit (Loss)	-	-	(8,503)
Operating Expenses			
Commissions & Consulting Fees	51,548	-	207,234
General & Administrative Costs	409,122	1,310,993	8,366,490
Mining Property Costs	18,120	97,609	715,592
Professional Services	6,000	4,360	16,653
Total Operating Expenses	484,790	1,412,962	9,305,969
Net Operating Loss	(484,790)	(1,412,962)	(9,314,472)
Other Income (Expenses)			
Gain on Mineral Claim Sales	156,312	45,834	202,146
Interest Expense	-	(74,243)	(74,243)
Loss on Conversion of Debt	-	(49,500)	(49,500)
Total Other Income (Expenses)	156,312	(77,909)	78,403
Net Loss	\$ (328,478)	\$ (1,490,871)	\$ (9,236,069)
Other Comprehensive Income			
Unrealized Gain on Available For Sale Securities	22,780	-	22,780
Total Comprehensive Loss	\$ (305,698)	\$ (1,490,871)	\$ (9,213,289)
WEIGHTED AVERAGE NUMBER SHARES OUTSTANDING (Basic and Diluted)	17,143,177	5,846,083	
Basic and Diluted Net Loss per Share	\$ (0.02)	\$ (0.26)	

The accompanying notes are an integral part of these financial statements

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD
JUNE 18, 2004 (INCEPTION) THROUGH DECEMBER 31, 2008

	Preferred Stock			Common Stock			Additional Paid-In Capital	Accumulated Deficit	Accumulated OCI	Total Stockholders' Equity (Deficit)
	Series A Shares	Series I Shares	Amount	Shares	Amount	Amount				
Inception 6/18/2004	-	-	\$ -	-	\$ -	\$ -	-	\$ -	-	\$ -
Founder's Shares issued	1,200,000	-	1,200	320,000	320	(1,520)	-	-	-	-
Shares issued for merger	1,200,000	-	1,200	320,000	320	(1,520)	-	-	-	-
Common Stock issued for cash	-	-	-	200,000	200	4,800	-	-	-	5,000
Net loss for year	-	-	-	-	-	-	(95,587)	-	-	(95,587)
Balance at 12/31/2004	2,400,000	-	\$ 2,400	840,000	\$ 840	\$ 1,760	\$ (95,587)	\$ -	\$ -	\$ (90,587)
Common Stock issued to convert debt	-	-	-	12,127	12	180,213	-	-	-	180,225
Common Stock issued for services	-	-	-	121,491	121	2,586,046	-	-	-	2,586,167
Common Stock issued for cash	-	-	-	102,643	103	517,597	-	-	-	517,700
Net loss for year	-	-	-	-	-	-	(1,816,896)	-	-	(1,816,896)
Balance at 12/31/2005	2,400,000	-	\$ 2,400	1,076,261	\$ 1,076	\$ 3,285,616	\$ (1,912,483)	\$ -	\$ -	\$ 1,376,609

The accompanying notes are an integral part of these financial statements

	Preferred Stock			Common Stock			Additional Paid-In Capital	Accumulated Deficit	Accumulated OCI	Total Stockholders' Equity (Deficit)
	Series A Shares	Series I Shares	Amount	Shares	Amount	Amount				
Common Stock issued to convert debt	-	-	-	1,202,000	1,202	2,206,398	-	-	-	2,207,600
Common Stock issued for services	-	-	-	1,309,000	1,309	1,543,191	-	-	-	1,544,500
Expenses paid by shareholder	-	-	-	-	-	164,371	-	-	-	164,371
Net loss for year	-	-	-	-	-	-	(5,504,237)	-	-	(5,504,237)
Balance at 12/31/2006	2,400,000	-	\$ 2,400	3,587,261	\$ 3,587	\$ 7,199,576	\$ (7,416,720)	\$ -	\$ -	\$ (211,157)
Beneficial Conversion Features on notes payable	-	-	-	-	-	62,000	-	-	-	62,000
Common Stock issued to convert debt	-	-	-	1,350,000	1,350	120,150	-	-	-	121,500
Common Stock issued for services	-	-	-	10,575,000	10,575	959,425	-	-	-	970,000
Common Stock issued as interest on loan	-	-	-	10,000	10	1,490	-	-	-	1,500
Preferred Shares issued for services	-	100	-	-	-	101,000	-	-	-	101,000
Common Stock issued for conversion of preferred shares	(2,400,000)	-	(2,400)	1,200,000	1,200	1,200	-	-	-	-

The accompanying notes are an integral part of these financial statements

	Preferred Stock			Common Stock			Additional Paid-In Capital	Accumulated Deficit	Accumulated OCI	Total Stockholders' Equity (Deficit)
	Series A Shares	Series I Shares	Amount	Shares	Amount					
Shares bought back and retired	-	-	-	(200,000)	(200)	(1,800)	-	-	-	(2,000)
Expenses paid by shareholder	-	-	-	-	-	70,623	-	-	-	70,623
Net loss for year	-	-	-	-	-	-	(1,490,871)	-	-	(1,490,871)
Balance at 12/31/2007	-	100	\$ -	16,522,261	\$ 16,522	\$ 8,513,664	\$ (8,907,591)	-	-	\$ (377,405)
Rounding of shares due to stock split	-	-	-	26	-	-	-	-	-	-
Common Stock issued for services	-	-	-	5,500,000	5,500	224,500	-	-	-	230,000
Common Stock issued for cash	-	-	-	2,275,000	2,275	7,725	-	-	-	10,000
Contribution from investor	-	-	-	-	-	10,000	-	-	-	10,000
Mark to market AFS Securities	-	-	-	-	-	-	-	22,780	-	22,780
Net loss for year	-	-	-	-	-	-	(328,478)	-	-	(328,478)
Balance at 12/31/2008	-	100	\$ -	24,297,287	\$ 24,297	\$ 8,755,889	\$ (9,236,069)	\$ 22,780	-	\$ (433,103)

The accompanying notes are an integral part of these financial statements

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND DECEMBER 31, 2007
AND THE PERIOD FROM
JUNE 18, 2004 (INCEPTION) THROUGH DECEMBER 31, 2008

	Year ended December 31, 2008	Year ended December 31, 2007	Since inception (Jun 18, 2004 - Dec 31, 2008)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss	\$ (328,478)	(1,490,871)	(9,236,069)
Adjustments to reconcile Net Loss to net cash provided by operations:			
Gain on sale of claims, non-cash	(110,935)	-	(110,935)
Common Stock issued for services	230,000	970,000	5,100,667
Preferred Stock issued for services	-	101,000	101,000
Loss on Conversion of Debt and Accrued Salary	-	49,500	1,224,452
Shares issued as interest on loan	-	1,500	1,500
Interest on Beneficial Conversion Feature	-	62,000	62,000
Changes in operating assets and liabilities:			
Accrued Expenses	192,861	176,236	1,783,037
Net cash used in Operating Activities	(16,552)	(130,635)	(1,074,348)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Provided by Investing Activities	-	-	-
Net Cash Provided by Investing Activities	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of stock	10,000	-	532,700
Contributions from related party	10,000	70,623	244,994
Shares re-purchased and retired	-	(2,000)	(2,000)
Borrowings on debt	-	62,000	302,125
Net cash provided by Financing Activities	20,000	130,623	1,077,819
Net cash increase/(decrease) for period	3,448	(12)	3,471
Cash at beginning of period	23	35	-
Cash at end of period	<u>3,471</u>	<u>23</u>	<u>3,471</u>
Supplementary Cash Flow Information:			
Cash Paid for Interest	-	-	-
Cash Paid for Taxes	-	-	-

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Non-Cash Investing & Financing Activities:

Common Stock Issued For Conversion of Preferred Shares	\$	-	\$	2,400	\$	2,400
Common Stock Issued For Conversion of Debt and Accrued Salary	\$	-	\$	72,000	\$	2,459,825
Unrealized Gain on Available For Sale Securities	\$	22,780	\$	-	\$	22,780

The accompanying notes are an integral part of these financial statements

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008
AND DECEMBER 31, 2007

NOTE 1 GENERAL ORGANIZATION AND BUSINESS

The Company was incorporated in the State of Delaware on June 18, 2004 under the name Ultimate Jukebox, Inc. On September 4, 2004, Ultimate Jukebox, Inc. merged with NetMusic Corporation, and subsequently changed the Company name to NetMusic Entertainment Corporation. On March 10, 2006, the Company ceased digital media distribution operations, began operations as a natural resources company, and changed the Company name to Enterayon, Inc. On January 15, 2008, the Company merged with and assumed the name of its wholly-owned subsidiary, North Bay Resources Inc. As a result of the merger, Enterayon, Inc. was effectively dissolved, leaving North Bay Resources Inc. as the remaining company.

The Company's business plan is based on the Generative Business Model, which is designed to leverage our mining properties and mineral claims into near-term revenue streams even during the earliest stages of exploration and development. This is accomplished by entering into sales, joint-venture, and/or option contracts with other mining companies, for which the Company generates revenue through payments in cash, stock, and other consideration.

The Generative Business Model is our short term plan to leverage properties until funding is adequate to implement our long term plan. The Company's long term plan is to locate and extract gold and silver from current exploration stage properties. This will be done through utilizing joint-ventures and other funding that is available to develop properties until they reach the production stage. Once in the production stage, the Company plans on extracting gold, silver, and other profitable by-products, and selling them to smelters. The Company has not currently begun this stage of the business plan.

NOTE 2 GOING CONCERN

These financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has generated modest revenues since inception and has never paid any dividends and is unlikely to pay dividends. The company has accumulated losses since inception equal to \$9,236,069 as of December 31, 2008. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations and to determine the existence, discovery and successful exploration of economically recoverable reserves in its resource properties, confirmation of the Company's interests in the underlying properties, and the attainment of profitable operations. The Company has had very little operating history to date. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These factors raise substantial doubt regarding the ability of the Company to continue as a going concern.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008
AND DECEMBER 31, 2007

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with a maturity of three months or less, when purchased, to be cash equivalents. There were no cash equivalents at December 31, 2008 and 2007. The Company maintains cash and cash equivalent balances at one financial institution that is insured by the Federal Deposit Insurance Corporation up to \$250,000.

Marketable Securities

The Company accounts for its marketable securities, which are available for sale, according to the applicable FASB standard. The original cost of the marketable securities approximated fair market value as of the date the securities were acquired. Unrealized gains or losses from the time the securities were acquired through the balance sheet date of

December 31, 2008 were recorded as other comprehensive income. The available for sale securities balance as of December 31, 2008 approximates fair market value of the securities as of the balance sheet date in accordance with the standard.

Revenue Recognition

The company has recognized no mining revenue to date. In the future mining revenue will be recognized according to the policy described below.

Revenue is recognized when the following conditions are met:

- (a) persuasive evidence of an arrangement to purchase exists;
- (b) the price is determinable;
- (c) the product has been delivered; and
- (d) collection of the sales price is reasonably assured.

Under the terms of concentrate sales contracts with third-party smelters, final prices for the gold, silver, zinc, copper and lead in the concentrate are set based on the prevailing spot market metal prices on a specified future date based on the date that the concentrate is delivered to the smelter. The Company records revenues under these contracts based on forward prices at the time of delivery, which is when transfer of legal title to concentrate passes to the third-party smelters. The terms of the contracts result in differences between the recorded estimated price at delivery and the final settlement price. These differences are adjusted through revenue at each subsequent financial statement date.

Mineral Property Costs

The Company has been in the exploration stage since it entered the Mining Sector on March 10, 2006 and has not yet realized any revenues from mining operations. Mineral property acquisition, exploration and development costs are expensed as incurred until such time as economic reserves are quantified. To date the

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008
AND DECEMBER 31, 2007

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Company has not established any proven or probable reserves on its mineral properties that are compliant with National Instrument 43-101. Many properties do have historical reserve estimates, but these are not NI 43-101 compliant and can not be used at the present time to establish asset values. The Company has adopted the provisions of the FASB standard related to accounting for asset retirement obligations, which establishes standards for the initial measurement and subsequent accounting for obligations associated with the sale, abandonment, or other disposal of long-lived tangible assets arising from the acquisition, construction or development and for normal operations of such assets. As of December 31, 2008 and 2007, the Company had no developed properties, therefore an accrual related to asset retirement obligations was not necessary.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on the differences between the financial reporting basis and the tax basis of the assets and liabilities, and are measured using enacted tax rates that will be in effect when the differences are expected to reverse.

The Company adopted the provisions of the FASB interpretation related to accounting for uncertainty in income taxes, which seeks to reduce the diversity in practice associated with the accounting and reporting for uncertainty in income tax positions. The Company believes it does not have any uncertain tax positions taken or expected to be taken in its income tax returns.

Fair Value of Financial Instruments

The Company adopted the FASB standard related to fair value measurement at inception. The standard defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. The standard clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, The standard established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows.

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008
AND DECEMBER 31, 2007

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table presents assets that are measured and recognized at fair value as of December 31, 2008 and the year then ended on a recurring basis:

Description	Level 1	Level 2	Level 3	Total Unrealized Gains
Available For Sale Securities	\$ 133,715	\$ -	\$ -	\$ 22,780
Totals	\$ 133,715	\$ -	\$ -	\$ 22,780

The following table presents assets that are measured and recognized at fair value as of December 31, 2007 and the year then ended on a recurring basis:

Description	Level 1	Level 2	Level 3	Total Unrealized Gains
Available For Sale Securities	\$ -	\$ -	\$ -	\$ -
Totals	\$ -	\$ -	\$ -	\$ -

Income/Loss Per Share of Common Stock

Basic net loss per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per share includes additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. Common stock equivalents are not included in the computation of diluted earnings per share when the Company reports a loss because to do so would be anti-dilutive for the periods presented. As of December 31, 2008 and 2007, there were no options or warrants outstanding.

The following is a reconciliation of the computation for basic and diluted EPS:

	Dec 31, 2008	Dec 31, 2007
Net Loss	(\$328,478)	(\$1,490,871)
Weighted-average common shares Outstanding (Basic)	17,143,177	5,846,183
Weighted-average common stock Equivalents	-	-
Weighted-average common shares Outstanding (Diluted)	17,143,177	5,846,083
Basic and Diluted Net loss per Share	(\$0.02)	(\$0.26)

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008
AND DECEMBER 31, 2007

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards

In April 2008, the FASB issued ASC 350-10, "Determination of the Useful Life of Intangible Assets." ASC 350-10 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350-10, "Goodwill and Other Intangible Assets." ASC No. 350-10 is effective for fiscal years beginning after December 15, 2008. The adoption of this ASC did not have a material impact on our financial statements.

In April 2009, the FASB issued ASC 805-10, "Accounting for Assets Acquired and Liabilities assumed in a Business Combination That Arise from Contingencies — an amendment of FASB Statement No. 141 (Revised December 2007), Business Combinations". ASC 805-10 addresses application issues raised by preparers, auditors and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. ASC 805-10 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. ASC 805-10 will have an impact on our accounting for any future acquisitions and its financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events", which is included in ASC Topic 855, Subsequent Events. ASC Topic 855 established principles and requirements for evaluating and reporting subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements. ASC Topic 855 also requires disclosure of the date through which subsequent events are evaluated by management. ASC Topic 855 was effective for interim periods ending after June 15, 2009 and applies prospectively. Because ASC Topic 855 impacts the disclosure requirements, and not the accounting treatment for subsequent events, the adoption of ASC Topic 855 did not impact our results of operations or financial condition.

Effective July 1, 2009, we adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105-10, Generally Accepted Accounting Principles – Overall ("ASC 105-10"). ASC 105-10 establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ("ASUs"). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References made to FASB guidance throughout these financials have been updated for the Codification.

In August 2009, the FASB issued ASU No. 2009-05, Measuring Liabilities at Fair Value, which provides additional guidance on how companies should measure liabilities at fair value under ASC 820. The ASU clarifies that the quoted price for an identical liability should be used. However, if such information is not available, an entity may use the quoted price of an identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities traded as assets, or another valuation technique (such as the market

NORTH BAY RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
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FOR THE YEARS ENDED DECEMBER 31, 2008
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NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

or income approach). The ASU also indicates that the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer and indicates circumstances in which quoted prices for an identical liability or quoted price for an identical liability traded as an asset may be considered level 1 fair value measurements. This ASU is effective October 1, 2009. We are currently evaluating the impact of this standard, but would not expect it to have a material impact on the our results of operations or financial condition.

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force, that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. As a result of these amendments, multiple-deliverable revenue arrangements will be separated in more circumstances than under existing U.S. GAAP. The ASU does this by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. A vendor will be required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This ASU also eliminates the residual method of allocation and will require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the overall arrangement proportionally to each deliverable based on its relative selling price. Expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance are also required under the ASU. The ASU does not apply to arrangements for which industry specific allocation and measurement guidance exists, such as long-term construction contracts and software transactions. ASU No. 2009-13 is effective beginning January 1, 2011. We are currently evaluating the impact of this standard on our results of operations and financial condition.

NOTE 4 STOCK BASED COMPENSATION

Beginning January 1, 2006, the Company adopted the FASB standard related to stock based compensation. The standard requires all share-based payments to employees (which includes non-employee Directors), including employee stock options, warrants and restricted stock, be measured at the fair value of the award and expensed over the requisite service period (generally the vesting period). The fair value of common stock options or warrants granted to employees is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of comparable public companies. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock option or warrant, the dividend yield and the risk-free interest rate.

The Company from time to time may issue stock options, warrants and restricted stock to acquire goods or services from third parties. Restricted stock, options or warrants issued to other than employees or directors are recorded on the basis of their fair value, which is measured as of the date required by Emerging Issues Task Force issuance related to accounting for equity instruments issued to non-employees. 96-18. In accordance with issuance, the options or warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying equity instrument on the “valuation date,” which for options and warrants related to contracts that have substantial disincentives to non-performance, is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which

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NOTE 4 STOCK BASED COMPENSATION (CONTINUED)

services are to be received or the vesting period. As of December 31, 2008 and 2007, no options or warrants have been issued, and none are outstanding.

NOTE 5 COMMITMENTS AND CONTINGENCIES:

As of December 31, 2008 and 2007, the Company does not have any outside commitments, and is not currently leasing any office space. Office space is provided as part of a management agreement with The PAN Network, a private business management and consulting company wholly-owned by the Company's Chief Executive Officer (see Note 11 - Related Party Transactions). The agreement is renewable annually at the discretion of both parties. As a result there are no future payments for our lease beyond the current year contract. The Company is not and has never been involved in any litigation of any nature, and the Company is not aware of any pending or threatened litigation.

NOTE 6 CONVERSION OF NOTES PAYABLE

During the twelve months ended December 31, 2007, a non-convertible note payable from a third party totaling \$50,000 with a 20% interest rate, maturing thirty days from the note date, was converted into 1,250,000 shares of common stock. During the same period, a non-convertible note payable from a third party totaling \$12,000 with a 10% interest rate, maturing one year from the note date, was converted into 100,000 shares of common stock. The aggregate shares were valued according to the closing market price on their respective conversion dates at \$121,500. The total loss on all conversions was \$49,500 for the year ended December 31, 2007, and zero for the year ended December 31, 2008.

NOTE 7 STOCK SPLITS

On February 18, 2005, the Company effected a 4 for 1 forward stock split of our common shares. On March 12, 2006, and on February 7, 2008, the Company effected 1 for 10 reverse stock splits. All information presented herein has been retrospectively adjusted to reflect these stock splits as they took place as of the earliest period presented.

NOTE 8 BENEFICIAL CONVERSION FEATURE

From time to time, the Company may issue convertible notes that may have conversion prices that create an embedded beneficial conversion feature pursuant to the Emerging Issues Task Force issuance on beneficial conversion features. A beneficial conversion feature exists on the date a convertible note is issued when the fair value of the underlying common stock to which the note is convertible into is in excess of the remaining unallocated proceeds of the note after first considering the allocation of a portion of the note proceeds to the fair value of any attached equity instruments, if any related equity instruments were granted with the debt. In accordance with the EITF issuance, the intrinsic value of the beneficial conversion feature is recorded as a debt discount with a corresponding amount to additional paid in capital. The debt discount is amortized to interest expense over the life of the note using the effective interest method. During the years ended December 31, 2008 and 2007, beneficial conversion features related to convertible notes payable totaling \$0 and \$62,000 were recorded. The entire discount was expensed in the year ended December 31, 2007 due to the conversion of the note prior to year end.

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NOTE 9 INCOME TAXES

As of December 31, 2008 and 2007, the Company had net operating loss carry-forwards totaling approximately \$1,209,490 and \$1,194,000 that begin to expire in 2025. The carry-forward losses and the related deferred tax benefit are significantly limited by the provisions of Internal Revenue Code Section 382. The Company's taxable losses, as determined by an independent tax advisor, created a deferred tax benefit of approximately \$423,322, and \$418,000, at December 31, 2008 and 2007, respectively. Due to the Company determining that it will not likely realize the deferred tax asset, a full valuation allowance has been taken to reduce the deferred tax asset to zero as of December 31, 2007, and 2008, respectively.

In 2008 and 2007, the primary difference between financial statement reporting and taxable income (loss) was expenses not deductible for tax purposes including non-cash share based payments issued for services of \$230,000 and \$1,071,000, respectively. In 2007, the Company had a temporary difference between financial and tax income due to the expensing of exploration stage properties for financial reporting and capitalizing the properties for tax reporting. This difference resulted in temporary differences of \$0 and \$70,388 for December 31, 2008, and 2007, respectively. However, no tax benefit has been reported in the December 31, 2008 or 2007 financial statements because utilization of the carry-forward is not more likely than not.

The deferred tax assets as of December 31, 2008 and 2007 are as follows:

	2008	2007
Deferred Tax Asset:		
Net Operating Loss Carryforwards	\$ 1,193,637	\$ 906,154
Current Year Net Operating Loss	98,478	287,483
Total Operating Loss Carryforward	1,292,115	1,193,637
Enacted future tax rate	35%	35%
Deferred Tax Asset for NOL	452,240	417,773
Deferred Tax Asset for temporary differences between book and tax income	-	24,636
Gross Deferred Tax Asset	452,240	442,409
Valuation Allowance	(452,240)	(442,409)
Net Deferred Tax Asset	-	-

NOTE 10 DEFERRED COMPENSATION/NQDC

The Company has adopted an unfunded Non-Qualified Deferred Compensation (NQDC) plan to compensate our Chief Executive Officer. Under this plan, the Company is not required to reserve funds for compensation, and is only obligated to pay compensation when and if funds are available. Any amounts due but unpaid automatically accrue to deferred compensation. The plan has the option to be renewed annually at the discretion of the Company. While unfunded and non-recourse, for compliance with GAAP this is disclosed as an accrued expense on the balance sheet. As of December 31, 2008 and 2007, the outstanding balance of the NQDC plan is \$570,289 and \$377,428, respectively.

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NOTE 10 DEFERRED COMPENSATION/NQDC (CONTINUED)

In 2007 and 2008, our Chief Executive Officer was awarded restricted stock bonuses for deferring accrued salary, the value of which was based on the market closing price on the day of issuance, as follows:

Date	Type of Stock	Number of Shares	Value
2/12/2007	Preferred (I)	100	\$ 101,000
2/9/2007	Common	250,000	\$ 31,250
12/21/2007	Common	10,000,000	\$ 900,000
12/16/2008	Common	2,500,000	\$ 50,000

NOTE 11 RELATED PARTY TRANSACTIONS

Subsequent to December 31, 2008, the Board of Directors approved and the Company executed a management agreement with The PAN Network ("PAN"), a private business management and consulting company wholly-owned by the Company's Chief Executive Officer. The agreement is in consideration of \$18,000 per month, and calls for PAN to provide (a) office and board room space, including reception, utilities, landline phone/fax, computers, copiers, projectors, and miscellaneous services; (b) financial services, including accounting, corporate filing and bookkeeping; (c) project and administrative services; (d) resource targeting, acquisition, development and management services; (e) marketing services, communications, marketing materials management, and writing services; (f) strategic planning, milestone management and critical path analysis; and (g) online services, including web site hosting, web site design, web site maintenance, and email services. The agreement includes Mr. Leopold's salary of \$15,000 per month, which will accrue entirely to deferred compensation during any period in which the commitment remains unpaid. The term of the agreement is one year, and automatically renews annually on January 1 each year unless otherwise terminated by either party.

NOTE 12 INVESTMENTS

In 2008, the Company was to receive \$100,000 in joint-venture payments from Hidalgo Mining International Inc. (OTC: HMIT) pursuant to joint-venture agreements on the Company's Silver Leaf and Gold Hill Project properties. The Company elected to accept payment in shares of HMIT stock and received a total of 9,875,213 shares. The shares were valued at \$110,935 according to the closing price of the stock on the date the shares were received. A gain of \$10,935 related to the value of the stock over the original agreement was recorded due to the transaction. As of December 31, 2008, the market value of these shares was \$133,715. The shares were classified as available for sale, therefore the unrealized gain of \$22,780 was recognized in other comprehensive income. Subsequent to December 31, 2008, the joint-ventures with Hidalgo have been terminated, and by agreement the Company has retained its shares of HMIT.

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NOTE 13 SHARE ISSUANCES SINCE JUNE 18, 2004 (INCEPTION)

In 2004, the Company issued an aggregate of 320,000 shares of common stock and 1,200,000 shares of preferred stock as Founders shares to the Company Founders. The preferred stock was convertible to common stock at a rate of one common share per two preferred shares. The shares were valued at their par value which was equal to \$1,520.

In 2004, the Company issued an aggregate of 320,000 shares of common stock and 1,200,000 shares of preferred stock to the Company Officers and Directors upon the merger of Ultimate Jukebox, Inc. and NetMusic Corp. The preferred stock was convertible to common stock at a rate of one common share per two preferred shares. The shares were valued at their par value which was equal to \$1,520.

Prior to 2007, the Company issued an aggregate of 1,430,491 shares of common stock for services rendered. The shares were valued at \$4,130,667, based on the market price on the date of issuance.

Prior to 2007, the Company issued an aggregate of 1,214,127 shares of common stock to convert debt to equity. The shares were valued at \$2,387,825, based on the market price on the date of issuance.

Prior to 2007, the Company issued an aggregate of 302,643 shares of common stock in private placements. The consideration received was \$522,700.

In the years ended December 31, 2007, and 2008, the Company issued an aggregate of 10,575,000 and 5,500,000 shares respectively of common stock for services rendered. The shares were valued at \$970,000 and \$230,000 respectively, based on the market price on the date of issuance.

During 2007, the Company issued an aggregate of 1,350,000 shares of common stock to convert debt to equity. The shares were valued at \$121,500, based on the market price on the date of issuance.

During 2007, the Company issued 100 shares of Series I Preferred stock for services rendered. The shares are not convertible to common shares and carry an eighty percent voting right. The shares were valued at \$101,000, based on a valuation performed by an independent valuation expert.

During 2007, the Company converted 2,400,000 shares of Convertible Series A preferred stock to 1,200,000 shares of common stock. The shares were convertible at a ratio of one share of common stock per two shares of preferred stock.

During 2008, the Company issued 2,275,000 shares of common stock in a private placement. The consideration received was \$10,000.

NOTE 14 SUBSEQUENT EVENTS

Subsequent to December 31, 2008, the Company issued 4,000,000 shares of Series A Preferred stock, and 100,000 shares of Series G Preferred stock to our Chief Executive Officer as a bonus for services rendered. Each share of Series A Preferred is convertible to 5 shares of common. Each share of Series G Preferred is convertible to 1/100 of an ounce of gold, or 20 shares of common, at the shareholder's option. The conversion value of the shares was \$253,785 as of the date of issuance on August 11, 2009.

Subsequent to December 31, 2008, the Company issued an aggregate of 21,800,000 shares of common stock in private placements. The consideration received was \$173,000.

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NOTE 14 SUBSEQUENT EVENTS (CONTINUED)

Subsequent to December 31, 2008, the Company issued an aggregate of 10,000,000 shares of common stock to a private investor to reduce the balance due of deferred compensation to the Chief Executive Officer by \$100,000. The deferred compensation was assigned by the Chief Executive Officer to the private investor in lieu of cash, and the assigned liability was immediately converted to equity by the investor. The value of the shares issued according to the market price on the date of issuance was \$187,500. The difference between the value of the deferred compensation and the value of the shares issued was recorded as a loss on conversion.

Subsequent to December 31, 2008, the Company issued an aggregate of 2,500,000 shares of restricted Rule 144 common stock for services rendered. The shares were valued at \$29,750, based on the market price on the date of issuance.

Subsequent to December 31, 2009, the Company issued 5,000,000 shares of common stock in a Rule 504 private placement. The consideration received was \$50,000.

Subsequent to December 31, 2009, the Company issued 6,589,147 shares of restricted common stock to Tangiers Investors, LP as a one-time commitment fee of \$85,000 in compliance with the October 7, 2009 agreement with Tangiers.

Subsequent to December 31, 2008, the Company announced that it has received notification from Hidalgo Mining International Inc. ("Hidalgo") stating that Hidalgo is "unable to continue with any of its planned efforts on the North Bay Joint Venture projects due to capital needs which cannot be met at this time." As a result, North Bay has elected to exercise its contractual rights to terminate both the Silver Leaf and the Gold Hill Project JV agreements, and will thereby regain its full 100% undivided ownership of both properties.

Subsequent to December 31, 2008, the Company agreed to terms on an earn-in joint venture with Silver Quest Resources Ltd ("Silver Quest") on North Bay's Fawn gold-silver property in central British Columbia, Canada. Upon TSX Venture Exchange acceptance of the terms of the agreement, Silver Quest may acquire an initial 75% interest in the Fawn Property by making aggregate cash payments of \$100,000, issuing a total of 150,000 shares, and incurring an aggregate of \$1,500,000 in exploration expenditures over four years.

Subsequent to the December 31, 2008, the Company secured \$5 Million in financing under an equity line of credit with Tangiers Investors, LP ("Tangiers") to fund the Company's operations and prospective mining acquisitions. North Bay has entered into a Securities Purchase Agreement with Tangiers that provides North Bay the right, but not the obligation, to draw down on the equity line of credit by selling to Tangiers shares of the Company's common stock for a total purchase price of up to \$5 Million. Tangiers will pay the Company 90% of the lowest volume weighted average price of the Company's common stock during the pricing period as quoted by Bloomberg, LP on the Over-the-Counter Bulletin Board ("OTCBB"). Tangiers' obligation to purchase shares of the Company's common stock under the Securities Purchase Agreement is subject to certain conditions, including the Company obtaining an effective registration statement for shares of the Company's common stock sold under the Securities Purchase Agreement and is limited to \$100,000 per 10 consecutive trading days after the advance notice is provided to Tangiers. Upon signing the Securities Purchase

Agreement, the Company has agreed to issue Tangiers \$85,000 in restricted stock as a one-time commitment fee. To meet this obligation, the Company has reserved 6,589,147 shares of restricted common stock for issuance during the quarter ended March 31, 2010.

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NOTE 14 SUBSEQUENT EVENTS (CONTINUED)

The company evaluated all subsequent events through the date the financial statements were issued on February 8, 2010