

## **SKYGOLD VENTURES LTD.**

**Financial Statements  
December 31, 2006 and 2005**

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**MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING**

The financial statements of Skygold Ventures Ltd. are the responsibility of the Company’s management. The financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management’s best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company’s assets are safeguarded, transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control through an audit committee, which is comprised primarily of non-management directors. The Audit Committee reviews the results of the audit and the annual financial statements prior to their submission to the Board of Directors for approval.

The financial statements have been audited by Smythe Ratcliffe LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the audited financial statements.

*“Douglas A. Fulcher”*  
.....  
Douglas A. Fulcher  
President

Vancouver, British Columbia  
April 11, 2007

## AUDITORS' REPORT

### TO THE SHAREHOLDERS OF SKYGOLD VENTURES LTD.

We have audited the balance sheets of Skygold Ventures Ltd. as at December 31, 2006 and 2005 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*"Smythe Ratcliffe LLP" (signed)*

Chartered Accountants

Vancouver, British Columbia  
April 11, 2007

**SKYGOLD VENTURES LTD.**  
**Balance Sheets**  
**December 31**

	2006	2005
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 1,130,034	\$ 120,905
Term deposits (note 3)	6,501,958	858,242
Term deposits, restricted (note 3)	2,288,280	0
Due from related party (note 7(e))	0	28,810
Due from joint venturer (note 4(a))	782,142	150,955
Receivables	213,579	62,963
Prepaid expenses	8,388	0
	10,924,381	1,221,875
<b>Mineral Properties</b> (note 4)	7,485,636	2,152,508
<b>Equipment</b>	22,815	5,351
<b>Deposit for Reclamation</b>	23,000	5,000
	\$ 18,455,832	\$ 3,384,734
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 147,864	\$ 29,095
<b>Future Income Tax Liability</b> (note 6)	1,152,000	0
	1,299,864	29,095
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (note 5)	19,792,014	4,631,028
<b>Contributed Surplus</b> (note 5(d))	2,762,299	455,463
<b>Deficit</b>	(5,398,345)	(1,730,852)
	17,155,968	3,355,639
	\$ 18,455,832	\$ 3,384,734

Contingency (note 9)  
Subsequent Events (note 10)

Approved by the Board:

*"Douglas A. Fulcher"*  
..... Director  
Douglas A. Fulcher

*"John P. McGoran"*  
..... Director  
John P. McGoran

**SKYGOLD VENTURES LTD.**  
**Statements of Operations and Deficit**  
**Years Ended December 31**

	<b>2006</b>	<b>2005</b>
<b>Expenses</b>		
Stock-based compensation	\$ 2,196,515	\$ 309,690
Investor relations	335,173	132,357
Consulting fees	181,625	90,715
Contract wages	129,225	78,310
Legal	79,940	66,934
Transfer agent and filing fees	66,908	35,549
Rent	35,847	30,592
Administration	28,530	17,961
Office and miscellaneous	24,549	2,183
Accounting and audit	21,570	21,870
Management fees	18,000	18,000
Interest (note 5(f))	0	85,770
Amortization	3,888	944
	3,121,770	890,875
Interest income	(297,798)	(11,235)
<b>Loss Before Income Tax</b>	<b>2,823,972</b>	<b>879,640</b>
<b>Future Income Tax Expense (Recovery)</b> (note 6)	<b>843,521</b>	<b>(65,510)</b>
<b>Loss for Year</b>	<b>3,667,493</b>	<b>814,130</b>
<b>Deficit, Beginning of Year</b>	<b>1,730,852</b>	<b>916,722</b>
<b>Deficit, End of Year</b>	<b>\$ 5,398,345</b>	<b>\$ 1,730,852</b>
<b>Basic and Diluted Loss Per Share</b>	<b>\$ 0.09</b>	<b>\$ 0.04</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>41,655,479</b>	<b>22,501,557</b>

**SKYGOLD VENTURES LTD.**  
**Statements of Cash Flows**  
**Years Ended December 31**

	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Loss for year	\$ (3,667,493)	\$ (814,130)
Items not involving cash		
Stock-based compensation	2,196,515	309,690
Amortization	3,888	944
Future income tax expense (recovery)	843,521	(65,510)
Loan consideration fee (note 5(f))	0	75,000
	(623,569)	(494,006)
Changes in non-cash working capital		
Due from related party	28,810	(28,810)
Due from joint venturer	(631,187)	0
Receivables	(150,616)	(190,018)
Prepaid expenses	(8,388)	380
Accounts payable and accrued liabilities	37,479	(85,867)
	(723,902)	(1,162,557)
<b>Cash Used in Operating Activities</b>	<b>(1,347,471)</b>	<b>(1,656,563)</b>
<b>Financing Activity</b>		
Shares issued for cash, net of issue costs	14,437,806	2,995,426
<b>Investing Activities</b>		
Term deposits	(5,643,716)	(858,242)
Term deposits, restricted	(2,288,280)	0
Mineral property costs	(4,109,858)	(1,210,934)
Purchase of equipment	(21,352)	(6,295)
Advance for reclamation bonds	(18,000)	(5,000)
<b>Cash Used in Investing Activities</b>	<b>(12,081,206)</b>	<b>(1,222,229)</b>
<b>Increase in Cash</b>	<b>1,009,129</b>	<b>116,634</b>
<b>Cash, Beginning of Year</b>	<b>120,905</b>	<b>4,271</b>
<b>Cash, End of Year</b>	<b>\$ 1,130,034</b>	<b>\$ 120,905</b>
<b>Supplemental Cash Flow Information</b>		
Interest received	\$ 139,550	\$ 11,235
Interest paid	\$ 0	\$ 10,770
Common shares issued for mineral property interests (2006 – 552,633 common shares; 2005 – 545,918 common shares)	\$ 861,000	\$ 96,500
Stock-based compensation transferred to capital stock on exercise of stock options	\$ 170,659	\$ 24,318
Warrants issued for mineral property acquisition	\$ 280,980	\$ 0
Accounts payable included in mineral properties	\$ 81,290	\$ 0
Common shares issued for loan consideration	\$ 0	\$ 75,000

**1. NATURE OF OPERATIONS**

Skygold Ventures Ltd. (the "Company") is a junior resource exploration company incorporated under the Alberta *Business Corporation Act* and continued into British Columbia under the *Business Corporations Act* of British Columbia during 2004.

**2. SIGNIFICANT ACCOUNTING POLICIES**

(a) **Joint Venture Accounting**

A portion of the Company's exploration activities is conducted jointly with others when the Company enters into agreements that provide for specified percentage interests in mineral properties. Joint venture accounting, which reflects the Company's proportionate interest in mineral properties, is applied by the Company only when the parties enter into formal comprehensive agreements for ownership and mining participation terms.

(b) **Mineral Properties**

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. All deferred mineral property expenditures are reviewed on a quarterly basis to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

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

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. Option payments received are credited against mineral property costs until all costs are recovered, then they are taken into income.

(c) **Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on the declining-balance basis at the following rates:

Computer equipment	30% per annum
Office equipment	20% per annum

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Asset Retirement Obligations**

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. As at December 31, 2006, the Company did not have any asset retirement obligations.

**(e) Capital Stock**

Capital stock issued for non-monetary consideration is recorded at fair market value on the dates of issuance pursuant to the agreement to issue shares as determined by the Board of Directors of the Company based on the trading price of the shares on the TSX Venture Exchange (the "Exchange"). Costs incurred for the issuance of shares are deducted from capital stock.

**(f) Stock-Based Compensation**

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

**(g) Loss Per Share**

Loss per share amounts have been calculated and presented in accordance with the treasury stock method. Diluted loss per share amounts have not been presented as the effect of outstanding options and warrants are anti-dilutive.

**(h) Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) Flow-Through Shares**

Flow-through shares may be issued by a company that incurs certain resource expenditures and renounces them for tax purposes allowing the expenditures to flow-through to the subscribers who purchase the shares. Subscribers may in turn claim the expenditures as an income tax deduction. The total amount of funds raised through the issuance of flow-through shares must be spent on qualified mineral exploration expenditures by the Company classified as Canadian Exploration Expenditures under Canadian income tax legislation. The tax impact to the Company of the renouncement is recorded on the date that the renunciation is filed with taxation authorities, through a decrease in capital stock and the recognition of a future tax liability.

**(j) Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of environmental obligations, impairment of value of mineral claims and deferred expenditure carrying costs, rates for amortization of equipment, the assumptions used in the determination of the fair value of stock-based compensation and the accrual for future income tax liability. Management believes the estimates are reasonable; however, actual results could differ from those estimates and would impact future results of operations and cash flows.

**(k) Financial Instruments**

**(i) Fair value**

The carrying values of cash, term deposits, due from related party and joint venturer, receivables, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these instruments.

**(ii) Foreign exchange risk**

The Company undertakes certain transactions in foreign currencies and as such is subject to risk due to fluctuations in exchange rates. The Company does not use derivative instruments or hedges to reduce the exposure to foreign exchange risks.

**(iii) Credit risk**

The Company's financial assets that are exposed to credit risk consist primarily of cash, term deposits, receivables and due from joint venturer. Cash, term deposits and the interest portion of receivables are placed with major financial institutions rated in the two highest grades by nationally recognized rating agencies. Credit risk from due from joint venturer is minimized by security held over property.

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**3. TERM DEPOSITS**

The Company has term deposits with book values of \$8,790,238 (2005 - \$858,242) and accrued interest of \$158,248 (2005 - \$nil), accrued at the stated rates of interest and included in accounts receivable. The term deposits mature between February 28, 2007 and June 22, 2007.

Term deposits in the amount of \$2,288,280 are restricted in use and are to be applied to exploration costs related to flow-through share issuances that were unspent at December 31, 2006 (note 2(i)).

**4. MINERAL PROPERTIES**

Acquisition and exploration expenditures incurred on mineral properties during 2006 and 2005 are as follows:

	Spanish Mountain	SHG	Total
Balance, December 31, 2004	\$ 845,074	\$ 0	\$ 845,074
Additions during the year			
Acquisition costs	117,500	0	117,500
Deferred exploration costs			
Drilling	585,431	0	585,431
Geological consulting	312,036	0	312,036
Assaying	170,336	0	170,336
Travel and accommodation	97,693	0	97,693
Camp and field supplies	52,054	0	52,054
Equipment rental	22,727	0	22,727
Recording fees	1,237	0	1,237
Expense recoveries	(51,580)	0	(51,580)
	1,189,934	0	1,189,934
Total additions during the year	1,307,434	0	1,307,434
Balance, December 31, 2005	2,152,508	0	2,152,508
Additions during the year			
Acquisition costs	40,000	1,421,465	1,461,465
Deferred exploration costs			
Drilling	1,563,064	0	1,563,064
Geological consulting	642,246	429,253	1,071,499
Assaying	547,300	1,156	548,456
Travel and accommodation	312,007	9,354	321,361
Camp and field supplies	228,538	34,917	263,455
Equipment rental	75,881	6,199	82,080
Recording fees	19,778	1,970	21,748
	3,388,814	482,849	3,871,663
Total additions during the year	3,428,814	1,904,314	5,333,128
Balance, December 31, 2006	\$ 5,581,322	\$ 1,904,314	\$ 7,485,636

**4. MINERAL PROPERTIES (Continued)**

**(a) Spanish Mountain, Cariboo Mining Division, British Columbia**

Pursuant to a Joint Operation Agreement (the "Agreement") signed between Wildrose Resources Ltd. ("Wildrose") and the Company dated March 29, 2005, the Company exercised its option and earned a 70% interest in the Spanish Mountain property. Wildrose retained a 30% interest in the property. Each party is responsible for all expenses and liabilities of the mining operations in proportion to their interest.

Pursuant to the Agreement, a management committee was established to make all decisions with respect to mining operations. Pursuant to the creation of the management committee, the Company was named as the operator for as long as it holds a greater than 50% interest in the property. The Company is obligated to make the following payments to the original vendors of the Agreement:

**(i) Cash Payments**

- \$24,000 on January 20, 2007 (note 10(b));
- \$15,000 on July 20, 2007; and
- \$55,000 on January 20, 2008.

**(ii) Share or Cash Issuances**

- \$21,000 on each of January 20, 2006 (issued), 2007 and 2008, which may be satisfied in either cash or shares (note 10(b)); and
- \$35,700 each year from January 20, 2009 to January 20, 2012, which may be satisfied in either cash or shares.

The amount due from joint venturer of \$782,142 is the portion of mineral property expenditures incurred by the Company to December 31, 2006, to be reimbursed by Wildrose to the Company.

**(b) SHG, Cariboo Mining Division, British Columbia**

On July 26, 2006, the Company purchased 816 mineral claims, located 200 miles to the northwest of the Spanish Mountain property in central British Columbia.

The purchase and sale agreement gives the Company a 100% interest in these claims for consideration as follows:

- (i)** A cash payment of \$300,000;
- (ii)** Issuance of 525,000 units of the Company. Each unit will consist of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at \$1.60 per share on or before October 4, 2007 and at \$2 per share on or before October 4, 2008. The shares were valued at \$1.60 per share while the warrants were valued at \$280,980 using the Black-Scholes pricing model (note 5(i)).
- (iii)** The vendor retains a 2% net smelter return, 1% of which may be purchased by the Company for \$1,000,000; and
- (iv)** The Company must fund \$2,000,000 in exploration expenditures by July 26, 2008.

**4. MINERAL PROPERTIES (Continued)**

(c) **Title to Mineral Property Interests**

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

(d) **Realization of Assets**

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the obtaining of permits, the satisfaction of governmental requirements and possible aboriginal claims, the attainment of successful production from the properties or from the proceeds of their disposal.

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

**5. CAPITAL STOCK**

(a) **Authorized**

- (i) An unlimited number of common voting shares without nominal or par value
- (ii) Unlimited number of first preferred shares
- (iii) Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**5. CAPITAL STOCK (Continued)**

(b) **Issued**

	Number of Common Shares	Amount
Balance, December 31, 2004	17,668,500	\$ 1,505,294
Issued during the year		
Private placements (net of issue costs)	6,066,169	2,095,636
Exercise of warrants	6,979,200	872,390
Exercise of stock options	140,000	27,400
Issued for other consideration		
Bonus shares	305,881	75,000
Mineral property interest	545,918	96,500
Income tax effect on flow-through share renouncement	0	(65,510)
Exercise of stock options, stock-based compensation	0	24,318
	14,037,168	3,125,734
Balance, December 31, 2005	31,705,668	4,631,028
Issued for cash		
Private placements (net of issue costs)	10,081,200	13,176,643
Exercise of warrants	2,185,757	1,037,163
Exercise of stock options	1,420,000	224,000
Issued for other consideration		
Mineral property interests	552,633	861,000
Income tax effect on flow-through share renouncement	0	(308,479)
Exercise of stock options, stock-based compensation	0	170,659
	14,239,590	15,160,986
Balance, December 31, 2006	45,945,258	\$ 19,792,014

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**5. CAPITAL STOCK (Continued)**

**(c) Private Placements**

- (i) On April 18, 2006, the Company completed a private placement and issued 4,060,962 flow-through units for gross proceeds of \$6,091,443 and 5,459,038 non-flow-through units for gross proceeds of \$7,369,701. Each flow-through unit comprised one flow-through common share and one-half of one flow-through common share purchase warrant. Each full flow-through warrant entitles the holder to acquire an additional flow-through common share at \$1.60 per share on or before October 18, 2007. Each non-flow-through unit comprised one common share and one-half of one common share purchase warrant entitling the holder to acquire an additional common share at \$1.60 per share for each full warrant held on or before October 18, 2007. The Company also issued 561,200 common shares and 984,600 agents' warrants as a finder's fee and incurred share issue costs in the amount of \$284,500 in connection with the private placement. Each agent's warrant entitles the agent to purchase one additional common share at a price of \$1.60 on or before October 18, 2007.
- (ii) On August 9, 2005, the Company completed a private placement and issued 3,673,285 non-flow-through units for gross proceeds of \$1,285,650 and 2,260,250 flow-through shares for gross proceeds of \$904,100. Each non-flow-through unit comprised one common share and one-half of one common share purchase warrant entitling the holder to acquire an additional common share at \$0.50 per share for each full warrant held on or before August 9, 2007. The Company issued 132,634 units and 448,594 warrants as a finder's fee and incurred share issue costs in the amount of \$94,114 in connection with the private placement. Each unit issued as a finder's fee had the same attributes as the non-flow-through units above. The warrants issued as a finder's fee have an expiry of two years and are exercisable at \$0.40 in year one and at \$0.55 in year two.

**(d) Contributed Surplus**

	<b>2006</b>	<b>2005</b>
Balance, beginning of year	\$ 455,463	\$ 170,091
Stock-based compensation	2,196,515	309,690
Warrants issued for property payment	280,980	0
Reallocated to capital stock	(170,659)	(24,318)
Balance, end of year	\$ 2,762,299	\$ 455,463

**(e) Renounced Exploration Expenditures**

In March 2006, the Company renounced \$904,100 (2005 - \$192,000) of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$308,479 (2005 - \$65,510), which was deducted from capital stock. The Company subsequently reduced the future income tax liability by recognizing previously unrecorded future income tax assets equal to the amount of the future tax liability. This amount offset a portion of the future income tax liability arising from temporary differences (note 6).

**(f) Bonus Shares**

During the year ended December 31, 2005, the Company arranged two private loans for a total of \$375,000. The Company issued 205,881 common shares at a deemed price of \$0.17 per share as a bonus and 100,000 common shares at a deemed price of \$0.40 per share as consideration for the loan. The loans plus accrued interest of \$85,770 were repaid during 2005.

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**5. CAPITAL STOCK (Continued)**

**(g) Stock Options**

Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to market values on the date of the grant. All options granted during the year vested on the date of grant. As at December 31, 2006, the Company had stock options outstanding to directors and employees for the purchase of up to 3,600,000 common shares exercisable as follows:

Number of Shares	Exercise Price	Expiry Date
200,000	\$ 0.10	December 23, 2009
850,000	\$ 0.42	July 22, 2010
2,050,000	\$ 1.60	June 2, 2011
500,000	\$ 1.50	November 1, 2011
<b>3,600,000</b>		

A summary of the status of the Company's stock options as at December 31, 2006 and 2005 and changes during the years then ended are as follows:

	Shares	Weighted Average Exercise Price
Outstanding, December 31, 2004	1,670,000	\$ 0.11
Granted	1,300,000	\$ 0.22
Exercised	(140,000)	\$ 0.17
Cancelled	(360,000)	\$ 0.11
Outstanding, December 31, 2005	2,470,000	\$ 0.15
Granted	2,550,000	\$ 1.58
Exercised	(1,420,000)	\$ 0.16
Cancelled	0	\$ 0.00
Outstanding, December 31, 2006	3,600,000	\$ 1.22

**(h) Share Purchase Warrants**

As at December 31, 2006, the Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding, December 31, 2005	Issued	Exercised	Expired	Outstanding, December 31, 2006
\$ 0.12	March 3, 2006	750,000	0	750,000	0	0
\$ 0.50	August 9, 2007	1,872,959	0	830,688	0	1,042,271
\$ 0.55	August 9, 2007	448,594	0	378,094	0	70,500
\$ 1.60	October 18, 2007	0	4,760,000	10,000	0	4,750,000
\$ 1.60	October 18, 2007 (Agents' Warrants)	0	984,600	216,975	0	767,625
\$ 1.60/\$ 2.00	October 4, 2007/2008	0	525,000	0	0	525,000
		<b>3,071,553</b>	<b>6,269,600</b>	<b>2,185,757</b>	<b>0</b>	<b>7,155,396</b>

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

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**5. CAPITAL STOCK (Continued)**

**(i) Stock-Based Compensation**

The fair value of stock options granted to directors and employees that vested during 2006, in the amount of \$2,196,515 (2005 - \$309,690), has been recorded as an expense during the year and included in contributed surplus.

The fair value of stock options used to calculate compensation expense and warrants issued for property (note 4(b)(ii)) were estimated using the Black-Scholes option pricing model with the following assumptions:

	<b>2006</b>	<b>2005</b>
Risk-free interest rate	3.88% - 4.17%	2.75% - 4.04%
Expected dividend yield	0	0
Expected stock price volatility	69.86% - 102.81%	75% - 158%
Expected option life in years	2 - 3	3 - 5

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

**SKYGOLD VENTURES LTD.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**6. INCOME TAXES**

The Company has accumulated non-capital losses for Canadian income tax purposes of approximately \$1,860,000 that expire in various years to 2026 as follows:

2007	\$	20,000
2008		122,000
2009		125,000
2010		104,000
2014		155,000
2015		614,000
2026		720,000
	\$	1,860,000

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

	<b>2006</b>	<b>2005</b>
	34.12%	34.12%
Income tax benefit computed at Canadian statutory rates	\$ (963,539)	\$ (300,133)
Temporary differences not recognized in the year	(31,711)	(15,056)
Stock-based compensation	749,451	105,666
Unrecognized tax losses	245,799	209,523
Future income tax arising from flow-through share renunciation	(308,479)	(65,510)
Future income tax arising from temporary differences	1,152,000	0
Future income tax expense (recovery)	\$ 843,521	\$ (65,510)

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	<b>2006</b>	<b>2005</b>
Future income tax assets and liabilities		
Temporary differences in assets	\$ (1,786,632)	\$ (187,171)
Net tax losses carried forward	634,632	408,416
	(1,152,000)	221,245
Valuation allowance for future income tax assets	0	(221,245)
Future income tax liability	\$ (1,152,000)	\$ 0

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

**SKYGOLD VENTURES LTD.**  
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**7. RELATED PARTY TRANSACTIONS**

- (a) The Company paid or accrued \$147,345 (2005 - \$98,081) for contract wages and administrative and management services, \$3,216,948 (2005 - \$798,439) for exploration costs, \$35,847 (2005 - \$30,592) for rental of premises, \$17,448 (2005 - \$nil) for equipment, and \$186,142 (2005 - \$33,735) for the reimbursement of general and administrative expenses to companies in which a director is a principal. As at December 31, 2006, \$85,444 (2005 - \$3,707) was owed to those companies and is included in accounts payable.
- (b) The Company paid \$46,962 (2005 - \$54,353) for legal fees to a firm in which an officer is a former principal.
- (c) The Company paid or accrued \$5,801 (2005 - \$nil) to a director for consulting fees. As at December 31, 2006, \$2,913 was owed to the director.
- (d) During the year ended December 31, 2005, \$581 for exploration consulting services was paid to a director of the Company.
- (e) As at December 31, 2006, \$nil (2005 - \$28,810) was advanced to a company in which a director is a principal for expenditures to be incurred on behalf of the Company.

**8. SEGMENTED INFORMATION**

The Company has one operating segment, mineral exploration, and all of its assets are located in Canada.

**9. CONTINGENCY**

As at December 31, 2006, the Company was involved in litigation with a former consultant who was terminated in early 2005. The plaintiff's claim includes damages regarding breach of the consulting agreement, repayment of expenses, the right to exercise or damages in lieu of options granted during his tenure as a consultant, legal costs and interest on all amounts due. The merit and amount of the plaintiff's claim are unknown.

**10. SUBSEQUENT EVENTS**

- (a) The Company received proceeds of \$127,605 and issued 251,080 common shares on the exercise of share purchase warrants.
- (b) The Company paid \$24,000 and issued 12,805 common shares to the underlying vendors of the Spanish Mountain property (note 4(a)).